LOMBARD

Lombard Bank Malta p.l.c.

2023

ANNUAL REPORT & FINANCIAL STATEMENTS

LOMBARD

Lombard Bank Malta p.l.c.

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ANNUAL REPORT AND FINANCIAL STATEMENTS 2023

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"Readers are reminded that the official statutory Annual Report and Financial Statements 2023, authorised for issue by the Board of Directors, is in European Single Electronic Format (ESEF) and was published by a Company Announcement on the Malta Stock Exchange and can be found on https://www.lombardmalta.com. A copy of the Independent Auditor's report issued on the official statutory Annual Report and Financial Statements 2023 is included within this printed document and comprises the auditor's report in compliance with the requirements of the European Single Electronic Format Regulatory Technical Standard (ESEF RTS), by reference to the Capital Markets Rules."

Chairman's Statement to the Members

The Lombard Bank Group's financial position strengthened further in 2023 in the context of a sustained economic recovery, registering a pre-tax profit of €14.5 million. Both components of the Group, Lombard Bank Malta p.l.c ('the Bank') and MaltaPost p.l.c, contributed to this satisfactory outcome. While the Bank operated with a reduced lending, and therefore earnings, capacity for most of the year for reasons that will be explained later, its income stream benefitted from the higher prevailing market interest rates. At MaltaPost p.l.c, meanwhile, improved profitability was driven mainly by growth in the parcel and e-commerce business, but also by increased efficiency in the delivery of postal services and minor revisions to some postal tariffs.

The Bank's main revenue source in 2023 was again net interest income, accounting for almost four-fifths of the total. Two factors in the main were responsible for the increase, namely the Bank's money market operations and its credit activity. In the case of the former, the higher inflows reflected the pronounced move of the ECB's benchmark rates from negative to positive territory. With regard to the Bank's lending activity, which nevertheless remained the single largest source of interest income, the pace of credit creation was influenced for most of the year by the need to remain compliant with regulatory capital requirements. This, combined with the fact that average lending rates did not increase, had a calming effect on income flows from this source. Net fees and commission income as well as dividends also contributed. As a result of all these movements, the Bank's total operating income reached a new high of €32.9 million.

The Bank's running costs grew at a slower rate than in 2022 and totalled €17.7 million. Employee compensation and benefits again accounted for just above half of the total. Though the staff complement increased only marginally, the attraction and retention of qualified expertise in a tight labour market necessarily implied higher outlays. For this same reason, as well as the need to ensure compliance with the ever-growing body of regulation, staff training was allocated more time and resources. The Bank's other major cost items, notably related to information systems, card services and regulation and compliance, did not experience significant variations.

As a result of a judicious management of costs, which grew considerably less than the Bank's income, and the setting aside of a precautionary amount for potential credit losses as required by regulation, the cost to income ratio improved further in 2023. The outcome of these movements resulted in the Bank's total equity rising to €186 million.

The Bank's time-tested, business model meanwhile continued to produce sound financial fundamentals, reflective of a risk-averse management culture. At the end of the year the Total Capital Ratio and the Liquidity Coverage Ratio were well above the minimum regulatory requirements at 21.0% and 301.8%, respectively, as was the Leverage Ratio which was almost five times the required regulatory level. Other financial soundness indicators, notably the ratio of Loans to Deposits and the ratio of facilities technically termed as Non-Performing Loans stood at prudent levels of 74.3% and 3.7%, respectively. Equally significant is the fact that the average Loan-to-Value Ratio of these facilities was only around 50%.

Another noteworthy aspect of the Bank's risk management was the process of credit diversification. Continuing an established trend, the share of retail lending increased to almost a third of the total, mainly reflecting strong growth in the home loan portfolio. In this field the Bank employs an automated loan management system and the entire process is supported by a team of qualified home loan officers. The quality of the Bank's loan book is also reflected in our relatively high levels of collateral, on average equivalent to almost three times the amount of total lending.

On the liabilities side of the balance sheet, the Bank continued to attract a steady inflow of customer deposits. Significantly, however, most of the growth last year took the shape of longer-term fixed deposits in response to the attractive rates offered.

During the year the Bank continued to implement the strategic priorities spelled out in the Business Plan 2023-2025, notably the expansion of its physical presence in the country and the replacement of the core banking system, including digital channels and payments systems. Our automated customer onboarding platform, which also includes anti-money laundering monitoring, is now fully operational. Important progress has also been registered in meeting the Bank's ESG obligations, where a working group is implementing the Action Plan, and in strengthening our cyber security defences.

As I remarked earlier, the Bank's subsidiary, MaltaPost p.l.c. also contributed to the Group's positive performance, registering a pre-tax profit of €2.3 million. Reflecting success in the ongoing process of diversification, the parcel and e-commerce business produced higher revenues. This factor largely offset the losses incurred due to the continuing decline in Letter Mail volumes and in fulfilling the company's Universal Postal Service Obligation. In this regard, although some minor tariff revisions were approved by the regulator, domestic postal service tariffs in Malta remain the lowest in Europe. Increased efficiency in mail delivery was also achieved, including through investment in more electric vehicles. In terms of new revenue sources, positive returns are expected to accrue from the company's insurance and financial services business.

The past year was not without its challenges for the Bank either. Two in particular deserve mention. The first was the one-year delay in launching the share Rights Issue. The Bank's Qualifying Shareholder only supported a resolution for this purpose in 2023 so that we were obliged to forego several bankable lending opportunities. The second, and long standing, challenge has been the ever-increasing burden of regulation, which is absorbing considerable human and financial resources. For a small bank such as Lombard, this factor is exacerbated by the insufficient application of the principle of proportionality to take account of the Bank's small size and conservative business model.

As I have noted, the Rights Issue was successfully implemented, though late in the year so that the Bank could only earn a fraction of the income which would have been derived from the increase in lending that the new capital would have permitted in a full year. As a result of this brake on profitability, as well as the expectation that regulatory minimum capital requirements will rise further in the near future, the Board of Directors considered it prudent to recommend a gross dividend of 1.63 cent per share. The full benefit of the capital raise will only be taken during the current year, on the basis of which we expect to be in a position to propose a distribution of about one-third of annual profits, subject to regulatory approval and business requirements.

Going forward, the Board believes that following the capital increase the conditions now exist for the opportunities for growth which have been identified to be exploited. This will be done without making any fundamental changes to the Bank's business model, which has consistently created shareholder value without weakening our commitment to maintain a prudent risk appetite. The main focus will be on growing the Bank's loan book, which is the primary source of income, while seeking a greater balance between commercial and retail lending, particularly home loans. At the same time, however, we also plan to grow our non-interest income, including through the funds business, wealth management services and the offering of pension products. Further investment will be undertaken in the areas of human and information technology resources, in the Bank’s distribution channels and in seeking synergies with our postal subsidiary.

Last but not least the Board will continue in its endeavours to ensure that the Bank’s Qualifying Shareholder meets its 2018 commitment to dispose of its shareholding. Settlement of this long-outstanding matter stands to benefit all stakeholders, not least our correspondent banking relationships, as well as provide visibility to prospective investors.

In conclusion, Lombard Bank is well equipped to build on last year’s satisfactory performance and on behalf of the Board I would like to thank the staff and management team, ably led by the Chief Executive Officer, Joseph Said, whose expertise and commitment made these encouraging results possible. I would also like to thank my fellow directors and all our stakeholders for their loyalty and support.

Michael C. Bonello
Chairman

Chief Executive Officer's Review

The results of the Lombard Bank Group for the financial year ended 31 December 2023 include the financial performance of Lombard Bank Malta p.l.c. and Redbox Limited which is the company holding the Bank's shares in MaltaPost p.l.c.

Summary Overview - 2023

Though geopolitical tensions, high inflation and rising interest rates prevailed, lower energy prices and the easing of supply chain pressures resulted in 2023 being defined as the global economy's 'year of transition'.

Closer to home, while the EU narrowly avoided a recession, Malta performed well, despite being exposed to the performance of overseas economies. Domestic demand, bolstered by subsidies on energy prices, a growing population and low unemployment, together with a strong tourism industry contributed to the growth in Malta's service-oriented economy.

Our own activities remained firmly anchored to the Maltese economy, and despite the external threats and uncertainties, the local economy had a positive influence on our operations.

When allowing for the one-time impact of a 2022 write-back in our Provisions, our FYE 2023 results exceeded those of the previous year. We consider this to be confirmation of the validity of our straightforward business model and of the team that plans, manages, and implements that model.

We proceeded with the execution of our strategic priorities, chiefly related to the raising of our capital, increasing physical representation, the loan portfolio diversification, and the updating of our digital capabilities. Progress was made on all priorities, as shown in our figures. We registered a satisfactory increase in our loan book, deriving mostly from home loans. This was reflective of our drive to direct Credit activity to those loans which consume less regulatory capital. We are reasonably satisfied that despite our limited advertising and promotion spend, we continue making progress in growing our loan book and establishing new relationships.

Interest rates on our lending were generally held at the levels prior to the interest rates hikes experienced during the year. We considered this to be a prudent measure so as to avoid possible shocks to borrower repayment capability, particularly in the case of home loans. That said, as the expected gradual reduction in benchmark rates settles at target levels, a realignment of interest rates charged may be made on a case-by-case basis, while not losing sight of market realities. We also continued with our longer-term Xtra deposit accounts, with above-market average interest rates. Our net interest margin improved, mostly driven by improved income from higher rates on our Treasury activities.

In Fund Management we are reassessing our options to launch our proprietary funds, always with a view to minimise the related regulatory and reputational risks. Meanwhile our Wealth Management and Investment Services functions continue providing execution-only and advisory services. We also registered measured growth in our discretionary Portfolio Management Services.

Much effort was directed towards the November 2023 Rights Issue. This was perhaps the most significant corporate event for the Bank, since over twenty years. Though not all shareholders exercised their Rights, the remaining shares were swiftly subscribed in the Excess Share Offer period. We consider this to be an investor show of trust in the Bank, particularly so in a market with a strong preference for fixed income paper. The Bank's key ratios, namely the Total Capital Ratio and the Liquidity Ratio closed and remain well above the minimum of those required by the regulator.

At MaltaPost we maintained our involvement in the strategic aspects of the subsidiary, within the context of ever decreasing Letter Mail volumes. Increased revenue resulted from tariff revisions to some of the services covered by the Universal Service Obligation (USO) and from higher volumes in inbound parcels. Discussions with the Regulator continued particularly with respect to the establishment of an automatic tariff revision mechanism to ensure timely review of USO tariffs. Meanwhile the initiatives in life and general insurance proceeded, and we also continued to support our subsidiary's financial services activities.

Review of Financial Performance

Group Profit before Tax (GPT) for the FYE 2023 stood at €14.53 million, a decrease of 48% - though when excluding the one-off items included in the figures of the previous year, the GPT for FYE 2023 rose by 17%.

Loans and Advances to Customers rose to €758.30 million contributing to a 16% increase in gross interest revenues of €33.70 million. Higher interest rates on money market deposits were also a significant contributor to the rise in interest income. Interest Expense was up by 16% reflecting a higher volume of Amounts Owed to Customers, which stood at €1,019.08 million as well as higher interest rates paid resulting from repricing of customer deposits. Net Interest Income rose by 16% to €25.86 million when compared to the previous year.

Net Fee and Commission Income decreased by 4% to reach €5.18 million, resulting mainly from lower Commercial Credit activity during the year.

Group Employee Compensation and Benefits increased by 2% to €24.38 million, while Group operating costs rose by 30% to €27.18 million. These included those MaltaPost expenses associated with higher international postal tariffs as set by the Universal Postal Union, which were offset by an even higher percentage increase in revenue from the same source. The Bank's Cost Efficiency Ratio was contained at 53.9% (FYE 2022: 57.4%), a reflection of effective cost management.

Impairment Allowances, as determined by International Financial Reporting Standard 9 (IFRS 9), stood at €12.11 million. The change in 'expected credit losses' (ECL) resulted in a net impairment charge of €1.26 million compared to a reversal of €16.24 million in the previous year. The reversal in 2022 was mainly attributable to the resolution of a non-performing loan which had been largely provided for in previous years, as well as the reversal of 2021 pandemic-related management overlays, in line with changed economic circumstances. We remained vigilant to ensure that, as far as practically possible, loan repayments were punctual. Our Non-Performing Loan ratio stood at 3.7%, well below that required by regulation.

Liquidity and Own Funds

The Bank relies on a diversified liquidity funding base which has proven to be relatively stable, largely from local retail deposits with emphasis placed on long-term tenors, as the benefits of such tenors outweigh the higher interest rate that they command.

The Bank Loan-to-Deposit Ratio reached 74.3% compared to 70.4% same period last year.

Total Assets stood at €1,265.13 million (2022: €1,203.42 million), while Equity Attributable to the Shareholders of the Bank stood at €190.38 million. Net Asset Value (NAV) per share stood at €1.23 (2022: €1.50). Group Earnings per Share (EPS) decreased to €0.09. Return on Assets (ROA) stood at 0.8% (2022: 1.5%) while post-tax Return on Equity (ROE) was 5.6% (2022: 12.8%).

Treasury Management

While also conscious of our role in providing finance for economic growth, we still maintained ample liquidity levels throughout the year. Liquidity not applied in Credit was in the main employed in money market deposits, with reputable counterparties and local government. Our main objective remained that of protecting funds, while also seeking to benefit from the high interest rate environment. Though we hold a modest portfolio of foreign assets, the bulk of these consist of euro balances. Our policy remains that of placing funds exclusively in investment-grade securities, issued by sovereigns, government-related entities and international financial institutions.

Healthy counterparty relationships were maintained, always ensuring that the profile of our risk appetite did not clash with that of our foreign counterparties. These relationships remain an important aspect of our Treasury operations, thereby assuring continued access to international markets.

Risk Management

Managing our multi-faceted business risks is the key objective of our risk management processes. Safeguarding the Bank's assets, while protecting depositors' funds and maintaining public confidence remains the top priority. In this regard, we have in place an enterprise-wide Risk Management Framework having a structured approach to identify, monitor, and measure potential risks and mitigating them, as necessary, in terms of our Risk Appetite.

Our independent Risk Management function forms part of the Second Line in our Three Lines of Defence model. It reports directly to the Audit & Risk Committee and Board of Directors, and reports periodically on various risk areas, by exercising oversight of several key metrics in respect of the tolerance limits as set in our Risk Appetite Statement. This Statement is a live document which is regularly reviewed and updated as necessary, to take into consideration the changing policy environment and to reflect current macroeconomic developments. Hence, the limits within the Statement ensure that the Bank may carry on with its business while safeguarding its assets and protecting depositors' funds, invariably in compliance with all statutory obligations.

Following the November 2023 Rights Issue, the Bank's Total Capital Ratio ('TCR') stood at 21.0% as at the end of 2023, well above regulatory requirements. Besides allowing the Bank to pursue its growth strategy, these capital buffers cater for possible increases in regulatory capital requirements.

The Leverage Ratio, which is also monitored and reported to the Board regularly, highlights the Bank's exposure to the risk of excessive leverage. While invariably remaining sufficient, this was further strengthened by the Rights Issue and at the end 2023 stood at 14.2%, significantly higher than the minimum regulatory requirement of 3%.

Internal policy requires the Bank to remain sufficiently liquid at all times so as to meet requirements when these fall due. Monitoring of key liquidity metrics ensures this and, in this respect, the Liquidity Coverage Ratio ('LCR'), the Net Stable Funding Ratio ('NSFR') at end of 2023 stood at 301.8% and 155.7% respectively and well above minimum regulatory requirements and within our Risk Appetite. Also, our Bank Loan-to-Deposit Ratio at the end of 2023 stood at 74.3%, highlighting the Bank's prudent approach re liquidity management.

Our Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP/ILAAP) are essential elements of the Capital and Liquidity planning process. These are reviewed annually to ensure that our Capital and Liquidity needs are in line with the scale, nature and complexity of our operations. Also, in line with our stress-testing framework, Capital and Liquidity positions are stressed to ensure that the Bank remains resilient to extreme, though plausible, shocks.

Human Resources

In a scenario where the Maltese economy continued to perform well, attracting the right candidates to meet our human resources needs remained a challenge. Competition for talent was strong, with new joiners to the labour market having several options both within and outside the industry. Similarly, those with work experience in financial services and looking for a career change or for better work-life balance continued to have various options.

Nevertheless, we continued to meet the demand for new recruits, filling various roles across the Group. The number of persons employed with the Group stood at 918; Bank - 210, MaltaPost - 708.

We continued to invest in human resources by providing improved remuneration and benefits to all staff. Besides a performance-driven reward structure, the wellbeing of staff is also supported by advantageous interest rates on lending, health, and life insurance cover. Improved working hours were maintained so as to allow staff more time away from the office, though also remaining sensitive to customer service expectations. We believe that such initiatives improve staff engagement and maintain a collaborative work environment.

The focus on supporting staff to grow within the Bank was ongoing by way of personal development opportunities, improving skills and abilities. Here we provided various training and development programmes, while on-the-job training was also constantly provided. Development programmes also facilitate the identification of staff members who may in future fit in leadership roles. This strengthens our succession planning processes and has proven to deliver results. In fact, during the year various Chief Officer and other senior management appointments were made internally, also in view of incumbents having reached retirement age.

Our staff continues to play a pivotal role in the successful achievement of business objectives and the success of the Group. Indeed, I am proud and grateful to be leading a staff team that is professional at all levels and grades.

Projects

Cards are an important part of our service offerings. For several years we offered cards by both Visa and MasterCard. However, with the advent of many different payment solutions, also offered by non-bank entities, and the ever-increasing related costs, we considered it prudent to limit our offering to just VISA cards. While our customers would still benefit from the full suite of debit and credit cards, related costs will be reduced. The migration of the card portfolio to one brand is an on-going project which we aim to complete by H1 2024.

We opened a further two branches during 2023 so that we now have 11 branches. Our subsidiary, MaltaPost also continued with its investment in its network. As is our policy, we seek outright purchase of properties that are needed for running our business. MaltaPost also continued with its investment in zero emissions last-mile delivery, now totalling more than 160 all-electric vehicles. These allow for the combined delivery of postal mail and parcels and packages, thereby also reducing emissions by other vehicles as well as contributing to the reduction in traffic congestion.

As to technology projects, we have in progress several digitalisation projects, some related to the infrastructure and others to customer engagement.

Continuing the success of previous years, we participated in a gold bullion coin issue in collaboration with the Central Bank of Malta. The Melita gold coin was struck in four denominations and the issue sold out, having generated strong interest from collectors and which has now become an annual issue.

Corporate Social Responsibility

The Group is tangibly committed to actively, though discreetly, support socially meaningful initiatives, including those aimed at preserving and enhancing heritage, philanthropic and charitable causes. We also encourage those staff members who on their own initiative assist in worthy causes.

Outlook

We started this year on the back of a satisfactory 2023 financial performance and a successful capital raise programme shoring up our regulatory capital buffers. These pave the way for execution of our strategic priorities, seeking measured growth. In fulfilling this strategy, we shall not carry out radical changes to our business model, nor shall we be assuming a higher risk appetite than that as at present. We remain very much committed to Malta and to the accomplishment of our main mission which remains that of assisting businesses and individuals in their financing requirements. No doubt during 2024 we shall realise the full benefit of the November 2023 capital increase and it therefore rests with us to employ this capital judiciously and, of course, profitably.

We strongly believe that the prospects for MaltaPost are bright, and we shall remain steadfast in our commitment to this subsidiary, which apart from generating a significant income stream also adds value to the Group. We shall assist our colleagues there as necessary, both in matters relating to its core activities, as also in those concerning financial services and its new ventures.

The positive economic outlook for Malta supports our commitment to deliver on our promises and more importantly to remain a truly Maltese bank having a vocation to focus exclusively on servicing the needs of the Maltese community at large.

Joseph Said
Chief Executive Officer

The Group

The Lombard Bank Group ('the Group') consists of Lombard Bank Malta p.l.c. ('the Bank'), Redbox Limited, Lombard Capital Asset Management Limited, Lombard Select SICAV p.l.c. and the MaltaPost p.l.c. Group.

Principal Activities

The Bank was registered in Malta in 1969 and listed on the Malta Stock Exchange ('MSE') in 1994. It is licensed as a credit institution under the Banking Act, 1994 and is an authorised currency dealer and financial intermediary. It is also licensed to carry out investment services in terms of the Investment Services Act, 1994 and is an enrolled Tied Insurance Intermediary of IVALIFE Insurance Limited under the Insurance Distribution Act, 2018.

The Bank is a member of the Depositor Compensation Scheme and the Investor Compensation Scheme set up under the laws of Malta. It is also a member of the MSE for the purpose of the carrying out of stockbroking on the MSE. The Bank has a network of branches in Malta and Gozo providing an extensive range of banking and financial services. A list of branches, outlets and departments is found on page 43 of this Annual Report.

During the year under review, Redbox Limited, a company virtually wholly owned by the Bank continued to serve as the special purpose vehicle holding as at 31 December 2023 the Bank's 72.03% shareholding in MaltaPost p.l.c., with the remaining 27.97% of the ordinary share capital of MaltaPost p.l.c. being held by the general public[1]. MaltaPost p.l.c. is Malta's leading postal services company, being the sole licensed Universal Service Provider of postal services in Malta. More information about the MaltaPost Group may be found on www.maltapost.com.

Lombard Select SICAV p.l.c ('the SICAV') holds a collective investment scheme licence in terms of the Investment Services Act, 1994.

As at 31 December 2023, Lombard Capital Asset Management Limited was licensed to act as a UCITS management company and to provide investment management services to undertakings for collective investment in transferable securities (UCITS schemes). This company has voluntarily surrendered its license as a third party provider has been appointed to act as the UCITS manager for its sub-funds.

Review of Performance

An overview of the development in the Bank's business and that of its subsidiaries during the year under review together with an indication of likely future developments may be found in the 'Chief Executive Officer's Review' of this Annual Report.

Group profit before tax for the financial year ended 31 December 2023 amounted to €14.5 million (2022: €27.7 million). Profit attributable to equity holders of the Bank was €9.1 million (2022: €17.5 million).

Net interest income at €25.9 million was 16.1% higher than the previous year. Growth in the lending portfolio contributed to this increase, while the main driver for the increased interest income was higher interest earned on money market deposits. Net fee and commission income decreased by 4.3% mainly from lower commercial credit activity during the year.

Net loans and advances to customers increased by 6.6% to €758.3 million. Customer deposits increased by 1.1% to €1,019.1 million. Group post tax return on equity for 2023 was 5.6% (2022: 12.8%). Group total assets increased to €1,265.1 million (2022: €1,203.4 million). Total capital ratio at 21.0% (2022: 15.4%) exceeded the minimum regulatory requirements.

Bank cost efficiency ratio was contained at 53.9% (2022: 57.4%) affected by increases in human resources costs and other operating costs well offset by increased interest revenues.

Expected credit losses ('ECL') as determined by International Financial Reporting Standard 9 (IFRS 9) resulted in a charge of €1.3 million compared to a reversal of €16.2 million taken in the previous year. The reversal in 2022 was mainly attributable to the full recovery of a commercial non-performing loan which had been largely provided for in previous years as well as the reversal of 2021 pandemic-related management overlays in line with changed economic circumstances.

For MaltaPost p.l.c., FY 2023 was a year of business transformation and adjustment to industry challenges and realities including changes in consumer and business behaviour. Investment to render the last mile delivery more agile and efficient continued while managing respective costs. The cross-border parcel delivery business and its international activity, both outside the Universal Service Obligation ('USO'), were strengthened. It is these and other non-postal services that continued to provide reasonable profit margins. Following the loss incurred during FY2022 to deliver the Universal Postal Service Obligation, select tariff revisions were approved by the MCA which left a positive impact on the financials of the Universal Service. Although no longer loss making, MaltaPost still does not make a just and fair return as the provider of the USO in Malta. Despite the tariff adjustments implemented during FY 2023, the domestic postal service tariffs in Malta remain the lowest in Europe.

Equity attributable to equity holders of the Bank stood at €190.4 million (2022: €136.2 million). Group net asset value (NAV) per share stood at €1.23 (2022: €1.50). Group earnings per share (EPS) decreased to €0.09.

Profits after taxation of €9.6 million and €8.8 million for the Group and the Bank, respectively were registered for the twelve months ended 31 December 2023.

Board of Directors and Senior Management

The composition of the Bank's Board of Directors and Senior Management is shown in the section on 'Company Information' on page 42 of this Annual Report and further information is given in the 'Statement of Compliance with the Principles of Good Corporate Governance'.

Risk Management

The Financial Risk Management note to the Financial Statements (note 2), illustrates the process of how the Group identifies and manages its risks and uncertainties. The main categories of risk described in this note are credit risk, market risk, liquidity risk and operational risk. The same note includes extensive detail of the processes undertaken by the Bank to manage these risks.

[1] Following a scrip dividend issued in March 2024, the Bank's shareholding in MaltaPost p.l.c. amounts to 72.65%, with the remaining 27.35% being held by the general public.

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 Group and the parent company as at the end of each reporting period and of the profit or loss for that period.

Statement of Directors' Responsibilities for the Financial Statements

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 Group and the parent company 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 Group and the parent company 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.

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.

Investment Services Rules for Investment Service Providers

In accordance with R1-2.2.3 of the Investment Services Rules for Investment Service Providers regulated by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of the Rules or other regulatory requirements in this Annual Report. The Directors confirm that during the reporting period, there were no breaches of the Investment Services Rules or other regulatory requirements, which were subject to an administrative penalty or other regulatory sanction other than those in the public domain.

Information provided in accordance with Capital Markets Rule 5.70.1

There were no material contracts to which the Bank, or any of its subsidiaries were a party, and in which any one of the Bank's Directors was directly or indirectly interested, except for transactions disclosed in the notes to the financial statements.

Going Concern

In compliance with Capital Markets Rule 5.62 and after having duly considered the Bank's performance, the Directors declare that they expect the Bank will continue to operate as a going concern for the foreseeable future.

Capital Markets Rules – Disclosures

In terms of Capital Markets Rule 5.64, the Directors are required to disclose the following information.

As at the Annual General Meeting held on 22 June 2023, the authorised share capital of the Bank was €37,500,000 divided into 300,000,000 Ordinary Shares of a nominal value of €0.125 each. As at that date the issued and fully paid-up share capital of the Bank was €11,340,966.75 divided into 90,727,734 ordinary shares of a nominal value of €0.125 each, all of one class.

Following the approval by the Bank's shareholders at the above-mentioned 2023 Annual General Meeting, the amount of €252,024.63 from the Bank's Retained Earnings Account was capitalised for the purpose of issuing 2,016,197 fully paid ordinary shares of a nominal value of €0.125 cent per share representing 1 bonus share for every 45 shares held allotted to the eligible members appearing on the Bank's Register of Members as at close of trading on the Malta Stock Exchange on 19 July 2023. Following this allotment, the Issued and fully paid-up Share Capital of the Bank increased to €11,592,991.38 divided into 92,743,931 ordinary shares of a nominal value of €0.125 each, all of one class.

During 2023, the Bank resumed its efforts to raise its capital as commenced in November 2022. Following approval of the necessary resolution during the 2023 Annual General Meeting, the Bank sought regulatory approval from the Malta Financial Services Authority of an Application for Authorisation for Admissibility to Listing as set out in a prospectus in relation to a 2-for-3 rights issue of new ordinary shares to be admitted to listing and trading on the Official List of the Malta Stock Exchange and which were to form part of the same class, have equal rights as, and rank pari passu with, the Bank's existing shares (the 'Rights Issue').

On 20 September 2023, regulatory approval was received for the prospectus dated 20 September 2023 relative to a Rights Issue (the 'Prospectus'), and for the admissibility to listing on the Official List of the Malta Stock Exchange of up to 61,828,332 new ordinary shares in the Bank having a nominal value of €0.125 each offered, pursuant to the Rights Issue, to the shareholders appearing on the Bank's Register of Members as at the Record Date. Any rights to subscribe for new ordinary shares not accepted, assigned or paid by such eligible shareholders were to constitute lapsed rights, and the amount of new ordinary shares equivalent to the number of lapsed rights (the 'Excess Shares') were to be made available as detailed in the Prospectus.

The Rights Issue Offer Period in respect of the Rights Issue closed on 26 October 2023 at 10:00 hours in accordance with the timetable set out in the Prospectus. Not all the rights to subscribe for New Ordinary Shares were accepted or validly assigned by Existing Shareholders by the close of the Rights Issue Offer Period and there remained a balance of New Ordinary Shares equivalent to the number of lapsed rights resulting from the Rights Issue, amounting to 13,916,357 New Ordinary Shares (the 'Excess Shares'). The Excess Shares Offer Period opened on 1 November 2023 and was set to close on 27 November 2023. The Excess Shares Offer was over-subscribed and the Bank exercised its right to close the Excess Shares Offer Period earlier on 3 November 2023.

On 16 November 2023, 61,828,332 New Ordinary Shares having a nominal value of €0.125 each were admitted to listing on the Official List of the Malta Stock Exchange, with trading expected to commence on 17 November 2023. The Bank's issued share capital thereby increased from €11,592,991.38 divided into 92,743,931 Ordinary Shares having a nominal value of €0.125 each to €19,321,532.88 divided into 154,572,263 Ordinary Shares of €0.125 each, fully paid-up.

Full details on the Rights Issue and Excess Shares Offer are included in the Prospectus, available on the Bank's website at https://www.lombardmalta.com/en/rights-issue-2023 and in the relative Company Announcements issued by the Bank in this regard at https://www.lombardmalta.com/en/company-announcements.

The total gross proceeds from the Rights Issue and Excess Shares Offer amounted to €46.4 million.

Amendments to the Memorandum and Articles of Association of the Bank are effected in conformity with the provisions in the Companies Act, 1995. Furthermore, in terms of the Articles of Association:

- Directors may be authorised by the Bank to issue shares subject to the provisions of the Memorandum and Articles of Association and the Companies Act;
- Directors may decline to register the transfer of a share (not being a fully paid share) to a person of whom they do not approve;
- Directors may decline to recognise any instrument of transfer, unless accompanied by the necessary evidence;
- no registration of transfers of shares shall be made and no new particulars shall be entered in the register of members when the register is closed for inspection; and
- the Bank may, from time to time, by extraordinary resolution reduce the share capital, any Capital Reserve Fund, or any Share Premium Account in any manner.

Currently there are no matters that require disclosures in relation to:

- holders of any securities with special rights;
- employee share schemes;
- restrictions on voting rights or relevant agreements thereto; or
- significant agreements to which the Bank is a party, and which take effect, alter or terminate upon a change of control of the Bank.

The Remuneration Report on page 40 refers to the financial contributions towards retirement gratuities that the Board of Directors approves from time to time. The same Board had previously resolved that a retirement gratuity be eventually paid on an *ex-gratia* basis to the Chief Executive Officer on his retirement.

The rules governing the changes in Board membership are contained in the 'Statement of Compliance with the Principles of Good Corporate Governance'.

Shareholders holding five per cent (5%) or more of the share capital of the Bank:

	Shares in Lombard Bank Malta p.l.c.	
	31 December 2023	31 March 2024
National Development & Social Fund (NDSF)	49.01%	49.01%
Virtu Holdings Ltd	9.89%	9.89%
First Gemini p.l.c.	5.31%	5.31%

Directors' Interest in Group Companies

Joseph Said, who is a Director of the Bank, is also a Director of the following companies that have a shareholding in the Group as follows:

	Shares in Lombard Bank Malta p.l.c. at 31 December 2023	Shares in MaltaPost p.l.c. at 31 December 2023*
Safaco Ltd	147,611	92,774
First Gemini p.l.c.	8,201,836	75,350

	Shares in Lombard Bank Malta p.l.c. at 31 March 2024	Shares in MaltaPost p.l.c. at 31 March 2024*
Safaco Ltd	147,611	96,991
First Gemini p.l.c.	8,201,836	78,775

** The increase in the shareholding of Safaco Ltd and First Gemini p.l.c. in MaltaPost p.l.c. between 31 December 2023 and 31 March 2024 is attributed to a Scrip Dividend.*

In addition, Joseph Said holds preference shares in Safaco Ltd.

Audit & Risk Committee

The Audit & Risk Committee is composed of non-executive Directors and is intended to ensure effective internal controls, compliance and accountability. The Committee also acts to ensure that high ethical standards are maintained, as explained in the 'Statement of Compliance with the Principles of Good Corporate Governance' in another section of this Annual Report.

Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put at the forthcoming Annual General Meeting.

Events occurring after the end of the accounting period

There were no significant events affecting the Bank or any of its subsidiary undertakings which have occurred after 31 December 2023.

Other Information

During 2023, the Bank's Qualifying Shareholder, the National Development and Social Fund (the 'NDSF') appointed two directors on the Bank's Board of Directors, subject to regulatory approval. The relative suitability assessments for Dr John Bonello and Mr Paul Abela were carried out by the Bank's Suitability & Evaluations Committee and submitted to the Regulator. Regulatory approval for the appointment of Dr John Bonello as a non-executive director on the Bank's Board was received on 23 October 2023, whereas the Bank was informed that Mr Paul Abela was unable to take up his position on the Board. In January 2024, the NDSF appointed Mr Richard Dimech as a director on the Board of Directors. Furthermore, with effect from 13 March 2024, Graham A. Fairclough resigned from his position as non-executive director subsequent to which the Board of Directors co-opted Aldo-Joseph Giordano as non-executive director. As at the date of publication of this Annual Report, these appointments are subject to regulatory approval.

Non-Financial Statement

The Companies Act requires that a non-financial statement be included in this report containing information on the Group's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters and this in the form of particular disclosures on certain aspects.

1. Business Model

The Bank is a Malta-based bank and for financial stability purposes is considered by the Central Bank of Malta as a core domestic bank, catering mostly for the local economy, and therefore actively supporting economic sectors in their activities. The lending activity of the Bank consists mainly of Commercial and Retail Lending. Commercial Lending is largely characterised by loan facilities to the commercial sector with short to medium term maturities. Retail Lending consists mainly of home loan facilities with medium to long term maturities. Asset diversification strategy is intended to increase the resilience of the Bank's loan book and its lending capacity. The Bank is a Tied Insurance Intermediary for long term insurance business and can therefore provide its Home Loan customers a comprehensive service offering. Lending is funded by a diversified deposit base and underpinned by solid financial fundamentals and stakeholder value. The Bank has never relied, and does not intend to rely, on the interbank market for its funding requirements, and retains ample liquidity from its operations. As per current strategic plan, the Bank seeks prudent growth, while continuing to adhere to the highest standards of professional conduct, as evidenced by the quality of its assets and relationships. The Bank follows risk review processes to ensure that business is in line with its risk appetite frameworks and its compliance standards, which themselves are also reviewed periodically in light of regulatory developments and emerging risks. The Bank continues seeking to expand its product and services portfolio into the retail market. It firmly believes that in the Maltese market physical presence remains an important element, more so in respect of customers who demand a *personalised service*, being the service delivery ethos of the Bank. The Bank seeks to foster new relationships across a wider demographic spectrum, and for this reason widened its physical presence. Presently the Bank has 11 branches, with a further 2 Bank owned properties earmarked for this purpose.

The Bank's business model seeks to build stakeholder value by delivering financial services and solutions in a prudent manner and by setting the highest standards in professional behaviour and implementing the highest standards of compliance. The Bank's competitive strengths are in its unique business operating model, its conservative outlook towards risk and its robust fundamentals. The characteristics of its business model give the Bank a competitive advantage, enabling it to continue to deliver value to all its stakeholders in a challenging environment which remains highly competitive and increasingly regulated. The Bank's brand, which stands for the provision of personalised and tailored financial services, remains strong.

The Bank's subsidiary, MaltaPost p.l.c. ('MaltaPost') is Malta's leading postal services company, being the sole licensed Universal Service Provider of postal services on the Maltese Islands in terms of the Postal Services Act (Chapter 254 Laws of Malta) and under the terms of the Universal Postal Union Convention and Constitution on behalf of the Government of Malta. The Company operates a network of 6 Postal Hubs, 41 Post Offices and 25 Sub-Post Offices around Malta and Gozo.

Postal services remain characterised by a decline in Letter Mail volumes and in the corresponding income, and on an opposing trajectory, increasing costs. MaltaPost continues to pursue its diversification into logistics, document management, insurance and financial services. In insurance, MaltaPost has a 25% shareholding in IVALIFE Insurance Limited, a company licensed to conduct long-term business of insurance and a 49% shareholding in PostaInsure Agency Limited, an insurance agency for MAPFRE Middlesea p.l.c.

Document management services are offered through a fully owned subsidiary, Tanseana Limited. While MaltaPost remains committed to be the trusted postal and logistics operator offering a comprehensive product portfolio, these investments in non-postal sectors are intended to supplement income streams from the core activity. MaltaPost continues with its engagement with the Regulator with a view of ensuring that regulated postal tariffs are at a level which enable the Company sustain the Universal Service Obligation.

As evident from the above disclosures, there were no notable changes to the core business strategies and business models of Group entities.

2. Anti-Corruption and Bribery Matters

The Group remains committed to a zero-tolerance policy to bribery and corruption, financial crime and breaches of the relative laws and regulations. The Group developed and maintains robust policies designed to prevent and detect potential bribery and corruption in the form of an Anti-Bribery and Corruption ('ABC') Policy and Whistleblowing Policy.

The implementation of these policies is by means of processes, procedures and respective controls, which are embedded in the Group's structures and manuals in order to ensure that staff members act responsibly within the workplace and outside. Guidelines and instructions regarding ABC and Whistleblowing are applicable and available to all staff members. All staff members, including Directors and, where relevant, associated persons are required to comply with the principles outlined. The Group supports a 'speak-up attitude' to encourage reporting of concerns relating to what might appear to be suspected illegal, unethical or otherwise improper acts or their concealment. The same standards are expected from any third parties providing services for or on behalf of the Group. Staff members who fail to comply with the Group's policies and standards may face disciplinary action, up to and including dismissal or termination of employment. Training sessions keep staff members abreast of their respective obligations at all times.

The Risk Management and Compliance functions exercise oversight over the implementation of respective Policies, the former by including ABC in risk assessments and the latter by ensuring constant standards of compliance. The Risk and Compliance functions also work together to ensure the proper functioning of these policies, while the Internal Audit reviews results. Matters arising, if any, out of the adoption of these policies are reported by the Compliance function in its reports to the Audit & Risk Committee and Board of Directors. Policies are reviewed annually, or more often as required, by the relative business and internal control functions with suitable recommendations, as is necessary, made to the Board of Directors. During the year under review, there were no reported cases on the basis of the abovementioned policies and therefore no necessary investigations.

3. Social and employee-related matters

Social and employee matters are given full attention by the Group. The Group's human capital is a key resource for the carrying out of business. The ability to attract and retain human resources of the right skill-mix and experience condition to a large extent the Group's performance. The risk of not attracting or retaining the appropriate quality staff in line with the Group's business needs is mitigated generally by the approach to managing this resource and specifically through a number of measures. Further information on employees may be found in the Chief Executive Officer's Review, Human Resources on page 6 and Note 31 to the Financial Statements.

Collective Agreements are in place at the Bank and MaltaPost p.l.c., setting the conditions of work and generally regulating the employer/employee relationship. The prevailing Agreements contain a number of measures of assistance to staff members including days of special paid leave additional to those stipulated at law, such as Study Leave, and extended Bereavement Leave. The Group enjoys harmonious industrial relations with the full co-operation of respective trade unions, staff members and their representatives.

Oversight of key indicators, by which human resource performance is evaluated is maintained by the Head of the Human Resources function and reported to senior management and the Risk Management function as appropriate for suitable action if and as required. Performance management takes into consideration leadership and other competencies required by particular positions as well as the Group's corporate values. The Group does not place quotas on the number of staff members whose personal circumstances require them to work on reduced hours or need to absent themselves from work for an extended period of time on Child Care Leave or other absences related to immediate family matters. In this regard, the Group is committed to supporting and developing work-life balance measures further.

The Bank also extends a number of products and services to Group staff members on favourable terms including, among others, advantageous terms on home loans and other personal borrowing. The Group keeps an active line of communication with staff members through circulars, branch / department staff meetings and one-to-one meetings among others and is committed to maintaining a working environment where staff is valued, respected and supported to fulfil potential.

All members of staff are treated on equal terms with regard to career development and appointments and the Group supports and practices gender equality and diversity. The Group, however, does not set specific targets in this regard, as it firmly believes that progress is dependent largely on skill, competencies, attributes and performance, rather than gender and / or other diversity factors. Being the largest employer in the Group, MaltaPost p.l.c. holds the Equality Certification Mark following certification by local authorities in recognition of its non-discriminatory values and as a provider of equal opportunities to its staff.

The Group abides by all applicable laws, rules and regulations relating to employment. While conscious of the fact that the legal obligations are the minimum acceptable standard, the Group strives to surpass standards in this area and continues to increase awareness among staff. The Group, for example, with circa 7%, well exceeds the obligation to have 2% of the total staff complement composed of persons with disabilities. This reaffirms the Group's social outlook and its commitment to create a positive impact in society. Remuneration levels are regularly reviewed to ensure that they are in line with the Group's Remuneration Policy.

Investment in human capital was and still remains a fundamental pillar of sustainability for the company and to this effect the Group has committed to invest in developing the skills of its workforce through both internal and external training.

As in previous years, during 2023, Group staff members participated in several training sessions and on-the-job training programmes. Training is driven by the requirement to meet identified training needs rather than by the pursuit of specific numerical targets, which are therefore not set.

The Group remains committed towards extending its support to a number of charitable, social and cultural organisations.

Regarding consumer relations and protection, the Group adheres to all respective regulatory requirements such as, *inter alia*, those arising from Markets in Financial Instruments Directive II (MiFID II), as also reflected in the MFSA Conduct of Business Rulebook, the Cross Border Payments Regulation II (CBPR II), Payment Services Directive II (PSD II), Payment Accounts Directive (PAD) and Banking Rule BR/22 Complaints Handling Procedures for Credit Institutions Authorised Under the Banking Act, 1994.

The Group Complaints Management policies and relevant details on respective web sites provide the information required for a consumer to submit complaints. During 2023 the Bank had no complaints brought in front of the Arbiter for Financial Services for hearing and adjudication. In the case of MaltaPost p.l.c., customer complaints accounted for 0.006% of all mail items handled.

The Group does not actively push customers away from physical delivery channels. Maintaining a presence in core community areas is given importance so as to facilitate accessibility and delivery of important services to the community.

Please also refer to the Chief Executive Officer's Review, Corporate Social Responsibility on page 7 and to Principle 12 'Corporate Social Responsibility' on page 35 for further information concerning social matters.

4. Health and safety

Maintaining the highest levels of health and safety and physical security of staff is of paramount importance. As a minimum, the Group meets with all the statutory obligations set out in the Occupational Health and Safety Authority Act, 2000. Further measures for the management of health and safety are adopted by way of standards in Collective Agreements, appointment of Health & Safety Officers and appointment of local first aiders and fire wardens. Regular checks of related processes and systems are carried out with outcomes reported to the Health & Safety Officers, who will take action as and if required. Furthermore, health and safety risk assessments are carried out to ensure that situations that may pose risks to the health and safety of staff and others on Group premises are identified and mitigated. Occupational health awareness training is also provided. No Health and Safety incidents were reported at the Bank, while MaltaPost Group registered a decrease in the number of such incidents when compared to previous years. Some Group staff benefit from personal accident insurance cover and others benefit from private health care insurance, as well as death in service cover.

5. Human rights

The Group is aware of the importance of ensuring that human rights are upheld across its operations. In this respect the Group carries out its business without discrimination, respecting the standards set by national law or higher standards as applicable, such as effective information and consultation processes, particularly where these affect the place and conditions of work. Business conduct policies are in place to support this stance, which extend also to counterparties. The Group avoids business with counterparties operating in economic sectors that may be linked to or present a significant risk to violation of human rights or to social vices. Additionally, the Bank's AML/CFT processes, *inter alia*, assist in the identification of the proceeds of potential human rights abuses. Any suspicions resulting from these processes are reported to law enforcement as per current legislative requirements. Services that promote financial inclusion have been introduced also by way of the PostaPay&Save account which serves as a basic payment account. This account was introduced to encourage financial inclusion well before this was required by regulation. The account allows persons who may have been unable to open bank accounts to enjoy the facilities of basic payment accounts with relative services. PostaPay&Save accounts have now been opened for more than 16,000 individuals, though about 13,000 remain active.

The Group did not encounter any issues, claims or reports on any human rights related matters and / or violations. A grievance procedure is in place to provide effective remedy as and when needed. The Group is committed to investigate any reports of human rights violations. As previously stated, the Bank has in place a Whistleblowing Policy which covers among others, related issues. In accordance with this Policy reports are submitted to the Heads of Risk Management and Internal Audit. During the year ending 2023, no reports in accordance with this Policy were submitted.

Premises, including self service areas and ATMs, meet all accessibility regulations, apart from where physical restrictions make this impossible, in which case discussions with the relevant regulatory bodies are held.

6. Environmental Matters

The Group does not execute a formal policy relating to environmental matters given its size, scale and nature of operations. Nonetheless, the Group is mindful of the important role it has to play to contribute towards safeguarding the environment as much as is possible, thereby minimising the environmental impact of its operations. Besides assisting in the reduction of costs, being environmentally friendly and taking measures to reduce its carbon footprint fits within the overall corporate social responsibility initiatives of the Group. The Group continues with its programme of investment aimed at reducing reliance on fossil fuel power and demand on the national power grid, as far as practical and opportune.

Relative initiatives included installation of PV panels. The Group has 426 PV panels on its buildings generating circa 116kWp. Investment is aimed at reducing emissions from purchased electricity through investment in renewable sources and energy efficient systems, such as installations of modern Heating Ventilation Air Conditioning (HVAC) systems and Light Emitting Diodes (LED) light fittings. Waste separation facilities and recycling processes are in place and are ongoing throughout the Group.

The Group operates approximately 130 electric vehicles, which replace internal combustion motor vehicles and reduce the demand for more fossil fuelled vehicles, thereby contributing to an overall reduction of approximately 97,000 kg of CO_2 emissions. The Group continues with its efforts to reduce paper use.

The Group continues with its efforts to preserve buildings of architectural importance now serving as modern and functional branches/offices. '*Restoration with respect*' continues to be the Group's motto when acquiring and renovating buildings of architectural heritage value, delivering them back to society in their original splendour.

Preservation and reuse of such property reduces resources and material consumption, generates less waste and consumes less energy than developing greenfield and / or brownfield sites.

MaltaPost p.l.c. runs a postal museum also in a restored building in Valletta housing a collection of artefacts related to Malta's postal history. Additions to the collection of artefacts are made as opportunities arise, thereby enriching further the country's postal heritage.

The Group's business is mostly carried out in Malta. The Malta climate-related risks are not expected to have a consequence on the impairment or fair value of assets, give rise to credit losses and / or potential provisions or contingent liabilities. Therefore, the impact of climate change on the financial performance is not expected to be material. That said, like any other business the Group is however not shielded from the economic risks of climate change, which in turn can have an impact on the financial performance.

The Bank is mindful of the increasing requirements emanating from the Environmental, Social & Governance (ESG) regulatory framework. It continues following developments closely, improve understanding so as to further determine how ESG considerations influence the manner in which it carries out its business and the extent to which such considerations are incorporated within its risk management framework. ESG initiatives geared towards the Bank meeting with regulatory expectations remain on-going. The ESG Working Group continues to coordinate, advise and provide recommendations and related actions on ESG matters. This

Working Group is also responsible for ensuring compliance with regulatory expectations and liaising with Senior Management, the Board-appointed Committees and the Board of Directors in this regard. The Group also intends to further enhance its data collection efforts in order to widen its scope for further improving its ESG credentials.

7. Risk Reporting

The Group has in place an enterprise-wide risk management framework which, *inter alia*, lays down the foundation for the risk management reporting process. To ensure it meets the requirements of the markets in which the Group operates, including regulatory standards and industry best practices, this is subject to constant evaluation.

This framework is also enhanced by well-defined procedures and subject to ongoing review including clear organisational structures and reporting lines.

The Group's plain vanilla organisation structure ensures that responsibilities and duties are well-defined, managed and communicated. Processes are in place to identify, monitor, manage and report risks. Effective internal control mechanisms are in place to assist Management safeguard resources and ensure that our first line of defence complies with relevant processes.

To achieve the above, a formal Risk Management Policy, which is reviewed periodically, is in place. This overarching Policy allows for the applying of strict internal controls and discretionary limits, and optimising the returns thereof, invariably in line with the Bank's risk appetite, thus achieving the objective of enhancing and maintaining stakeholder value as well as the successful execution of its strategy.

The risk appetite determines the maximum risk the Bank is willing to accept to meet business objectives. For the purposes of strategic direction, macroeconomic developments and changes in the regulatory environment, it is reviewed and updated at least annually, this after a thorough analysis of the current risk profile.

The main categories of risk to which the Group is exposed to are:

Capital Risk – arises from the inability to hold sufficient capital to allow the Group to continue as a going concern, provide suitable returns for shareholders, maintain a strong capital base to support the development of the business, comply with regulatory requirements and ensure sufficient capital to cater for sudden unexpected shocks. Constant monitoring of the Bank's capital positions against regulatory and management limits as set in our Risk Appetite Statement is carried out. Where required, this monitoring is supplemented by a robust capital planning process which establishes suitable capital levels tailored for the Bank's risk profile and regulatory requirements. Risk-based capital measures are further strengthened by a volume-based leverage ratio which protects the Bank from excessive growth in its Balance Sheet (Notes to the Financial Statements note 2.7; Additional Regulatory Disclosures notes 6 and 7).

Credit Risk – arises from adverse changes in the credit quality should any of the Group's customers or counterparties fail to honour their contractual obligations to the Group. This constitutes the Group's single largest risk in view of its significant lending and securities portfolio. In this respect, Credit risk mainly arises from customer loans and advances since risks to exposures in credit institutions and investments is considered to be low. Prior to granting a facility, a comprehensive assessment of the Customer's repayment capability is carried out. To further minimise this risk, facilities are generally adequately secured by tangible security. These are reviewed periodically to ensure that the conduct is in line with the terms and conditions stipulated in the Sanction letter and to ensure the collateral still covers the facilities (Notes to the Financial Statements note 2.3; Additional Regulatory Disclosures note 2).

Liquidity Risk – arises when the Bank is unable to meet current and future anticipated and unforeseen payment obligations as they fall due. Liquidity management comprises of constant monitoring of liquidity positions through established ratios against regulatory and internal limits as set in our Risk Appetite Statement. Through its Assets & Liabilities Committee, the Bank's liquidity profile is managed in such a way that cash flows and all anticipated obligations are met when due. The Bank continued to hold robust liquidity buffers and adequate stable funding to ensure that the Liquidity Coverage Ratio (LCR) and Net Stability Funding Ratio (NSFR) remains significantly above regulatory minima (Notes to the Financial Statements note 2.5; Additional Regulatory Disclosures note 4).

Market Risk – arises from adverse movements in the fair value or future cash flows because of fluctuations in market prices or rates such as interest rates, credit spreads and foreign exchange rates. Should these risks materialise, the Group may experience significant losses in its investment portfolio declines in interest income and negative movements in the fair value of assets and liabilities. The Bank does not operate a Trading Book and hence this risk is limited to Interest Rate Risk, Currency Risk and Equity Price Risk. The Bank seeks to manage and control market risk by taking measures to limit the adverse impact of market movements. Currency risk for the Group is low since a natural hedge strategy is adopted whereby Customer Deposits in one currency are matched with a corresponding asset of a similar currency almost instantaneously. Likewise, Equity Price risk is also deemed to be low given that the Group's assets in the form of equity is less than 1% of the Group's assets (Notes to the Financial Statements note 2.4; Additional Regulatory Disclosures note 2).

Macroeconomic and Market Conditions Risk – refers to risks associated with a deterioration in the economic and general business climate, both domestically and at global level. The prolonged occurrence of such events may have an adverse material affect on the Group's financial performance and possibly asset quality.

Non-Financial Risks – are risks arising out of inadequate or failed internal processes, people or systems. Non-financial risks and losses cover a wide spectrum of areas including financial crime, regulatory compliance, fraud, people, systems and processes which would in turn affect income and capital. Non-financial risks are described in depth in our Risk Appetite Statement and Risk Management Policy, these serving as one of the four pillars of the Risk Management Framework. These risks are benchmarked by using established parameters that are reviewed periodically and set by the Board. Operational policies and procedures are in place to ensure that the Bank remains in compliance with the limits set within its Risk Appetite.

Since the nature and frequency of non-financial risks materialising cannot be predicted, the Bank has in place adequate insurance cover to cater for operational failures. Also, as part of the Bank's Capital Risk management, a capital charge for unforeseeable losses arising from these risks is also taken (notes to the Financial Statements note 2.6; Additional Regulatory Disclosures note 5).

Regulatory Compliance Risk – arises out of legal sanctions or regulatory sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of failing to comply with regulations, code of conduct, laws, rules, and standards of best practice.

This risk is managed by our Regulatory Compliance Function which holds a second line of defence role and is independent of operations. The Bank promotes the mitigation of Compliance Risk as part of a culture that encompasses the whole Bank and all staff. Also, the Function acts as the Bank's central point through which all interaction with regulatory and enforcement bodies are channelled.

Financial Crime Risk – is related to offences such as money laundering, terrorist financing, fraud, bribery & corruption, market abuse, insider trading and sanctions. The Bank through its various policies, procedures and various systems in place, is committed to combating financial crime and ensuring that its products and services are not misused for the purpose of money laundering, terrorism financing and fraud events. A number of policies and procedures related to Financial Crime are in place. These set out the Bank's risk appetite in respect of customer on-boarding, economic sectors and jurisdictions that it considers acceptable.

Information Security Risk – is associated with the risk of data and / or financial loss resulting from deliberate or accidental loss, alteration, falsification or leakage of information, destruction, disruption, errors or misuse of information systems. Likewise, in its daily operations, the Bank runs the risk of loss from threats or malicious attacks from internal staff and / or potential malicious intruders. The Bank is cognisant of these threats and in this regard has in place Data Protection and Information & Cyber Security Policies to mitigate such risks. These Policies ensure that corporate information and systems are safeguarded and protected against the risk of data compromise and growing cyber security threats. Procedures supporting these Policies highlight that sufficient internal controls and adequate measures are set and maintained at all times to mitigate such threats.

ESG risks – arise from environmental, social, and governance (ESG) matters, including climate change, societal impact on nature, and human rights violations. Climate & Environmental risks, pose broader risks through market, credit, reputational, and regulatory avenues, potentially affecting the Group's business and reputation. The Group is also susceptible to governance risks which may arise from inadequate management and control, which would in turn affect income and capital. For the purposes of complying with ESG-related disclosure requirements, the Bank relies on various data sources, with improving data quality but still limited comparability. Failure to address ESG requirements appropriately could have a material adverse effect on the Group's business, operations, reputation, prospects and strategy.

Key Performance Indicators (KPIs)

The Group has in place a set of financial and non-financial key performance indicators (KPIs) that are set by the Board of Directors in its Risk Appetite Statement, monitored by the Risk Management Function and submitted to the Audit & Risk Committee for continuous assessment. These are a set of quantifiable metrics that ensure that material risks faced are kept within set parameters as detailed in the Risk Appetite Statement. A selection of key metrics as at 31 December 2023 are presented hereunder.

Solvency	TCR	21.0%
	Leverage	14.2%
Liquidity	LCR	301.8%
	NSFR	155.7%
Profitability	ROE*	5.6%
Asset Quality	NPL	3.7%

**After tax*

The KPIs are reported in the form of a risk scorecard by using the "traffic light" approach and comparing the actual metric to the limits set in the Risk Appetite Statement.

Consolidated disclosures pursuant to Article 8 of the EU Taxonomy Regulation

Introduction

In order to achieve the targets established by the European Union ('EU') of reaching net zero greenhouse gas ('GHG') emissions by 2050, with an interim target of reducing GHG emissions by 55% by 2030, compared to 1990 levels, the EU has developed the EU Taxonomy Regulation[2] ('the EU Taxonomy'). This is a classification system which establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable, in terms of six environmental objectives, against which entities assess whether economic activities qualify as environmentally sustainable.

In order to qualify as such, an economic activity must be assessed to substantially contribute to at least one of these environmental objectives, whilst doing no significant harm to the remaining objectives. This is achieved by reference to technical screening criteria established in delegated acts to the EU Taxonomy. The economic activity is also required to meet minimum safeguards established in the EU Taxonomy.

The six environmental objectives established by the EU Taxonomy are the following, where climate-related environmental objectives (1-2 below) are established in the Climate Delegated Act[3] ('CDA'), whilst non-climate environmental objectives (3-6 below) are established in the Environmental Delegated Act[4] ('EDA').

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control; and
6. Protection and restoration of biodiversity and ecosystems.

A delegated act to the EU Taxonomy was issued in 2021, supplementing Article 8 of the Taxonomy Regulation ('the Disclosures Delegated Act[5]'), which establishes the disclosure requirements of entities within the scope of the Taxonomy Regulation, which currently comprises entities subject to an obligation to publish non-financial information pursuant to the Non-Financial Reporting Directive ('NFRD[6]'), emanating from article 19a or 29a of the Accounting Directive[7].

The Disclosures Delegated Act was further updated in 2023 by the Complementary Climate Delegated Act[8] to include certain energy activities relating to fossil gas and nuclear energy.

Taxonomy eligibility of economic activities have been reported in financial years 2021 and 2022, in respect of both:

[2] EU Regulation 2020/852
[3] Commission Delegated Regulation 2021/2139
[4] Commission Delegated Regulation 2023/2486
[5] Commission Delegated Regulation 2021/2178
[6] EU Directive 2014/95/EU. *NFRD entities are public interest entities exceeding an average of 500 employees during the reporting period. The introduction of EU Directive 2022/2464/EU (the Corporate Sustainability Reporting Directive, 'CSRD', which will replace the NFRD) will significantly extend the scope of EU Taxonomy reporting.*
[7] EU Directive 2013/34/EU
[8] Commission Delegated Regulation 2022/1214

- total on-balance sheet assets of Lombard Bank Malta p.l.c.;
- total turnover, CapEx, and OpEx of the Bank's subsidiary MaltaPost p.l.c.

The Bank is now also required to disclose its initial Taxonomy alignment of eligible activities in the Climate Delegated Act based on the current financial year of reporting, and also required to report its initial Taxonomy eligibility of exposures in respect of the Environmental Delegated Act.

Comparative templates relating to prior period reporting of EU Taxonomy disclosures are not required given that this is the Bank's first EU Taxonomy disclosure in line with mandatory templates required by the Disclosures Delegated Act. Furthermore, since the Bank's prior period EU Taxonomy eligibility disclosure was not required with the same level of detail as the current financial year, and was based on total assets rather than covered assets, Taxonomy eligibility disclosures are not strictly comparable. Accordingly, comparative EU Taxonomy information has not been reported.

Scope of consolidation

On 21st December 2023, the EC published a Draft Commission Notice[9] in the form of a set of FAQs specific to financial undertakings' EU Taxonomy reporting. The Draft Commission Notice clarifies that parent undertakings of mixed groups are required to consolidate the activities of their financial subsidiaries, and separately consolidate the activities of their non-financial subsidiaries, reporting relevant Taxonomy KPIs as relevant in both cases. Accordingly, the Bank reports relevant Taxonomy KPIs applicable to credit institutions in respect of the Bank, and relevant Taxonomy KPIs applicable to non-financial undertakings in respect of the Bank's non-financial subsidiaries within the contextual information, as referred to in FAQ 10 of the Draft Commission Notice, which contemplates Taxonomy disclosures of mixed groups in which the activities of subsidiaries may differ in risks or impacts from those of the Group.

The Draft Commission Notice is, at the time of reporting, yet to be adopted into the Official Journal of the European Union. Considering this, and the recency of the publication of such FAQs, interpretations to the guidance resulting from such FAQs have been implemented on a best-effort basis. It has therefore not been operationally possible to implement all aspects of the mentioned FAQs in time for this reporting year.

EU Taxonomy KPIs disclosed

The following KPIs related to the Bank are reported in the templates disclosed.

- The Green Asset Ratio ('GAR') is a ratio calculated as the percentage of EU Taxonomy aligned assets as a proportion of total covered assets.
    - The numerator of the GAR includes loans and advances, debt securities, equities and repossessed collateral financing Taxonomy aligned economic activities based on turnover KPI and CapEx KPI of underlying assets.
    - The denominator of the GAR includes total loans and advances, total debt securities, total equities, total repossessed collateral and other covered on-balance sheet assets outlined in the section 'Assets excluded from the numerator for GAR calculation (covered in the denominator)'.
- The calculation of the KPI for off-balance sheet exposures relates to Lombard Bank Malta p.l.c's assets under management, reported in Template 1 relating to GAR as off-balance sheet items and also in Template 5 as off-balance sheet items in their own right. Other off-balance sheet exposures such as commitments are excluded from the off-balance sheet KPI.
    - The Green Ratio for Assets under Management ('AuM KPI') is calculated as the percentage of assets under management from undertakings financing Taxonomy aligned economic activities as a proportion of the total assets under management of the Bank.
    - The Green Ratio for Financial Guarantees to financial and non-financial undertakings ('FinGuar KPI') is not calculated since it relates to guarantees supporting loans and advances and debt securities. The Bank did not issue guarantees in respect of loans and advances and debt securities throughout the financial year.

The following KPIs related to the Bank's non-financial subsidiaries are reported in the contextual disclosures to the templates disclosed.

- The turnover KPI is a ratio calculated as the percentage of EU Taxonomy aligned turnover as a proportion of total revenue.
- The CapEx KPI is a ratio calculated as the percentage of EU Taxonomy aligned CapEx as a proportion of total CapEx.
- The OpEx KPI is a ratio calculated as the percentage of EU Taxonomy aligned OpEx as a proportion of total OpEx.

Furthermore, a contextual consolidated group-level KPI is disclosed in the section '*Consolidated group-level KPI on Taxonomy aligned activities in the form of a weighted average KPI*' of the Bank's Taxonomy disclosure, in line with FAQ 9 of the Draft Commission Notice.

Green Asset Ratio

Covered assets
Covered assets comprise all on-balance sheet assets other than those excluded altogether from the GAR, where such exclusions relate to exposures to central governments, central banks and supranational issuers. Lending towards, or financing of, local governments where the use of proceeds is unknown (i.e. general purpose lending) is also excluded from the GAR.

These assets are all excluded from both the numerator and denominator of the GAR.

Assets excluded from the numerator for GAR calculation (covered in the denominator)
Exposures to undertakings that are not in scope of NFRD, derivatives, on-demand interbank loans, cash and cash-related assets, as well as other assets including tangible and intangible assets are excluded from the assessment of Taxonomy eligible economic activities. Similarly, retail exposures, except for the mortgage lending portfolio, building renovations loans, and credit consumption loans for cars, are also excluded from the EU Taxonomy framework, and not assessed for Taxonomy eligibility. These assets are therefore all excluded from the numerator of the GAR but included in the denominator. The Bank's cheques in course of collection from NFRD banks as at reporting date are allocated towards row 47 of Template 1 'Other categories of assets' since these are not considered to be loans and advances to banks in nature.

[9] Draft Commission Notice on the interpretation and implementation of certain legal provisions of the Disclosures Delegated Act under Article 8 of the EU Taxonomy Regulation on the reporting of Taxonomy-eligible and Taxonomy-aligned economic activities and assets (third Commission Notice).

Taxonomy eligible and aligned economic activities

Taxonomy eligible economic activities are those activities which can be assessed as environmentally sustainable and are therefore included in annexes to the EU Taxonomy with relevant technical screening criteria available.

Taxonomy aligned economic activities are those activities which have been assessed as environmentally sustainable, and therefore also comply with the applicable technical screening criteria. Throughout all templates disclosed, 'Environmentally sustainable assets' therefore refers to Taxonomy aligned assets.

Taxonomy eligibility and alignment of general purpose lending (where the use of proceeds is unknown), have been assessed using the turnover and CapEx eligibility and alignment ratios published in the most recently available annual reports by the Bank's in-scope counterparties.

Taxonomy eligibility and alignment of specific purpose lending (where the use of proceeds is known), have been assessed in line with the technical screening criteria established in the EU Taxonomy, comprising 'substantial contribution' and 'do no significant harm' criteria. Compliance with minimum safeguards is required further to this, which is an integral part of assessing EU Taxonomy alignment. This is applicable to specific purpose lending in the case of financial and non-financial counterparties, since households and public authorities are not required to meet minimum safeguards under article 18 of the EU Taxonomy. In this respect, the Bank has not yet developed a system of capturing such information.

In addition, the Bank's car loan and renovation loan exposures are allocated towards row 24 'Households' of Template 1 of Annex VI of the Disclosures Delegated Act without further allocation.

Data limitations

In the case of the Bank's exposures where the use of proceeds is not known, in the case of NFRD entity counterparties, the Bank relies on published counterparty eligibility and alignment ratios to assess eligibility and alignment of exposures. In this respect, the Bank determines whether counterparties are subject to NFRD through the use of both research and a financial data terminal. Upon identification of relevant counterparties, the Bank researches annual reports of such entities in order to obtain relevant EU Taxonomy KPIs.

However, in certain cases, the Bank is unable to obtain the required information from counterparties. This is relevant in the case of counterparties disclosing EU Taxonomy data for the first time in 2024, particularly:

- Financial undertakings' Taxonomy alignment disclosures; and
- Financial and non-financial undertakings' Taxonomy eligibility disclosures in terms of non-climate environmental objectives. Accordingly, the specific columns in the Bank's disclosure templates relating to the non-climate environmental objectives have been excluded from all templates.

As data becomes more available and improvements in data quality take place over time, differences in the data reported in future financial years, when compared to the current financial year, are expected, as more counterparties adopt the EU Taxonomy requirements for their own disclosures, and enhance their relevant processes relating to EU Taxonomy reporting.

Business Strategy

The process around EU Taxonomy reporting within the Bank is led by an ESG working group comprising a number of the Bank's senior officials, who are tasked with such process and the strategy related to the Bank's disclosures. The ESG working group expects the Bank's business strategy to develop in line with the EU Taxonomy, where engagement with clients and counterparties related to the Taxonomy eligibility and alignment of exposures will develop accordingly.

EU Taxonomy templates – Annex VI

This section outlines the templates to be disclosed by credit institutions, such requirement emanating from Annex VI of the Disclosures Delegated Act.

Each template is duplicated in order to disclose Turnover-based and CapEx-based information, except for Template 0, which is adjusted to also include CapEx-based information.

The Bank is also required to disclose the Taxonomy eligibility and Taxonomy alignment of its relevant exposures by climate-related environmental objective. However, until now, certain non-financial undertakings have reported Taxonomy eligibility and Taxonomy alignment of economic activities without distinguishing between the environmental objectives of Climate Change Mitigation and Climate Change Adaptation. For the purposes of its GAR calculation, the Bank does not assign exposures to individual environmental objectives, disclosing respective amounts in 'total' columns i.e. 'Total (CCM + CCA)'. In this respect, this will be done once all counterparty Taxonomy disclosures are fully allocated towards individual environmental objectives.

The Bank does not currently extend loans and advances to counterparties in scope of NFRD, except for money market placements with counterparty banks.

Template 0: Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation
Template 0 summarises the KPIs required to be disclosed by the Bank as a credit institution.

The Fees and Commissions KPI is required to be disclosed from 1 January 2026, whilst in respect of the Trading Book KPI, also applicable from the same date, the Bank does not operate a trading book. Therefore, the applicable rows for these KPIs are not populated.

0. Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

		Total environmentally sustainable assets (Turnover) € million	KPI (Turnover) %	Total environmentally sustainable assets (CapEx) € million	KPI (CapEx) %	% coverage (over total assets) %	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2 of Annex (V) %	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex (V) %
Main KPI	Green asset ratio (GAR) stock	0.65	0.07%	0.76	0.06%	75.42%	50.04%	24.58%

		Total environmentally sustainable assets (Turnover) € million	KPI (Turnover) %	Total environmentally sustainable assets (CapEx) € million	KPI (CapEx) %	% coverage (over total assets) %	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2 of Annex (V) %	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex (V) %
Additional KPIs	*GAR (flow)*	0.00	0.00%	0.00	0.00%	91.52%	63.48%	8.48%
	Trading book							
	Financial guarantees	-	-	-	-			
	Assets under management	2.16	4.84%	0.27	2.50%			
	Fees and commissions income							

Template 1: Assets for the calculation of GAR
Template 1 discloses assets used in the calculation of the GAR disaggregated by counterparty type and asset class. Total assets are further categorised between the following.

- Covered assets in both numerator and denominator;
- Assets excluded from the numerator for GAR calculation (covered in the denominator); and
- Assets not covered for GAR calculation

This template has been duplicated to disclose turnover-based and CapEx-based information, where in both cases, the Bank's 'Main KPI' Green Asset Ratio can be calculated with reference to amounts reported in Row 48 of Template 1 'Total GAR assets', where Column 'ac' 'Of which environmentally sustainable (Taxonomy-aligned)' relates to the numerator, and Column 'a' 'Total gross carrying amount' relates to the denominator.

The gross carrying amount column excludes impairment allowances for all banking exposures. As a result, total assets reported in this template is not equal to total assets reported in the Bank's balance sheet, with the difference amounting to impairment allowances on banking exposures.

Row 34 'SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations' also includes non-NFRD financial undertakings in the EU, in the absence of a more appropriate row for such financial undertakings.

In the case of off-balance sheet exposures, the Bank does not issue any financial guarantees supporting loans and advances or debt securities.

The gross carrying amount disclosed for assets under management forms the denominator of the respective KPIs and includes exposures to both NFRD and non-NFRD counterparties while excluding exposures to central governments, central banks and supranational issuers. In the case of assets under management which are funds, these are treated as non-NFRD entities since the Bank does not look through to underlying investees regarding their status as NFRD entities, given data limitations.

1. Assets for the calculation of GAR (Turnover)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date 2023														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
	Million EUR	Total [gross] carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	316.67	-	-	-	-	-	-	-	-	-	290.37	0.65	0.02	0.01	0.02
2	**Financial undertakings**	**30.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9.44**	**0.19**	**0.02**	**0.01**	**0.02**
3	Credit institutions	27.62	-	-	-	-	-	-	-	-	-	9.09	0.18	0.02	0.01	0.02
4	Loans and advances	9.04	-	-	-	-	-	-	-	-	-	2.50	0.05	-	-	0.02
5	Debt securities, including UoP	16.36	-	-	-	-	-	-	-	-	-	5.73	0.13	0.02	-	0.0033
6	Equity instruments	2.22	-	-		-	-	-	-		-	0.86	0.00		-	0.0003
7	Other financial corporations	2.38	-	-	-	-	-	-	-	-	-	0.35	0.01	-	-	-
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-	-		-	-	-	-		-	-	-		-	-
12	of which management companies	0.33	-	-	-	-	-	-	-	-	-	0.07	-	-	-	-
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	0.33	-	-		-	-	-	-		-	0.07	-		-	-
16	of which insurance undertakings	2.05	-	-	-	-	-	-	-	-	-	0.28	0.01	-	-	-
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	2.05	-	-	-	-	-	-	-	-	-	0.28	0.01	-	-	-
19	Equity instruments	-	-	-		-	-	-	-		-	-	-		-	-
20	**Non-financial undertakings**	**20.53**	-	-	-	-	-	-	-	-	-	**15.50**	**0.46**	-	-	-
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	3.45	-	-	-	-	-	-	-	-	-	1.55	0.46	-	-	-
23	Equity instruments	17.08	-	-		-	-	-	-		-	13.95	-		-	-
24	**Households**	**265.43**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**265.43**	**-**	**-**	**-**	**-**
25	of which loans collateralised by residential immovable property	231.20	-	-	-	-	-	-	-	-	-	231.20	-	-	-	-
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-	-					-	-	-	-	-
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**0.70**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	**624.44**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	**Financial and Non-financial undertakings**	**537.67**														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	529.42														
35	Loans and advances	513.31														
36	of which loans collateralised by commercial immovable property	-														
37	of which building renovation loans	-														
38	Debt securities	9.33														
39	Equity instruments	6.78														

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date 2023														
			Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
	Million EUR	Total [gross] carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling
	GAR - Covered assets in both numerator and denominator															
40	Non-EU country counterparties not subject to NFRD disclosure obligations	8.25														
41	Loans and advances	-														
42	Debt securities	7.35														
43	Equity instruments	0.89														
44	**Derivatives**	**-**														
45	**On demand interbank loans**	**16.86**														
46	**Cash and cash-related assets**	**8.15**														
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	**61.76**														
48	**Total GAR assets**	**941.11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**290.37**	**0.65**	**0.02**	**0.01**	**0.02**
49	**Assets not covered for GAR calculation**	**306.73**														
50	**Central governments and Supranational issuers**	**180.44**														
51	**Central banks exposure**	**126.29**														
52	**Trading book**	**-**														
53	**Total assets**	**1,247.84**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**290.37**	**0.65**	**0.02**	**0.01**	**0.02**
	Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations															
54	Financial guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
55	Assets under management	44.54	-	-	-	-	-	-	-	-	-	2.34	2.16	0.17	0.01	0.20
56	Of which debt securities	20.16	-	-	-	-	-	-	-	-	-	0.32	0.32	0.17	0.01	0.17
57	Of which equity instruments	4.17	-	-	-	-	-	-	-	-	-	0.46	0.05	-	0.004	0.03

1. Assets for the circulation of the GAR (CapEx)

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date 2023														
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	Million EUR	Total [gross] carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which enabling	Of which towards taxonomy relevant sectors (Taxonomy-eligible)	Of which environmentally sustainable (Taxonomy-aligned)	Of which Use of Proceeds	Of which transi-tional	Of which enabling
	<u>GAR - Covered assets in both numerator and denominator</u>															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	316.67	-	-	-	-	-	-	-	-	-	283.81	0.76	0.02	0.01	0.50
2	**<u>Financial undertakings</u>**	**30.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8.91**	**0.22**	**0.02**	**0.01**	**0.03**
3	Credit institutions	27.62	-	-	-	-	-	-	-	-	-	8.80	0.21	0.02	0.01	0.03
4	Loans and advances	9.04	-	-	-	-	-	-	-	-	-	2.52	0.07	-	0.003	0.03
5	Debt securities, including UoP	16.36	-	-	-	-	-	-	-	-	-	5.43	0.14	0.02	0.004	0.01
6	Equity instruments	2.22	-	-		-	-	-	-		-	0.85	0.001		-	0.001
7	Other financial corporations	2.38	-	-	-	-	-	-	-	-	-	0.11	0.01	-	-	-
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-	-		-	-	-	-		-	-	-		-	-
12	of which management companies	0.33	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	0.33	-	-		-	-	-	-		-	-	-		-	-
16	of which insurance undertakings	2.05	-	-	-	-	-	-	-	-	-	0.11	0.01	-	-	-
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	2.05	-	-	-	-	-	-	-	-	-	0.11	0.01	-	-	-
19	Equity instruments	-	-	-		-	-	-	-		-	-	-		-	-
20	**Non-financial undertakings**	**20.53**	-	-	-	-	-	-	-	-	-	**9.47**	**0.54**	-	-	**0.47**
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	3.45	-	-	-	-	-	-	-	-	-	2.07	0.54	-	-	0.47
23	Equity instruments	17.08	-	-		-	-	-	-		-	7.40	-		-	-
24	**Households**	**265.43**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**265.43**	**-**	**-**	**-**	**-**
25	of which loans collateralised by residential immovable property	231.20	-	-	-	-	-	-	-	-	-	231.20	-	-	-	-
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-	-					-	-	-	-	-
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**0.70**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
32	**<u>Assets excluded from the numerator for GAR calculation (covered in the denominator)</u>**	**624.44**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
33	Financial and Non-financial undertakings	**537.67**														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	529.42														
35	Loans and advances	513.31														
36	of which loans collateralised by commercial immovable property	-														
37	of which building renovation loans	-														
38	Debt securities	9.33														
39	Equity instruments	6.78														

		a	b	c	d	e	f	g	h	i	j	ab	ac	ad	ae	af
		Disclosure reference date 2023														
			Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	Million EUR	Total [gross] carrying amount	Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)				Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling
40	Non-EU country counterparties not subject to NFRD disclosure obligations	8.25														
41	Loans and advances	-														
42	Debt securities	7.35														
43	Equity instruments	0.89														
44	**Derivatives**	-														
45	**On demand interbank loans**	**16.86**														
46	**Cash and cash-related assets**	**8.15**														
47	**Other categories of assets (e.g. Goodwill, commodities etc.)**	**61.76**														
48	**Total GAR assets**	**941.11**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**283.81**	**0.76**	**0.02**	**0.01**	**0.50**
49	**Assets not covered for GAR calculation**	**306.73**														
50	**Central governments and Supranational issuers**	**180.44**														
51	**Central banks exposure**	**126.29**														
52	**Trading book**	**-**														
53	**Total assets**	**1,247.84**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**283.81**	**0.76**	**0.02**	**0.01**	**0.50**
	Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations															
54	Financial guarantees	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
55	Assets under management	44.54	-	-	-	-	-	-	-	-	-	2.78	1.12	0.52	0.05	0.58
56	Of which debt securities	20.16	-	-	-	-	-	-	-	-	-	2.43	1.06	0.52	-	-
57	Of which equity instruments	4.17	-	-	-	-	-	-	-	-	-	0.35	0.06	-	-	-

Template 2: GAR Sector information

Template 2 presents eligible and aligned exposures in the banking book to non-financial counterparties subject to NFRD, broken down by sector of economic activities based on the NACE code of the principal activity of the immediate counterparty.

2. GAR sector information (Turnover)

		a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**			
	Breakdown by sector - NACE 4 digits level (code and label)	Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount	
		Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)
1	M7010 - Activities of head offices	-	-			-	-			0.80	-		
2	K6420 - Activities of holding companies	-	-			-	-			0.31	-		
3	C1105 - Manufacture of beer	-	-			-	-			0.32	-		
4	J6201 - Computer programming activities	-	-			-	-			0.74	-		
5	C2910 - Manufacture of motor vehicles	-	-			-	-			0.82	0.09		
6	H4910 - Passenger rail transport, interurban	-	-			-	-			0.73	0.36		
7	H5310 - Postal activities under universal service obligation	-	-			-	-			16.81	-		

2. GAR sector information (CapEx)

	Breakdown by sector - NACE 4 digits level (code and label)	a	b	c	d	e	f	g	h	y	z	aa	ab
		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount		[Gross] carrying amount	
		Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA)
1	M7010 - Activities of head offices	-	-			-	-			0.80	-		
2	K6420 - Activities of holding companies	-	-			-	-			0.31	-		
3	C1105 - Manufacture of beer	-	-			-	-			0.32	-		
4	J6201 - Computer programming activities	-	-			-	-			0.74	-		
5	C2910 - Manufacture of motor vehicles	-	-			-	-			0.82	0.27		
6	H4910 - Passenger rail transport, interurban	-	-			-	-			0.73	0.27		
7	H5310 - Postal activities under universal service obligation	-	-			-	-			16.81	-		

Template 3: GAR KPI Stock

Template 3 discloses the proportion of total covered assets funding Taxonomy relevant sectors in respect of both Taxonomy eligibility and Taxonomy alignment on a stock basis. The Bank's approach towards disclosing GAR KPI (stock) ratios in this template is based on the amounts of assets disclosed in Template 1, whereby each ratio's denominator is equal to the respective gross carrying amount of the particular counterparty type and asset class. This is in line with guidance provided in the respective sub-sections of section 1.2.1 of the Disclosures Delegated Act.

Template 3 also discloses the particular counterparty type and asset class captured in each relevant row as a proportion of the Bank's total assets.

3. GAR KPI stock (Turnover)

	% (compared to total covered assets in the denominator)	a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total assets covered
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	-	-	-	-	-	-	-	-	-	91.70%	0.20%	0.01%	0.002%	0.01%	25.38%
2	**Financial undertakings**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**31.47%**	**0.63%**	**0.06%**	**0.02%**	**0.07%**	**2.40%**
3	Credit institutions	-	-	-	-	-	-	-	-	-	32.91%	0.65%	0.07%	0.02%	0.07%	2.21%
4	Loans and advances	-	-	-	-	-	-	-	-	-	27.66%	0.52%	-	0.03%	0.18%	0.72%
5	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	35.04%	0.80%	0.11%	0.02%	0.02%	1.31%
6	Equity instruments	-	-		-	-	-	-		-	38.57%	0.02%		-	-	0.18%
7	Other financial corporations	-	-	-	-	-	-	-	-	-	14.77%	0.39%	-	-	-	0.19%
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
	% (compared to total covered assets in the denominator)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
12	of which management companies	-	-	-	-	-	-	-	-	-	21.50%	-	-	-	-	0.03%
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	-	-		-	-	-	-		-	21.50%	-		-	-	0.03%
16	of which insurance undertakings	-	-	-	-	-	-	-	-	-	13.70%	0.45%	-	-	-	0.16%
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	13.70%	0.45%	-	-	-	0.16%
19	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
20	**Non-financial undertakings**	-	-	-	-	-	-	-	-	-	**75.49%**	**2.23%**	-	-	-	**1.65%**
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	44.85%	13.28%	-	-	-	0.28%
23	Equity instruments	-	-		-	-	-	-		-	81.68%	-		-	-	1.37%
24	**Households**	-	-	-	-	-	-	-	-	-	**100.00%**	-	-	-	-	**21.27%**
25	of which loans collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	100.00%	-	-	-	-	18.53%
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-										
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**0.06%**
32	**Total GAR assets**	-	-	-	-	-	-	-	-	-	**30.85%**	**0.07%**	**0.002%**	**0.001%**	**0.002%**	**75.42%**

3. GAR KPI stock (CapEx)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
	% (compared to total covered assets in the denominator)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	-	-	-	-	-	-	-	-	-	89.62%	0.24%	0.01%	0.00%	0.16%	25.38%
2	**Financial undertakings**	-	-	-	-	-	-	-	-	-	**29.70%**	**0.75%**	**0.06%**	**0.02%**	**0.12%**	**2.40%**
3	Credit institutions	-	-	-	-	-	-	-	-	-	31.86%	0.77%	0.07%	0.02%	0.13%	2.21%
4	Loans and advances	-	-	-	-	-	-	-	-	-	27.87%	0.80%	-	0.03%	0.31%	0.72%
5	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	33.18%	0.85%	0.11%	0.02%	0.04%	1.31%
6	Equity instruments	-	-		-	-	-	-		-	38.39%	0.04%		-	0.03%	0.18%

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
	% (compared to total covered assets in the denominator)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
7	Other financial corporations	-	-	-	-	-	-	-	-	-	4.59%	0.53%	-	-	-	0.19%
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
12	of which management companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.03%
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	0.03%
16	of which insurance undertakings	-	-	-	-	-	-	-	-	-	5.32%	0.61%	-	-	-	0.16%
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	5.32%	0.61%	-	-	-	0.16%
19	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
20	**Non-financial undertakings**	-	-	-	-	-	-	-	-	-	**46.12%**	**2.62%**	-	-	**2.27%**	**1.65%**
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	60.09%	15.61%	-	-	13.49%	0.28%
23	Equity instruments	-	-		-	-	-	-		-	43.30%	-		-	-	1.37%
24	**Households**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.00%**	**-**	**-**	**-**	**-**	**21.27%**
25	of which loans collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	100.00%	-	-	-	-	18.53%
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-										
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.06%**
32	**Total GAR assets**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**22.74%**	**0.06%**	**0.001%**	**0.001%**	**0.04%**	**75.42%**

Template 4: GAR KPI Flow

Template 4 discloses the proportion of total covered assets funding Taxonomy relevant sectors in respect of both Taxonomy eligibility and Taxonomy alignment on a flow basis. The Bank's approach towards disclosing GAR (flow) KPI ratios in this template is based on the amounts of new covered assets throughout the financial year, whereby each ratio's denominator is equal to the respective gross carrying amount of the particular counterparty type and asset class. This is in line with guidance provided in the respective sub-sections of section 1.2.1 of the Disclosures Delegated Act.

Template 4 also discloses the particular counterparty type and asset class captured in each relevant row as a proportion of the Bank's total new assets throughout the financial year.

4. GAR KPI flow (Turnover)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
	% (compared to flow of total eligible assets)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	-	-	-	-	-	-	-	-	-	99.78%	0.001%	-	-	-	36.52%
2	**Financial undertakings**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**59.02%**	**0.20%**	**-**	**-**	**-**	**0.11%**
3	Credit institutions	-	-	-	-	-	-	-	-	-	59.02%	0.20%	-	-	-	0.11%
4	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	59.02%	0.20%	-	-	-	0.11%
6	Equity instruments	-	-		-	-	-	-			-	-		-	-	-
7	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-		-	-	-	-			-	-		-	-	-
12	of which management companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-		-	-	
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
16	of which insurance undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
20	**Non-financial undertakings**	-	-	-	-	-	-	-	-	-	**38.12%**	-	-	-	-	**0.06%**
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	38.12%	-	-	-	-	-
23	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
24	**Households**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.00%**	**-**	**-**	**-**	**-**	**36.36%**
25	of which loans collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	100.00%	-	-	-	-	32.78%
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-					-	-	-	-	-	-
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
32	**Total GAR assets**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36.44%**	**0.0002%**	**-**	**-**	**-**	**91.52%**

4. GAR KPI flow (CapEx)

	% (compared to flow of total eligible assets)	a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae	af
		Disclosure reference date 2023														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	-	-	-	-	-	-	-	-	-	99.85%	0.001%	0.02%	-	-	36.52%
2	**Financial undertakings**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**58.35%**	**0.28%**	**8.23%**	**-**	**-**	**0.11%**
3	Credit institutions	-	-	-	-	-	-	-	-	-	58.35%	0.28%	8.23%	-	-	0.11%
4	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	58.35%	0.28%	8.23%	-	-	0.11%
6	Equity instruments	-	-		-	-	-	-		-	-			-	-	-
7	Other financial corporations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	of which investment firms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
12	of which management companies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
15	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
16	of which insurance undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
17	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
18	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
19	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
20	**Non-financial undertakings**	-	-	-	-	-	-	-	-	-	**83.43%**	-	-	-	-	**0.06%**
21	Loans and advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
22	Debt securities, including UoP	-	-	-	-	-	-	-	-	-	83.43%	-	-	-	-	0.06%
23	Equity instruments	-	-		-	-	-	-		-	-	-		-	-	-
24	**Households**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**100.00%**	**-**	**-**	**-**	**-**	**36.36%**
25	of which loans collateralised by residential immovable property	-	-	-	-	-	-	-	-	-	100.00%	-	-	-	-	32.78%
26	of which building renovation loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
27	of which motor vehicle loans	-	-	-	-	-					-	-	-	-	-	-
28	**Local governments financing**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
29	Housing financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
30	Other local government financing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
32	**Total GAR assets**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**36.47%**	**0.0003%**	**0.01%**	**-**	**-**	**91.52%**

Template 5: KPI off-balance sheet exposures

Template 5 presents eligible and aligned off-balance sheet exposures as a proportion of covered assets by Taxonomy environmental objective. The covered assets forming the denominator of each ratio is the respective off-balance sheet exposure relating to the Bank's assets under management, including exposures with both NFRD and non-NFRD counterparties while excluding exposures to central governments, central banks and supranational issuers.

In the case of assets under management which are funds, these are treated as non-NFRD entities since the Bank does not look through to underlying investees regarding their status as NFRD entities, given data limitations.

5. KPI off-balance sheet exposures (Turnover) (Stock)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date 2023													
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	% (compared to total eligible off-balance sheet assets)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling
1	Financial guarantees (FinGuar KPI)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Assets under management (AuM KPI)	-	-	-	-	-	-	-	-	-	5.26%	4.84%	0.39%	0.03%	0.46%

5. KPI off-balance sheet exposures (Turnover) (Flow)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date 2023													
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	% (compared to total eligible off-balance sheet assets)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling
1	Financial guarantees (FinGuar KPI)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Assets under management (AuM KPI)	-	-	-	-	-	-	-	-	-	24.65%	3.70%	0.52%	0.27%	2.45%

5. KPI off-balance sheet exposures (CapEx) (Stock)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date 2023													
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	% (compared to total eligible off-balance sheet assets)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling
1	Financial guarantees (FinGuar KPI)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Assets under management (AuM KPI)	-	-	-	-	-	-	-	-	-	6.24%	2.50%	1.16%	0.12%	1.30%

5. KPI off-balance sheet exposures (CapEx) (Flow)

		a	b	c	d	e	f	g	h	i	aa	ab	ac	ad	ae
		Disclosure reference date 2023													
		Climate Change Mitigation (CCM)					**Climate Change Adaptation (CCA)**				**TOTAL (CCM + CCA)**				
	% (compared to total eligible off-balance sheet assets)	Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transi-tional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transi-tional	Of which enabling
1	Financial guarantees (FinGuar KPI)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Assets under management (AuM KPI)	-	-	-	-	-	-	-	-	-	35.95%	5.05%	0.81%	1.09%	4.48%

EU Taxonomy templates - Annex XII

The following template is required to be disclosed by the Bank in terms of Annex XII of the Disclosures Delegated Act.

Template 1: Nuclear and fossil gas related activities

Template 1 indicates whether, or not, the Bank carries out, funds, or has exposures to the nuclear energy and fossil gas related activities referred to in rows 1-6 of such template. Since the Bank does not carry out, fund, or have exposures to such activities in the current year, it consequently does not disclose the remainder of the nuclear and fossil gas related templates found in Annex XII of the Disclosures Delegated Act (Templates 2-5), in line with FAQ 28 of the aforementioned Draft Commission Notice issued in December 2023.

Row	**Nuclear energy related activities**	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	NO
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	NO
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	NO
	Fossil gas related activities	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	NO
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	NO
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels	NO

Disclosure in respect of the Bank's subsidiary MaltaPost p.l.c.

The Bank's subsidiary MaltaPost p.l.c. ('MaltaPost') is subject to the NFRD and is therefore also subject to disclosure requirements emanating from the Disclosures Delegated Act as a Group in its own right.

The Group is required to disclose the share of its turnover, capital expenditure (CapEx) and operating expenditure (OpEx) for its non-financial subsidiaries, which are associated with the following, in accordance with the Disclosures Delegated Act.

- Taxonomy-eligible and Taxonomy-aligned economic activities in respect of climate-related environmental objectives; and
- Taxonomy-eligible economic activities in respect of non-climate environmental objectives.

Proportion of Taxonomy-eligible and Taxonomy-aligned economic activities in total turnover, CapEx and OpEx

	Total (€000)	Proportion of Taxonomy eligible (non aligned) economic activities	Proportion of Taxonomy-aligned economic activities	Proportion of Taxonomy non-eligible economic activities
FY 2023				
Turnover	39,610	86%	0%	14%
CapEx	1,844	42%	0%	58%
OpEx	1,141	82%	0%	18%
FY 2022				
Turnover	31,513	83%	0%	17%
CapEx	2,246	44%	0%	56%
OpEx	1,146	78%	0%	22%

Taxonomy eligibility of turnover-generating activities

The Group has examined all economic activities which it carries out to determine which of these are Taxonomy eligible in accordance with Annexes I and II to the Climate Delegated Act and Annexes I to IV to the Environmental Delegated Act. The table below indicates the activities performed by the Group which have been identified as Taxonomy eligible and the environmental objective with which the activity may be associated. Given that none of the Group's economic activities in terms of turnover, CapEx, or OpEx are Taxonomy aligned, no further detail with respect to Taxonomy alignment is provided.

Taxonomy eligible activities were identified by extracting the total turnover, CapEx and OpEx required to be captured in the denominators of the respective KPIs and assessing the NACE code of the activities to which the amounts relate. The Group then assessed which of the identified NACE codes relate to activities included within the annexes to the Climate Delegated Act. For the identified eligible activities, the Group then began the process to assess them against the technical screening criteria.

Through the activities highlighted in the following table, the Group generates turnover, and may incur both CapEx and OpEx for such activities.

Economic activity	Description	Turnover (%)*	CapEx (%)*	OpEx (%)*	Environmental objective(s)
6.4 Operation of personal mobility devices, cycle logistics	Postal revenue earned through delivery of post on foot and by e-pedal cargo bikes	14%	0%	0%	CCM, CCA
6.5 Transport by motorbikes, passenger cars and light commercial vehicles	Postal revenue earned through delivery services by motorbikes, cars and light commercial vehicles including electric vehicle quadricycles	52%	37%	72%	CCM, CCA
6.15 Infrastructure enabling low-carbon road transport and public transport	Postal revenue earned through infrastructure and related activities in sorting centres and hubs essential to minimise the transport activities required	20%	0%	0%	CCM, CCA

*of the total turnover, CapEx and OpEx included in the denominator of the respective KPI

The Group has developed a system to allocate the proportion of its postal turnover towards transport activities. This is based on transport modalities of postal beats, in the case of delivery services, where 17% of the Group's turnover attributable to its non-financial undertaking activities is allocated towards activity 6.4 'Operation of personal mobility devices, cycle logistics', and 60% towards activity 6.5 'Transport by motorbikes, passenger cars and light commercial vehicles'. In the case of sorting activities, this is based on the area of its property used for sorting as a proportion of total property area, where the remaining 23% of turnover attributable to Group non-financial undertaking activities is allocated towards activity 6.15 'Infrastructure enabling low-carbon road transport and public transport'.

Economic activities classified under activity 6.4 'Operation of personal mobility devices, cycle logistics' relate to on-foot deliveries and e-pedal cargo bikes, being two delivery methods used in the Group's Last Mile Delivery which are eligible under such activity.

Economic activities classified under activity 6.5 'Transport by motorbikes, passenger cars and light commercial vehicles' relate to motorcycles, delivery vans and light cargo electric vehicles (Micro Logistics Electric Vehicles), which are another three delivery methods used in the Group's Last Mile Delivery which are eligible under this activity. In this respect, the CapEx classified as Taxonomy eligible entails capital investments pertaining to the execution of such turnover-generating economic activity. Such CapEx relates to motor vehicle additions throughout the year, while OpEx in this respect pertains to direct non-capitalised costs incurred in the day-to-day servicing of such motor vehicles, namely running expenses relating to repair and maintenance, and short-term operating leases.

Economic activities classified under activity 6.15 'Infrastructure enabling low-carbon road transport and public transport' relate to infrastructure and related activities in the Group's sorting centre and hubs, which are considered essential to enable the efficient transport of letters, small packets and parcels, making it a driver in minimising the required transport activities in the postal business. The Group also operates four heavy vehicles in scope of activity 6.6 'Freight transport services by road', however, these are considered not to directly contribute to turnover generation.

The Group assessed its turnover-generating economic activities in light of the Environmental Delegated Act, however none are currently deemed to be eligible in this respect.

While the Group currently assesses its operating activities in accordance with activities classified under section 6 'Transport' of the Climate Delegated Act, PostEurop, the trade association that represents European public postal operators, submitted a position paper on the EU Taxonomy in September 2022 recommending that the postal sector be captured under a specific sector, as opposed to 'Transport'. Therefore, in the future, should the Climate Delegated Act be amended in light of such a proposal, the Group will re-assess the Taxonomy eligibility of its turnover-generating activities.

Other turnover-generating activities classified as Taxonomy non-eligible
The Group's Taxonomy non-eligible economic activities include warehousing services, document management services, philatelic activities, retail sale of stamps, non-postal stationery and provision of non-postal services.

Taxonomy eligibility of investment activities not directly related to turnover-generating activities

Further to the activities from which the Group generates turnover, and generally incurs both CapEx and OpEx, it also engages in investment activities not directly related to its turnover-generating activities as highlighted in the following table.

Economic activity	Description	CapEx (%)*	OpEx (%)*	Environmental objective(s)
7.7 Acquisition and ownership of buildings	Additions to leased property	5.5%	10.0%	CCM, CCA

*of the total CapEx and OpEx included in the denominator of the respective KPI

Economic activities classified under activity 7.7 Acquisition and ownership of buildings relate to additions to leased property.

The Group assessed its investment activities not directly related to turnover-generating economic activities in light of the Environmental Delegated Act, however none are currently deemed to be eligible in this respect.

Consolidated group-level KPI on Taxonomy aligned activities in the form of a weighted average KPI

The Group discloses a weighted average KPI of its financial and non-financial activities as required by FAQ7 in the aforementioned Draft Commission Notice. The Group's weighted average turnover-based KPI is 0.03% while its weighted average CapEx-based KPI is 0.02%

Signed on behalf of the Bank's Board of Directors on 26 April 2024 by Michael C. Bonello (Chairman) and Joseph Said (Director and Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Michael C. Bonello
Chairman

Joseph Said
Director and Chief Executive Officer

A. Introduction

In terms of the Capital Markets Rules of the Malta Financial Services Authority (Rule 5.94), Lombard Bank Malta p.l.c. (the Bank), as a company having its securities admitted to trading on a regulated market, is obliged to report on the extent to which it has adopted the 'Code of Principles of Good Corporate Governance' (the 'Principles') embodied in Appendix 5.1 to Chapter 5 of the same Capital Markets Rules, as well as the measures which have been taken by the Bank to ensure compliance with these Principles.

While the Principles are not mandatory, the Board of Directors of the Bank has endeavoured to ensure that they are upheld to the fullest extent possible, and this while acknowledging that good corporate governance is indeed beneficial to all the Bank's stakeholders. The instances in which the Bank has departed from the Principles are explained below under Section C - 'Non-Compliance with the Code'.

After having carried out a review of the extent to which the Bank has been compliant with the Principles throughout the financial year ended 31 December 2023, the Board of Directors, in terms of Capital Markets Rule 5.97, presents its report as follows:

B. Compliance with the Code

Principle 1: The Board

As at 31 December 2023, the Board of Directors of the Bank consisted of six (6) Directors, five (5) of whom being non-executive Directors together with the Chief Executive Officer of the Bank being also a Director.

In January 2024, the Bank's Qualifying Shareholder the National Development and Social Fund (NDSF) appointed a further director (Mr Richard Dimech) on the Board of Directors. Furthermore, with effect from 13 March 2024, Graham A. Fairclough resigned from his position as non-executive director subsequent to which the Board of Directors co-opted Aldo-Joseph Giordano as non-executive director. As at the date of publication of this Annual Report, these appointments are subject to regulatory approval. The Directors, individually and collectively, are considered fit and proper to direct the business of the Bank, having the necessary skills and experience to be able to do so.

In order to assist it in the execution of its duties and responsibilities, the Board of Directors has set up a number of committees and these include the Audit & Risk Committee, the Assets & Liabilities Committee, the Credit Committee and the Suitabilities & Evaluations Committee, all of which are regulated by their own Terms of Reference as approved and periodically reviewed by the Board.

Principle 2: Chairman and Chief Executive Officer

Different individuals occupy the positions of Chairman and Chief Executive Officer. A clear division of responsibilities exists between the Chairman's responsibility for the running of the Board of Directors and the Chief Executive Officer's responsibility for the running and managing of the Bank's business. This separation of roles of the Chairman and Chief Executive Officer avoids concentration of power, authority and unfettered discretion in one individual alone and differentiates leadership of the Board from the running of the Bank's business.

The Chairman's responsibilities, *inter alia*, include: (i) leading the Board and helping it reach its full potential, particularly by facilitating the effective contribution of Directors and encouraging discussion; (ii) setting of the Agenda for Board meetings; (iii) ensuring that the Directors receive precise, timely and objective information so that they can make sound decisions and effectively monitor the performance of the Bank; (iv) ensuring that all strategic and policy issues are appropriately discussed and formally approved; and (v) maintaining effective communication with the Bank's shareholders at all times. As stated below, the Chairman meets the independence criteria set out in the Principles.

The Board of Directors appoints the Chief Executive Officer. The Chief Executive Officer is responsible for managing the day-to-day business of the Bank in conformity with the agreed plans, policies and strategies approved by the Board. The Board of Directors also appointed two Deputy Chief Executive Officers, who support the Chief Executive Officer in the exercise of his duties while leading the Credit and Operations functions respectively.

Principle 3: Composition of the Board

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

Michael C. Bonello
John Bonello *
Graham A. Fairclough **
Kimon Palamidis
Peter Perotti
Joseph Said ***

* *John Bonello was appointed as a Director of the Bank by the Bank's Qualifying Shareholder, the National Development & Social Fund ('NDSF') and upon receipt of regulatory approval on 23 October 2023, his appointment became effective as of such date.*

** *Graham A. Fairclough resigned from his position as non-executive director with effect from 13 March 2024, subsequent to which the Board of Directors co-opted Aldo-Joseph Giordano as non-executive director which appointment, as at the date of publication of this Annual Report, is subject to regulatory approval.*

*** *As reported above, Richard Dimech was appointed by the National Development & Social Fund which appointment, as at the date of publication of this Annual Report, is subject to regulatory approval.*

All Board members are Non-Executive Directors who are not engaged in the daily management of the Bank, with the exception of Joseph Said who is also Chief Executive Officer of the Bank. Furthermore, the Board considers Michael C. Bonello, John Bonello, Kimon Palamidis and Peter Perotti as independent Directors. Kimon Palamidis is still considered to be independent despite the fact that he has served on the Board for more than twelve consecutive years. In determining the independence of its members, the Board takes into consideration the relevant criteria and Principles as well as what are generally considered sound, acceptable standards. All Non-Executive Directors have declared in writing to the Board that they undertake:

- to maintain in all circumstances their independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising their independence; and
- to clearly express their opposition in the event that they find that a decision of the Board may harm the Bank.

It is considered that, in the current circumstances in which the Bank is operating, the size of the Board is sufficient for the requirements of the business and that the balance of skills and experience therein is appropriate to properly enable the Board to carry out its duties and responsibilities. This is considered so also taking into account, *inter alia*, the Bank's simple model and the principle of proportionality, based on the Bank's size and the nature, scale and complexity of its activities and products. Should the necessity arise to supplement the skills of its members, the Board has at its disposal the facility to appoint any external consultants to provide assistance and advice so as to further enhance the Board's oversight functions.

The composition and election of the Board of Directors is determined by the Bank's Articles of Association wherein it is established that it is the shareholders who must appoint Directors to serve on the Board. Within these parameters, options for further strengthening the Board are always considered. In addition, however, the Bank, by virtue of the Board-appointed Suitabilities & Evaluations Committee, carries out suitability assessments of its existing Directors and any new nominated Directors in order to ensure that the suitability, fit and proper criteria are observed, pursuant to all applicable laws, rules, regulations, guidelines etc.

The overall composition of the Board and the collective knowledge, skills and experience required are evaluated during individual suitability assessments and collective suitability assessments so as to ensure that the Board is effectively discharging all its duties and obligations at all times.

The appointment of Directors to the Board is a matter that is reserved entirely to the Bank's shareholders in terms of the Memorandum and Articles of Association. Therefore diversity, to an extent, depends on the profiles of nominees proposed and their suitability in terms of applicable laws, rules, regulations, guidelines, etc. The benefits of diversity, including that in educational and professional backgrounds, age, gender, experience and geographical provenance would be considered by the Suitability and Evaluations Committee in its assessment of suitability of any nominees.

The Board considers that as a policy and as reflected in its Board of Directors' Charter, it endeavours to have a varied board, particularly in terms of diverse educational and professional backgrounds and extensive and specialised experience of its members. The Board is confident that for this reason, and in light of the current circumstances in which it is operating, also taking into account proportionality and the Bank's size and the nature, scale and complexity of its activities and products, it benefits from a satisfactory diversity of skills, knowledge and experience. This allows for a good understanding of current affairs, the Bank's activities, business model, strategy and associated risks, applicable regulatory framework and the environment in which the Bank operates and longer-term risks and opportunities related to the Bank's business. It also benefits from international expertise.

The Board is cognisant of the fact that the appropriate mix of Board Members ensures diverse perspectives, experience and knowledge. It continues to remain committed to achieving further diversity among its members particularly in terms of age, geographical provenance, gender, experience, educational and professional backgrounds.

Principle 4: The Responsibility of the Board

In pursuing the execution of the four basic roles of corporate governance, namely, accountability, monitoring, strategy formulation and policy development, the Board of Directors, having the first level of responsibility for such execution:

- regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policy, performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice;
- applies high ethical standards and takes into account the interests of stakeholders and acts responsibly and with integrity and on a fully informed basis, in good faith, with due diligence and in the best interests of the Bank and its shareholders;
- recognises that the Bank's success depends upon its relationship with all groups of its stakeholders, including employees, suppliers, customers and the wider community in which the Bank operates;
- monitors effectively the application and implementation by Management of its policies and strategy;
- recognises and supports enterprise and innovation within Management and examines how best to motivate the Bank's Management;
- seeks to establish an effective decision-making process in order to develop the Bank's business efficiently; and
- ensures that a balance is struck between enterprise and control in the Bank.

Furthermore, the Board of Directors:

- defines in clear and concise terms the Bank's strategy, policies, management performance criteria and business policies and effectively monitors the implementation of such by Management;
- establishes a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information;
- has appointed Committees, including the Audit & Risk Committee, Credit Committee, Assets & Liabilities Committee and Suitabilities & Evaluations Committee;
- continuously assesses and monitors the present and future operations' opportunities, threats and risks;
- evaluates the Management's implementation of corporate strategy and financial objectives;
- ensures that the Bank has appropriate policies and procedures in place to assure that the Bank and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards;
- ensures that the financial statements of the Bank and the annual audit thereof are completed within the stipulated time periods; and
- requires Management to constantly monitor performance and report fully and accurately to the Board.

Furthermore, Directors keep themselves updated on an ongoing basis of their statutory and fiduciary duties, the Bank's operations and prospects, the general business environment and skills and competences of Senior Management. The expectations of the Board are also discussed regularly.

Principle 5: Board Meetings

The Board convened twelve (12) times during the period under review with attendance of the Directors as follows:

Michael C. Bonello	12
John Bonello	3*
Graham A. Fairclough	12
Kimon Palamidis	12
Peter Perotti	12
Joseph Said	12

* *John Bonello was appointed as a Director of the Bank by the Bank's Qualifying Shareholder, the National Development & Social Fund ('NDSF') and upon receipt of regulatory approval on 23 October 2023, his appointment became effective as of such date.*

The dates when the Board meetings are scheduled to be held are determined prior to the beginning of the year in question. When required, further meetings are scheduled.

Ahead of Board meetings an agenda and supporting documentation are made available to all Directors. Other than in the case of meetings specially convened to discuss particular matters, generally the agendas of regular Board meetings set out items of a long-term strategic nature, as well as performance-related issues together with credit applications which fall within the discretionary limits of the Board and also include various compliance and risk-related matters. During meetings, Directors are encouraged to present their views pertinent to the subject matter and are given every opportunity to contribute to the relevant issues on the agenda. Following each meeting, minutes which record attendance as well as all decisions taken are circulated to all Board members.

Principle 6: Information and Professional Development

Each newly appointed Member of the Board is briefed by the Chief Executive Officer, Senior Management officials, Heads of Internal Control Functions and any other staff members as necessary, on all aspects of the Bank's business and functions, while the Company Secretary provides each newly appointed Director with relevant corporate governance information.

Board members are reminded that the Company Secretary is at their disposal to provide any advice or service that may be required in the discharge of their duties and responsibilities. The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. The Secretary is responsible for ensuring that Board procedures are complied with as well as that effective information flows within the Board, its committees and with Senior Management. The Secretary also facilitates induction and assists with professional development, as required.

Directors are given the opportunity to update and develop their skills and knowledge, particularly through detailed presentations, briefings and training by senior executives and other relevant Bank officials. They are invited to attend training sessions organised specifically for the Board and are also informed of and encouraged to attend externally run seminars throughout their directorship.

Furthermore, Directors have access to the advice and services of any advisors and also the external auditors. The External Auditors are invited to attend all Audit & Risk Committee meetings as well as Board meetings when required.

The Board continues to be mindful of the crucial importance of recruiting, retaining and motivating quality management. The ongoing training and development of staff at all levels is considered of the utmost importance and this also in the light of the need for orderly succession.

Principle 7: Evaluation of the Board's Performance

An assessment exercise of the Board's performance was carried out through a 'self-evaluation' questionnaire in which Board members participated. Furthermore, assessment exercises of performance of the committees were also carried out by virtue of 'self-evaluation' questionnaires completed by the members and some regular attendees of the Audit & Risk Committee, the Assets & Liabilities Committee and the Credit Committee. These exercises also included an evaluation of the Chairman of each respective Committee. These 'self-evaluation' questionnaires were then analysed by the Suitabilities & Evaluations Committee established by the Board to report to the Board accordingly. This exercise did not reveal the need for any material changes in the Bank's governance structures and organisation.

Principle 8: Committees

The Board has appointed the following committees:

Audit & Risk Committee

The primary purpose of the Audit & Risk Committee is to protect the interests of the Bank's shareholders and to assist 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. The Committee assists the Board in fulfilling its supervisory and monitoring responsibility for effective financial reporting, risk management, control and governance and this by, *inter alia*, reviewing any financial information, statements and disclosures to be issued, systems of governance, systems of internal control established by Management and the Board, the risk management processes, the external and internal audit processes as well as the compliance processes. The Audit & Risk Committee met seven (7) times during the period under review.

With respect to Risk Management, the Committee, *inter alia*, reviews reports from the Risk Management Function which enable the Committee (and the Board) to consider the process of risk identification and management, to assess the risks involved in the Bank's business and to understand how they are controlled and monitored by Management. The Committee also advises the Board on the Bank's overall current and future risk appetite and strategy and assists the Board in overseeing the implementation of that strategy by Management.

During the year under review, the Audit & Risk Committee was composed of the following four (4) non-executive Board members three (3) of whom being independent: Michael C. Bonello, Graham A. Fairclough, Kimon Palamidis and Peter Perotti in accordance with the Audit & Risk Committee's Terms of Reference. As stated earlier, Graham A. Fairclough resigned from his position as non-executive director with effect from 13 March 2024.

Kimon Palamidis is the Chairman of this Committee and is considered by the Board to be independent as explained earlier on in this statement. Together with other members, he is also competent in accounting and / or auditing in terms of the Capital Markets Rules. The Bank's Head of Internal Audit and Chief Risk Officer attend meetings of the Audit & Risk Committee. The Bank's External Auditors and members of Senior Management and others, including, *inter alia*, the Chief Executive Officer, the two Deputy Chief Executive Officers, the Chief Financial Officer, and the Compliance Officer and Money Laundering Reporting Officer, are also invited to attend meetings as is deemed necessary by the Committee. The Company Secretary acts as Secretary to the Audit & Risk Committee.

Assets & Liabilities Committee (ALCO)

Membership of this Committee is made up of a number of Chief Officers and senior officers, including from the Finance and Treasury departments and the Corporate Advisory & Research and Asset and Fund Management functions. The Chief Executive Officer chairs the ALCO whose main objective is to manage risks within approved limits at the same time as maximising returns by efficient and judicious management of the Bank's assets and liabilities. Risk Management officials are also invited to attend meetings. A Secretary is appointed by the Committee.

Credit Committee

The Credit Committee is responsible for considering and approving credit applications within delegated limits of authority. It is composed of a number of Chief Officers and senior officers. The Chief Executive Officer chairs this Committee and a Secretary is appointed by the Committee.

Suitabilities & Evaluations Committee

This Committee is responsible for carrying out suitability assessments of nominated and existing Directors, Key Function holders or any other persons as may be required and also assesses the Board's annual performance and that of its committees following the completion of the self-evaluations by the Board and committee members. The Chairman of the Committee, Peter Perotti, is an independent non-executive Director and Committee member and the Company Secretary acts as Secretary.

Remuneration Committee

The functions of the Remuneration Committee are carried out by the Board of Directors in view of the fact that the remuneration of Directors for the holding of their office on the Board is not performance-related.

A separate 'Remuneration Report' features on page 38 of this Annual Report in compliance with the Principles.

Principle 9 and 10: Relations with Shareholders and Markets and Institutional Shareholders

The Bank fully appreciates the importance of maintaining open lines of communication with shareholders, the markets and institutional shareholders. The Board, in this regard, considers that throughout the period under review the Bank has continued to communicate appropriately by means of regular company announcements and meetings with shareholders and other stakeholders as necessary. Ahead of the 2023 Rights Issue, the Bank sought to provide shareholders and financial intermediaries with the relevant information also by virtue of Information Sessions held in person which gave the opportunity to the relevant stakeholders to understand further the process also by virtue of a presentation and to ask questions and seek clarifications as necessary.

The Bank also communicates with its shareholders with respect to its General Meetings. The documentation relative to General Meetings is sent to all shareholders at least twenty-one (21) days prior to the holding of the Meeting.

The Bank's website (www.lombardmalta.com), contains information about the Bank and its business and is updated regularly.

It is therefore the Bank's policy:

- to publish information that can have a significant effect on the Bank's share price through the Malta Stock Exchange and immediately after on the Bank's website;
- to make other published information available to the public on the Bank's website;
- to strive for open, transparent communications;
- to ensure continuity and high quality in the information disclosed; and
- to be accessible to all stakeholders.

Minority shareholders are entitled to call special meetings should a minimum threshold of share ownership be established in accordance with the Bank's Memorandum and Articles of Association. Furthermore, minority shareholders may formally present an issue to the Board if they own the predefined minimum threshold of shares.

Principle 11: Conflicts of Interest

The Board of Directors recognises that its members have a primary responsibility to always act in the interest of the Bank and its shareholders as a whole, irrespective of who appointed them to the Board.

Strict policies are in place, particularly in the Board of Directors' Charter, to enable the management of conflict of interest, both actual as well as potential, should the occasion arise.

In addition, the Bank's Policy on the Prevention of Market Abuse was adopted and implemented in conformity with Market Abuse laws and regulations. Directors and staff members are also regularly reminded of their obligations when dealing in securities of the Bank and other scheduled financial instruments.

Joseph Said, who is a Director of the Bank, holds a directorship in two companies that have a shareholding in the Group, as disclosed in the Directors' Report.

Principle 12: Corporate Social Responsibility

The Bank is well aware of the need to adhere to accepted principles of corporate social responsibility and in this regard remains fully committed to conducting its activities ethically at all times. It consistently seeks to contribute to economic and social development while also improving the quality of life of its staff members and their families. These principles also include matters concerning data privacy and protection, diversity and inclusion, talent management, customer relations, innovation, community and staff engagement as well as responsible lending.

The Bank implements these principles of corporate social responsibility through strong governance and risk management practices.

It extends support to various initiatives and projects together with direct community involvement. The Bank is also sensitive to the fact that success in these areas requires investment in the community, customers and staff members while not overlooking the impact that its activities may have on the environment.

C. Non-Compliance with the Code

Principle 4: (Code Provision 4.2.7)

The above Code Provision states, *'The Board should develop a succession policy for the future composition of the Board of Directors and particularly of the executive component thereof, for which the Chairman should hold key responsibility'.*

In terms of law and the Bank's Memorandum and Articles of Association, as stated earlier, the appointment of Directors to the Board is a matter that is reserved to the Bank's shareholders. Therefore, Board composition and size, to an extent depend on the nominees proposed by shareholders as well as on their respective profiles and suitability. The Bank also has a Qualifying Shareholder owning 49.01% of its shareholder base with rights pertaining to the appointment of Directors. During the year under review, despite not having a formal consolidated Board Succession Policy in place, the Board remained guided by its policy in this regard as set out in other relevant policies, applicable laws, rules, regulations etc., its Board of Directors' Charter, Terms of Reference of the Bank's Suitability & Evaluations Committee as well as the Bank's Memorandum and Articles of Association. Furthermore, the Board continued to remain on the alert to identify potentially suitable nominees who could be qualified to eventually succeed current members and / or be added on as Board members. The concept of rotation of directors as currently stipulated in the Bank's Memorandum and Articles of Association also provides an element of continuity on the Board.

During 2024, the Board of Directors shall be approving a consolidated Succession Policy document which is currently being drafted and will serve as a dedicated document setting the basic principles to be adopted so as to ensure the orderly succession of its directors, subject to the parameters of applicable laws, rules, regulations etc., and the Bank's Memorandum and Articles of Association.

Principle 8A: (Remuneration Committee)

The Board did not establish a Remuneration Committee as specified in Code Provision 8.A.1. In terms of Code Provision 8.A.2 of the Principles, given that the remuneration of Directors for the holding of their office on the Board is not performance-related, the functions of the Remuneration Committee are carried out by the Board of Directors.

Principle 8B: (Nomination Committee)

A Nomination Committee has not been set up since the appointment of Directors to the Board is a matter that is reserved entirely to the Bank's shareholders in terms of the Memorandum and Articles of Association.

In this connection every member of the Bank holding in the aggregate at least fifteen percent (15%) of the ordinary issued share capital of the Bank shall be entitled to appoint one (1) Director for each and every fifteen percent (15%) of the ordinary issued share capital owned by that member.

Any fractional shareholding in excess of fifteen percent (15%) not applied in appointing such a Director or Directors, and only that fraction, shall be entitled to vote in the election of the remaining Directors together with the remaining body of shareholders. These are entitled to appoint the remaining Board members in accordance with the provisions of the Bank's statute.

This notwithstanding, in light of regulatory requirements, the Suitabilities & Evaluations Committee referred to above was set up specifically to carry out suitability assessments of nominated and existing Directors, key function holders or any other persons as may be required and also to assess the Board's annual performance and that of its committees. This Committee remains guided by applicable laws, rules, regulations and guidelines.

Principle 9: (Code Provision 9.3)

There are no procedures disclosed in the Bank's Memorandum or Articles as recommended in Code Provision 9.3 to resolve conflicts between minority shareholders and controlling shareholders.

D. Internal Control (Capital Markets Rule 5.97.4)

The Board is ultimately responsible for the Bank's internal controls as well as their effectiveness, while authority to operate the Bank is delegated to the Chief Executive Officer. The Bank's system of internal controls is designed to manage all the risks in the most appropriate manner. Such controls, however, cannot completely eliminate the possibility of material error or fraud. The Board, therefore, assumes responsibility for executing the four basic roles of corporate governance, i.e. accountability, monitoring, strategy formulation and policy development.

In summary, the Board is therefore responsible for:

- reviewing the Bank's strategy on an ongoing basis as well as setting the appropriate business objectives in order to enhance value for all stakeholders;
- appointing and monitoring the Chief Executive Officer whose function it is to manage the operations of the Bank; and
- identifying and ensuring that significant risks are managed satisfactorily.

Given the fiduciary responsibility involved, the Board of Directors also sets high business and ethical standards for adoption right across the organisation.

The Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination together with delegated authority and has vested accountability for the Bank's day-to-day business in the Assets & Liabilities Committee, Credit Committee and in the management team comprising of the:

- Chief Executive Officer; and
- Deputy Chief Executive Officers *(effective from 1 April 2023)*;
- Chief Officers and other officers.

The Board frequently participates in asset allocation decisions as well as credit proposals above a certain threshold, after the appropriate recommendations have been made.

The Bank's internal control framework covering all the Bank's activities ensures:

- effective and efficient operations and prudent conduct of business;
- proper risk management;

- reliable financial and non-financial information; and
- compliance with all internal policies, processes and procedures, laws, rules and regulations.

To this effect, a three-lines-of-defence model has been adopted by the Bank as follows:

- *First line of defence – Business Units Operations:* This is provided by front line staff members and business unit management. The internal controls and systems, the culture and control environment developed and implemented by these business units play a vital role in anticipating and managing operational risks.
- *Second line of defence - Risk Management & Compliance:* The Bank maintains permanent and effective compliance and risk management functions which report directly to the Audit & Risk Committee and Board of Directors. The Compliance Function identifies, assesses and manages compliance risk. The Risk Management Function is responsible for overseeing the Bank's activities and for identifying, monitoring, controlling and reporting such risk. Through the Bank's Risk Management Framework, an appropriate balance is struck between sound practices and profitability, by applying strict internal controls and discretionary limits, and optimising the returns thereof, in line with the Bank's risk appetite.
- *Third line of defence – Internal Audit:* This is an integral part of the Bank's control environment and provides Management and the Audit & Risk Committee and Board of Directors with an independent and objective review of the Bank's business activities and support functions.

E. General meetings (Capital Markets Rule 5.97.6)

General meetings are called by giving at least twenty-one (21) days' notice and conducted in accordance with the provisions contained in the Bank's Articles of Association.

The 'Ordinary Business' which is dealt with at the Annual General Meeting consists of the adoption of the annual financial statements, declaration of a dividend, appointment of Board members, appointment of auditors and the fixing of their remuneration together with the voting of remuneration to the Directors for the holding of their office. All other business shall be deemed 'Special Business'.

All shareholders registered in the shareholders' register on record date as defined in the Capital Markets Rules have the right to attend, participate and vote in the general meeting.

A shareholder or shareholders holding not less than five per cent (5%) of the voting issued share capital of the Bank may: (i) request the Bank to include items on the agenda and; (ii) table draft resolutions for items included in the agenda of a general meeting. Such requests shall be submitted to the Bank at least forty-six (46) days before the date set for the general meeting.

Every shareholder shall be entitled to appoint only one (1) person to act as proxy holder to attend and vote at a general meeting instead of him. The proxy holder shall enjoy the same rights to speak and ask questions in the general meeting as those to which the member thus represented would be entitled.

Signed on behalf of the Bank's Board of Directors on 26 April 2024 by Michael C. Bonello (Chairman) and Joseph Said (Director and Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Michael C. Bonello
Chairman

Joseph Said
Director and Chief Executive Officer

As indicated in the 'Statement of Compliance with the Code of Principles of Good Corporate Governance', in terms of the 'Code of Principles of Good Corporate Governance' within the Capital Markets Rules issued by the Malta Financial Services Authority, the Board of Directors performs the functions of a Remuneration Committee on the basis that the remuneration of the Bank's Directors for the holding of their office on the Board, is not performance-related and does not include share options, pension benefits, profit-sharing arrangements or any emolument related to the performance of the Bank. Among the obligations established in the Capital Markets Rules, the Board, where applicable, carries out the main duties established in the Supporting Principles enshrined in Principle 8A of the 'Code of Principles of Good Corporate Governance'. This Remuneration Report was approved by the Board of Directors at the Board Meeting held on 26 April 2024.

Directors

The Bank's Remuneration Policy for Directors is drawn up in terms of the Capital Markets Rule 12.26A et seq and sets out the Bank's remuneration policy with respect to its Directors, Chief Executive Officer and Deputy Chief Executive Officers with their remuneration being paid in accordance with the same. During 2023, this Policy was reviewed and revised so as to include reference to Deputy Chief Executive Officers due to their appointments with effect from 1 April 2023 and it was approved by the Annual General Meeting on 22 June 2023 (Refer to https://www.lombardmalta.com/annual-general-meeting-2023).

This Policy is reviewed by the Board on an annual basis and shall be put to a vote by the General Meeting at every material change and, in any case, at least every four years. No changes are being proposed for approval at the 2024 Annual General Meeting.

In terms of the Bank's Memorandum and Articles of Association, the Bank's shareholders determine the maximum annual aggregate remuneration of the Directors. The maximum amount is established by resolution at each Annual General Meeting of the Bank. The aggregate amount fixed for this purpose during the 2023 Annual General Meeting was one hundred and twenty thousand euro (€120,000).

As per policy, members of the Board, in their role as directors, only receive a fixed fee, the amount of which is determined on the basis of market practice as well as the Bank's size and internal organisation and the nature, scale and complexity of its activities and business model.

The fees paid to Directors for the holding of their office during 2023 amounted to € €92,794 (2022: €85,673). This amount is within the limit of €120,000 approved by the Annual General Meeting of 22 June 2023.

It is confirmed that none of the Directors in their role as directors of the Bank are entitled to profit-sharing, share options, pension benefits, variable remuneration, any other remuneration or related payments. During the year under review, one Director (Graham A. Fairclough who resigned as non-executive director of the Bank with effect from 13 March 2024 as indicated earlier in this Annual Report) provided specific services to the Group until 30 September 2023. Only one of the Directors has a service contract with the Bank, which Director is the only Executive Director and is the CEO Joseph Said.

In terms of Code Provisions 8.A.5 of the Malta Financial Services Authority Capital Markets Rules, the total emoluments received by Directors relative to their directorship for the financial year 2023, as compared to 2022 and 2021, are specified below:

	€ 2023	**€ 2022**	**€ 2021**
Michael C. Bonello (Chairman)	30,000	30,000	25,480
John Bonello*	2,794	N/A	N/A
Graham A. Fairclough	15,000	15,000	10,991
Joseph Said	15,000	15,000	10,991
Michael Zammit**	N/A	N/A	10,991
Peter Perotti	15,000	10,673	N/A
Kimon Palamidis	15,000	15,000	10,991
Total	**92,794**	**85,673**	**69,444**

** John Bonello was appointed as a non-executive director of the Bank with effect from 23 October 2023.*

*** Michael Zammit was a non-executive director who passed away on 3 February 2022.*

In determining the remuneration of the CEO and Deputy CEOs, the Board of Directors considers factors which include among others, professional qualifications, experience, initiative, acumen, number of years of service, the design and implementation of the overall business strategy, objectives and risk appetite at Bank as well as Group level. The remuneration of the CEO and Deputy CEOs is fixed with no variable remuneration other than a discretionary annual bonus which may be awarded as set out in the above-mentioned Policy.

The CEO and Deputy CEOs are also entitled to the use of a company car, health insurance and telecommunication allowance.

In a previous financial year, the Bank had decided to grant the CEO an ex-gratia gratuity upon his eventual retirement, which amount was fully provided for and reflected in the financial statements of previous years.

In terms of Code Provision 8.A.5 of the Capital Markets Rules, during financial year 2023, the total emoluments received from the Group by the Executive Director amounted to €385,513 (2022: €362,718; 2021: €361,368), split as follows:

	€	€	€
	2023	**2022**	**2021**
Gross annual, fixed salary & fixed role-based allowances	352,513	330,718	333,377
Director Fees - Lombard Bank Malta p.l.c.	15,000	15,000	10,991
Chairman / Director Fees MaltaPost p.l.c.	18,000	17,000	17,000

The total remuneration for 2023 of the non-executive Director who until 30 September 2023 provided specific services to the Group, amounted to €76,118, (2022: €93,808; 2021: €81,229), split as follows:

	€	€	€
	2023	**2022**	**2021**
Payments for specific services	38,268	57,708	54,138
Director Fees – Lombard Bank Malta p.l.c.	15,000	15,000	10,991
Director Fees - MaltaPost p.l.c.	8,850	7,100	7,100
Company Secretary Fees - MaltaPost p.l.c.	4,000	4,000	4,000
Director Fees – Lombard Select SICAV p.l.c.	10,000	10,000	5,000

There is no formal provision for the reclamation of variable remuneration.

During the financial year 2023, the total emoluments received by the Deputy Chief Executive Officers, appointed on the 1 April 2023, from the Group amounted to €208,698 split as follows:

	€	€	€
	2023	**2022**	**2021**
Gross annual & fixed salary	99,924	N/A	N/A

	€	€	€
	2023	**2022**	**2021**
Gross annual & fixed salary	99,924	N/A	N/A
Director Fees – MaltaPost p.l.c.	8,850	N/A	N/A

The above remuneration levels for 2023 comply with the provisions of the approved Remuneration Policy for Directors and take into consideration the interests of all the Bank's stakeholders together with the external context and there were no deviations from the procedure for the implementation of the said Policy.

Senior Management

Senior Management refers to the Chief Officers of the Bank, excluding the Chief Executive Officer and Deputy Chief Executive Officers.

The Board of Directors is satisfied that the packages offered to Senior Management continue to ensure that the Bank attracts and retains management staff with the necessary qualities and skills. The Bank's policy remains that of engaging its Senior Management staff on the basis of indefinite contracts of employment, and this after a period of probation. The terms and conditions of employment of Senior Management are established in the relative employment contracts. The applicable notice period, after probation, is that provided for in the relevant legislation.

Share options, share incentive schemes and profit sharing do not feature in the Bank's Remuneration Policy, and the individual contracts of employment of Senior Management do not contain provisions for termination payments and / or other payments linked to early termination other than as determined by the law.

From time to time the Board of Directors of the Bank approves the allocation of a financial contribution towards retirement gratuities that it may decide to grant and contribute towards a staff pension fund that may be formally established in the future. Gratuities that it may make, on an ex-gratia basis, to its employees are made accordingly. Amounts contributed for this purpose in respect of 2023 amounted to €100,000 (2022: €150,000). Once contributed, these amounts are held in a separate bank account which is not controlled by the Bank and is therefore not included in the Bank's financial statements. Amounts intended as a contribution to an eventual pension fund will be regulated by rules yet to be determined in light of relevant legislation. No other pension benefits are currently payable by the Bank.

Senior Management staff are eligible for annual salary increases, which are not directly performance-related. The remuneration of Senior Management staff members is determined also by the role, responsibilities covered, market practice, seniority, experience and qualifications. Annual bonuses are paid to Senior Management staff members according to individual overall performance during the previous financial year. Bonus payments do not exceed 100% of the fixed component of the total remuneration for each individual.

Non-cash benefits include private health care insurance as well as death-in-service benefits and personal accident insurance cover.

Total emoluments received by Senior Management, excluding the CEO and Deputy CEOs, during the period under review are as detailed below, in terms of Code Provision 8.A.5.

Fixed Remuneration			**Variable Remuneration**			**Share Options**			**Others**		
2023	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
€	**€**	**€**	**€**	**€**	**€**	**€**	**€**	**€**	**€**	**€**	**€**
478,146	769,000	568,000	116,000	88,000	98,000	-	-	-	-	-	-

For other employees, fixed pay is determined by a Collective Agreement and annual bonuses are differentiated by individual performance and grade.

The changes effected in the Bank's Remuneration Policy during the financial year under review were such as to further align it with regulatory requirements. Furthermore, the Bank does not plan to effect changes in its Remuneration Policy in the forthcoming financial year, unless required to do so in terms of any regulatory obligations or otherwise.

In terms of Chapter 12 of the Capital Markets Rules, this Remuneration Report is being put to an advisory vote at the 2024 Annual General Meeting in accordance with the requirements of the Capital Markets Rule 12.26 L.

The Directors' Remuneration Report for 2022 was approved at the Annual General Meeting held on 22 June 2023. There were no issues raised on the Report during the said Annual General Meeting.

Other information on remuneration in terms of Appendix 12.1 of the Capital Markets Rules

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the following tables present the annual change regarding each individual director's remuneration, the performance of the Bank, and of average remuneration on a full-time equivalent basis of employees of the Bank, other than Directors over the three most recent financial years.

	2023 **€**	**2022** **€**	**2021** **€**	**% change** **(2023-2022)**	**% change** **(2022-2021)**
Michael C. Bonello (Chairman)	30,000	30,000	25,480	0%	18%
John Bonello*	2,794	N/A	N/A	N/A	N/A
Graham A. Fairclough	15,000	15,000	10,991	0%	36%
Joseph Said	15,000	15,000	10,991	0%	36%
Kimon Palamidis	15,000	15,000	10,991	0%	36%
Peter Perotti	15,000	10,637	N/A	N/A	N/A
Michael Zammit**	N/A	N/A	10,991	N/A	N/A
Total	**92,794**	**85,637**	**69,444**		

** John Bonello was appointed as a non-executive director of the Bank with effect from 23 October 2023.*

*** Michael Zammit was a non-executive director who passed away on 3 February 2022.*

% annual change of the Bank's performance based on profit before tax (2023-2022)	% annual change of the Bank's performance based on profit before tax (2022-2021)	% annual change of the average remuneration on a full-time equivalent basis of employees of the Bank other than Directors (2023-2022)	% annual change of the average remuneration on a full-time equivalent basis of employees of the Bank other than Directors (2022-2021)
(52%)	**136%**	**0%**	**4%**

€'000

	2023		2022		% change	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Employee remuneration (excluding CEO)	24,031	8,542	23,681	8,352	1%	2%
CEO remuneration	353	353	331	331	6%	6%
Entity's performance – Profit before tax	14,526	13,850	27,676	28,767	(48%)	(52%)

€'000

	2022		2021		% change	
	Group	**Bank**	**Group**	**Bank**	**Group**	**Bank**
Employee remuneration (excluding CEO)	23,681	8,352	24,027	7,862	(1%)	6%
CEO remuneration	331	331	333	333	(1%)	(1%)
Entity's performance – Profit before tax	27,676	28,767	12,638	12,193	119%	136%

The Group's / Bank's performance is measured using Profit before tax.

The contents of the Remuneration Report have been reviewed by PricewaterhouseCoopers, the external auditors, to ensure that the information required in terms of Appendix 12.1 to Chapter 12 of the Capital Markets Rules have been included.

Company Information

Number of Shareholders analysed by range:

	31 December 2023		31 March 2024	
Range	**Shareholders**	**Shares**	**Shareholders**	**Shares**
1 – 500	115	20,736	114	20,611
501 – 1000	42	34,351	41	33,699
1001 – 5000	373	1,145,265	369	1,128,384
5001 and over	994	153,371,911	993	153,389,569
Total	**1,524**	**154,572,263**	**1,517**	**154,572,263**

The Bank has one class of shares and each share is entitled to one vote.

Board Of Directors	Michael C. Bonello	Chairman
	John Bonello	
	Graham A. Fairclough	
	Kimon Palamidis	
	Peter Perotti	
	Joseph Said	
Company Secretary	Helena Said	
Senior Management	Joseph Said	Chief Executive Officer
	Anthony Bezzina	Deputy Chief Executive Officer
	Eugenio Farrugia	Deputy Chief Executive Officer
	David Attard	Chief Officer - Group Corporate Services
	Moira Balzan	Chief Financial Officer
	Carlos Camenzuli	Chief Risk Officer
	Helena Said	Chief Legal Officer
	Anthony Zahra	Chief Information Officer

Company Information

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198, Naxxar Road, San Gwann SGN 9030
Tel: 25581 650

41, Robert Arrigo Street, Sliema SLM 3174
Tel: 25581 251

67, Republic Street, Valletta VLT 1117
Tel: 25581 100

19, Sanctuary Street, Zabbar ZBR 1010
Tel: 25581 400

24/7 OUTLET
Paceville Avenue, St. Julian's STJ 3103

CREDIT
9A St. Fredrick Street, Valletta VLT 1470
Tel: 25581 115

HOME LOANS
4 Main Street, Qormi QRM 1100
Tel: 25581 370

INTERNATIONAL BUSINESS BANKING
Graham Street, Sliema SLM 1711
Tel: 25581 226

LEGAL OFFICE
59 Republic Street, Valletta VLT 1117
Tel: 25581 116

TRADE SERVICES
4 Main Street, Qormi QRM 1100
Tel: 25581 366

WEALTH MANAGEMENT
Financial Advice & Stockbroking Services: 225A, Tower Road, Sliema SLM 1601
Tel: 25581 167
Portfolio Management: 225A, Tower Road, Sliema SLM 1601
Tel: 25581 288
Research & Corporate Advisory: 225A, Tower Road, Sliema SLM 1601
Tel: 25581 287

FINANCIAL STATEMENTS

For the Year Ended 31 December 2023

2023

Statements of Financial Position

As at 31 December 2023

	Notes	Group 2023 € 000	Group 2022 € 000	Bank 2023 € 000	Bank 2022 € 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	5	**147,043**	139,234	**146,308**	138,393
Cheques in course of collection		**1,880**	1,053	**1,880**	1,053
Financial investments	6	**216,770**	220,815	**214,505**	218,286
Loans and advances to banks	7	**38,139**	27,615	**33,605**	20,936
Loans and advances to customers	8	**758,304**	711,612	**758,304**	711,613
Trade and other receivables	16	**11,369**	13,243	**3,405**	3,445
Accrued income and other assets	17	**5,203**	5,302	**4,537**	4,581
Assets classified as held for sale	8	**703**	703	**703**	703
Current tax assets		**643**	575	**-**	296
Inventories	15	**1,391**	1,271	**639**	602
Investments in subsidiaries	9	**-**	-	**17,135**	16,058
Investments in associates	10	**3,292**	2,607	**1,645**	1,645
Intangible assets	11	**2,192**	2,121	**19**	57
Property, plant and equipment	12	**66,511**	66,375	**42,255**	42,400
Deferred tax assets	14	**11,694**	10,889	**11,381**	10,552
Total assets		**1,265,134**	1,203,415	**1,236,321**	1,170,620

Statements of Financial Position *(continued)*
As at 31 December 2023

	Notes	Group		Bank	
		2023	2022	**2023**	2022
		€ 000	€ 000	**€ 000**	€ 000
Equity and Liabilities					
Equity					
Share capital	18	**19,322**	11,341	**19,322**	11,341
Share premium	19	**56,534**	18,530	**56,534**	18,530
Revaluation and other reserves	19	**1,420**	4,639	**(1,297)**	1,918
Retained earnings		**113,107**	101,700	**111,444**	100,204
Equity attributable to equity holders of the Bank		**190,383**	136,210	**186,003**	131,993
Non-controlling interests		**8,409**	8,090	**-**	-
Total equity		**198,792**	144,300	**186,003**	131,993
Liabilities					
Amounts owed to banks	20	**145**	535	**145**	535
Amounts owed to customers	21	**1,019,075**	1,008,431	**1,021,254**	1,010,100
Current tax liabilities		**1,556**	-	**1,556**	-
Accruals and deferred income	24	**11,302**	11,015	**7,958**	7,589
Other liabilities	23	**28,762**	33,347	**16,236**	17,220
Provisions for liabilities and other charges	22	**1,403**	1,688	**369**	383
Deferred tax liabilities	14	**4,099**	4,099	**2,800**	2,800
Total liabilities		**1,066,342**	1,059,115	**1,050,318**	1,038,627
Total equity and liabilities		**1,265,134**	1,203,415	**1,236,321**	1,170,620
Memorandum items					
Contingent liabilities	25	**14,315**	13,611	**14,315**	13,610
Commitments	25	**257,415**	202,396	**258,525**	203,285

The notes on pages 54 to 167 are an integral part of these financial statements.

These financial statements on pages 45 to 167 were approved and authorised for issue by the Board of Directors on 26 April 2024. The financial statements were signed on behalf of the Bank's Board of Directors by Michael C. Bonello (Chairman) and Joseph Said (Director and Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Michael C. Bonello
Chairman

Joseph Said
Director and Chief Executive Officer

Income Statements
For the Year Ended 31 December 2023

		Group		Bank	
	Notes	**2023**	2022	**2023**	2022
		€ 000	€ 000	**€ 000**	€ 000
Interest receivable and similar income					
- on loans and advances, balances with Central Bank of Malta and treasury bills	26	**31,525**	26,497	**31,492**	26,455
- on debt and other fixed income instruments	26	**2,173**	2,523	**2,094**	2,450
Interest expense	26	**(7,837)**	(6,744)	**(7,791)**	(6,702)
Net interest income		**25,861**	22,276	**25,795**	22,203
Fee and commission income	27	**5,471**	5,669	**4,475**	4,569
Fee and commission expense	27	**(288)**	(253)	**(288)**	(253)
Net fee and commission income		**5,183**	5,416	**4,187**	4,316
Postal sales and other revenues	28	**38,720**	30,693	**488**	605
Dividend income	29	**203**	141	**1,860**	1,798
Net trading income	30	**378**	793	**525**	634
Other operating income		**48**	309	**21**	117
Operating income		**70,393**	59,628	**32,876**	29,673
Employee compensation and benefits	31	**(24,384)**	(24,012)	**(8,895)**	(8,683)
Other operating costs	33	**(27,176)**	(20,867)	**(7,596)**	(7,239)
Depreciation and amortisation	11,12	**(3,159)**	(2,915)	**(1,219)**	(1,121)
Net movement in provisons for liabilities and other charges	22	**429**	(2)	**-**	26
Net movement in expected credit losses	32	**(1,261)**	16,243	**(1,316)**	16,111
Operating profit		**14,842**	28,075	**13,850**	**28,767**
Share of loss attributable to investment accounted for using the equity method, net of tax	10	**(315)**	(399)	**-**	-
Profit before taxation		**14,527**	27,676	**13,850**	28,767
Income tax expense	34	**(4,909)**	(10,050)	**(5,053)**	(10,279)
Profit for the year		**9,618**	17,626	**8,797**	18,488
Attributable to:					
Equity holders of the Bank		**9,064**	17,530	**8,797**	18,488
Non-controlling interests		**554**	96	**-**	-
Profit for the year		**9,618**	17,626	**8,797**	18,488
Earnings per share	35	**€0.09**	€0.19		

The notes on pages 54 to 167 are an integral part of these financial statements.

Statements of Comprehensive Income

For the Year Ended 31 December 2023

	Notes	Group 2023 € 000	Group 2022 € 000	Bank 2023 € 000	Bank 2022 € 000
Profit for the year		**9,618**	17,626	**8,797**	18,488
Other comprehensive income					
Items that may be subsequently reclassified to profit or loss					
Investments in debt securities measured at FVOCI					
Net losses from changes in fair value, before tax	6	**(2,380)**	(25,825)	**(2,243)**	(25,483)
Net losses reclassified to profit or loss on disposal, before tax		**376**	-	**376**	-
Net movements in credit losses released to profit or loss, before tax		**(55)**	62	**(55)**	62
Income taxes relating to these items	34	**672**	8,897	**672**	8,897
Items that will not be subsequently reclassified to profit or loss					
Net gains/(losses) from changes in fair value of investments in equity instruments designated at FVOCI, before tax	6	**1,123**	(1,717)	**1,123**	(1,717)
Remeasurements of defined benefit obligations, before tax		**159**	264	**-**	-
Income taxes relating to these items	34	**(449)**	525	**(393)**	617
Other comprehensive income for the year, net of income tax		**(554)**	(17,794)	**(520)**	(17,624)
Total comprehensive income for the year, net of income tax		**9,064**	(168)	**8,277**	864
Attributable to:					
Equity holders of the Bank		**8,522**	(217)		
Non-controlling interests		**542**	49		
Total comprehensive income for the year, net of income tax		**9,064**	(168)		

The notes on pages 54 to 167 are an integral part of these financial statements.

Statements of Changes in Equity
For the Year Ended 31 December 2023

Group		Attributable to equity holders of the Bank						
	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000	Non-controlling interests € 000	Total equity € 000
At 1 January 2022		11,192	18,530	23,668	83,910	137,300	8,470	145,770
Comprehensive income								
Profit for the year		-	-	-	17,530	17,530	96	17,626
Other comprehensive income								
Fair valuation of financial assets measured at FVOCI:								
Net movements in fair value arising during the year		-	-	(17,909)	-	(17,909)	(96)	(18,005)
Reclassification adjustments:								
- net movement attributable to changes in credit risk		-	-	40	-	40	-	40
Remeasurements of defined benefit obligations		-	-	122	-	122	49	171
Total other comprehensive income for the year		-	-	(17,747)	-	(17,747)	(47)	(17,794)
Total comprehensive income for the year		-	-	(17,747)	17,530	(217)	49	(168)
Transfers and other movements	19	-	-	(1,282)	1,282	-	-	-
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	36	-	-	-	(873)	(873)	(429)	(1,302)
Bonus issue	18	149	-	-	(149)	-	-	-
Total transactions with owners		149	-	-	(1,022)	(873)	(429)	(1,302)
At 31 December 2022		11,341	18,530	4,639	101,700	136,210	8,090	144,300

The notes on pages 54 to 167 are an integral part of these financial statements.

Statements of Changes in Equity
For the Year Ended 31 December 2023

Group

	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000	Non-controlling interests € 000	Total equity € 000
		Attributable to equity holders of the Bank						
At 1 January 2023		**11,341**	**18,530**	**4,639**	**101,700**	**136,210**	**8,090**	**144,300**
Comprehensive income								
Profit for the year		**-**	**-**	**-**	**9,064**	**9,064**	**554**	**9,618**
Other comprehensive income								
Fair valuation of financial assets measured at FVOCI:								
Net movements in fair value arising during the year		**-**	**-**	**(824)**	**-**	**(824)**	**(41)**	**(865)**
Reclassification adjustments:								
- net movement attributable to changes in credit risk		**-**	**-**	**(36)**	**-**	**(36)**	**-**	**(36)**
- net amounts reclassified to profit or loss on disposal		**-**	**-**	**244**	**-**	**244**	**-**	**244**
Remeasurments of defined benefit obligations		**-**	**-**	**74**	**-**	**74**	**29**	**103**
Total other comprehensive income for the year		**-**	**-**	**(542)**	**-**	**(542)**	**(12)**	**(554)**
Total comprehensive income for the year		**-**	**-**	**(542)**	**9,064**	**8,522**	**542**	**9,064**
Transfers and other movements	19	**-**	**-**	**(2,695)**	**2,695**	**-**	**-**	**-**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Dividends to equity holders	36	**-**	**-**	**-**	**-**	**-**	**(305)**	**(305)**
Rights issue of ordinary shares	18	**7,729**	**38,004**	**-**	**-**	**45,733**	**-**	**45,733**
Bonus issue	18	**252**	**-**	**-**	**(252)**	**-**	**-**	**-**
Changes in ownership interests in subsidiaries that do not result in loss of control								
Impacts of change in non-controlling interests in subsidiary		**-**	**-**	**18**	**(100)**	**(82)**	**82**	**-**
Total transactions with owners		**7,981**	**38,004**	**18**	**(352)**	**45,651**	**(223)**	**45,428**
At 31 December 2023		**19,322**	**56,534**	**1,420**	**113,107**	**190,383**	**8,409**	**198,792**

The notes on pages 54 to 167 are an integral part of these financial statements.

Statements of Changes in Equity
For the Year Ended 31 December 2023

Bank

	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total equity € 000
At 1 January 2022		11,192	18,530	20,828	81,452	132,002
Comprehensive income						
Profit for the year		-	-	-	18,488	18,488
Other comprehensive income						
Fair valuation of financial assets measured at FVOCI:						
Net movements in fair value arising during the year		-	-	(17,664)	-	(17,664)
Reclassification adjustments: - net movement attributable to changes in credit risk		-	-	40	-	40
Total other comprehensive income for the year		-	-	(17,624)	-	(17,624)
Total comprehensive income for the year		-	-	(17,624)	18,488	864
Transfers and other movements	19	-	-	(1,286)	1,286	-
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends to equity holders	36	-	-	-	(873)	(873)
Bonus issue	18	149	-	-	(149)	-
Total transactions with owners		149	-	-	(1,022)	(873)
At 31 December 2022		11,341	18,530	1,918	100,204	131,993

The notes on pages 54 to 167 are an integral part of these financial statements.

Statements of Changes in Equity
For the Year Ended 31 December 2023

Bank	Notes	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total equity € 000
At 1 January 2023		**11,341**	**18,530**	**1,918**	**100,204**	**131,993**
Comprehensive income						
Profit for the year		**-**	**-**	**-**	**8,797**	**8,797**
Other comprehensive income						
Fair valuation of financial assets measured at FVOCI:						
Net movements in fair value arising during the year		**-**	**-**	**(728)**	**-**	**(728)**
Reclassification adjustments:						
- net movement attributable to changes in credit risk		**-**	**-**	**(36)**	**-**	**(36)**
- net amounts reclassified to profit or loss on disposal		**-**	**-**	**244**	**-**	**244**
Total other comprehensive income for the year		**-**	**-**	**(520)**	**-**	**(520)**
Total comprehensive income for the year		**-**	**-**	**(520)**	**8,797**	**8,277**
Transfers and other movements	19	**-**	**-**	**(2,695)**	**2,695**	**-**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Rights issue of ordinary shares	18	**7,729**	**38,004**	**-**	**-**	**45,733**
Bonus issue	18	**252**	**-**	**-**	**(252)**	**-**
Total transactions with owners		**7,981**	**38,004**	**-**	**(252)**	**45,733**
At 31 December 2023		**19,322**	**56,534**	**(1,297)**	**111,444**	**186,003**

The notes on pages 54 to 167 are an integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2023

		Group		Bank	
		2023	2022	**2023**	2022
	Notes	**€ 000**	€ 000	**€ 000**	€ 000
Cash flows from operating activities					
Interest, fees and commission receipts		**35,578**	30,830	**35,614**	30,918
Receipts from customers relating to postal sales and other revenue		**44,255**	35,204	**488**	605
Interest, fees and commission payments		**(7,757)**	(6,651)	**(7,759)**	(6,651)
Payments to employees and suppliers		**(58,653)**	(48,175)	**(16,248)**	(15,302)
Cash flows attributable to funds collected on behalf of third parties		**872**	634	-	-
Cash flows from operating profit before changes in operating assets and liabilities		**14,295**	11,842	**12,095**	9,570
Movements in operating assets:					
Treasury bills		**52,695**	(34,069)	**52,695**	(34,069)
Balances with Central Bank of Malta		**(6,130)**	7,245	**(6,130)**	7,245
Loans and advances to banks and customers		**(47,557)**	(49,399)	**(48,157)**	(52,799)
Other receivables		**(763)**	(2,227)	**(829)**	(2,236)
Movements in operating liabilities:					
Amounts owed to banks and to customers		**10,643**	31,287	**11,154**	31,735
Other payables		**(1,015)**	2,216	**(949)**	2,229
Net cash generated from/(used in) operating activities, before tax		**22,168**	(33,105)	**19,879**	(38,325)
Income tax paid		**(3,989)**	(3,176)	**(3,171)**	(2,392)
Net cash flows generated from/(used in) operating activities		**18,179**	(36,281)	**16,708**	(40,717)
Cash flows from investing activities					
Dividends received		**203**	141	**203**	1,798
Interest received from debt securities		**4,675**	3,486	**4,568**	3,359
Purchase of financial investments	6	**(8,359)**	(27,519)	**(8,359)**	(27,519)
Proceeds from maturity/disposal of investments		**9,903**	5,220	**9,779**	5,194
Purchase of property, plant and equipment and intangible assets		**(2,657)**	(3,709)	**(900)**	(1,660)
Investments in associates	10	**(1,000)**	-	-	-
Investments in subsidiaries	9	**-**	-	-	(200)
Net cash flows generated from/(used in) investing activities		**2,765**	(22,381)	**5,291**	(19,028)
Cash flows from financing activities					
Proceeds from rights issue of ordinary shares		**45,733**	-	**45,733**	-
Principal elements of lease payments	13	**(491)**	(478)	**(194)**	(162)
Dividends paid to equity holders of the Bank	36	**-**	(873)	-	(873)
Dividends paid to non-controlling interests		**(299)**	(429)	-	-
Net cash flows generated from/(used in) financing activities		**44,943**	(1,780)	**45,539**	(1,035)
Net movement in cash and cash equivalents		**65,887**	(60,442)	**67,538**	(60,780)
Cash and cash equivalents at beginning of year		**105,818**	166,260	**100,898**	161,678
Cash and cash equivalents at end of year	37	**171,705**	105,818	**168,436**	100,898

The notes on pages 54 to 167 are an integral part of these financial statements.

Notes to the Financial Statements
For the Year Ended 31 December 2023

1 Summary of material accounting policies

The material accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented and relate to both the Group and the Bank.

1.1 Basis of preparation

The consolidated financial statements include the financial statements of Lombard Bank Malta p.l.c. (the Bank) and its subsidiary undertakings (together referred to as 'the Group' and individually as 'Group entities'). The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as adopted by the EU and with the requirements of the Banking Act 1994 (Chapter 371 of the Laws of Malta) and the Companies Act, 1995 (Chapter 386 of the Laws of Malta). These consolidated financial statements are prepared under the historical cost convention, as modified by the fair valuation of certain financial assets and financial liabilities and the revaluation of the land and buildings class within property, plant and equipment.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Group's accounting policies (see note 3.1 – Critical accounting estimates and judgments in applying the Group's accounting policies).

Standards, interpretations and amendments to published standards effective in 2023

In 2023, the Group adopted amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2023. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Group's accounting policies impacting materially the Group's financial performance and position. The adoption of IFRS17 Insurance Contracts by IVALIFE Insurance Limited during 2023 did not have a material impact on the financial statements of the Group.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation of these financial statements but are not yet effective for the Group's current reporting period.

The Group did not early adopt any new standards, amendments and interpretations to existing standards applicable to periods after 1 January 2023 and the Bank's management is of the opinion that there are no requirements that will have a possible significant impact on the Group's consolidated financial statements in the period of initial application.

1.1.1 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity where the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this aggregate is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

1 **Summary of material accounting policies** *(continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the subsidiaries are consistent with the policies adopted by the Group. In the Bank's standalone financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. Impairment losses recognised in prior periods are reversed through profit or loss if there has been a change in the estimates used to determine the investment's recoverable amount since the last impairment loss was recognised. The results of subsidiaries are reflected in the Bank's standalone financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.2 Investments in associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. Under the equity method of accounting, the investment is initially recognised at cost, and the carrying amount is adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The Group's investment in associates includes goodwill identified on acquisition. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of investment accounted for using the equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate. Dilution gains and losses arising on investments in associates are recognised in the income statement.

In the Bank's standalone financial statements, investments in associates are accounted for by the cost method of accounting, i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is impairment in value. Where there has been impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of the associate are reflected in the Bank's standalone financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

1.3 Foreign currency translation

The financial statements are presented in euro (€), which is the Group's presentation currency.

1.3.1 Functional and presentation currency

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

1 **Summary of material accounting policies** *(continued)*

1.3.2 Transactions and balances

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

1.4 Financial assets

1.4.1 Initial recognition and measurement

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

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

At initial recognition, an Expected Credit Loss allowance ('ECL') is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

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

1.4.2 Classification and subsequent measurement

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

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

1.4.2.1 Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying

1 **Summary of material accounting policies** *(continued)*

amount of these assets is adjusted by any Expected Credit Loss allowance recognised and measured as described in note 1.4.3. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- *Fair value through other comprehensive income ('FVOCI')*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income ('FVOCI'). Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversals, interest income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.
- *Fair value through profit or loss ('FVPL')*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a financial assets that is subsequently measured at fair value through profit or loss is recognised in profit or loss and presented in the income statement within 'Net trading income' in the period in which it arises, unless it arises from assets that were designated at fair value or which are not held for trading, in which case it is presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest.

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

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

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

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

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

(a) Business model assessment

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

The information that will be considered in such assessment includes:

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

1 **Summary of material accounting policies** *(continued)*

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

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

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

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

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

- contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- features that modify consideration for the time value of money (for example, periodic reset of interest rates).

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

1.4.2.2 Equity instruments

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

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

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

1 **Summary of material accounting policies** *(continued)*

1.4.3 Impairment of financial assets

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

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

Note 2.3.4 provides more detail of how the Expected Credit Loss allowance is measured.

Expected Credit Loss allowances are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- financial instrument with both a drawn and undrawn component, whereby the Group cannot identify the ECL on the loan commitment component separately from that on the drawn component: the Group presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position against the carrying amount of the asset because the carrying amount of these assets is their fair value. Instead, 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.

1.4.4 Modification of loans and advances to customers

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

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

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

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

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

1 **Summary of material accounting policies** *(continued)*

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The impact of modifications of financial assets on the Expected Credit Loss calculation is discussed in note 2.3.9.

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

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

1.4A Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less expected credit loss allowances. Credit loss allowances include specific provisions for impairment against credit impaired individual exposures when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the exposure is credit impaired. For trade and other receivables the Group applies the simplified approach permitted by the provisions of IFRS 9 which requires expected lifetime losses to be recognised from initial recognition of the receivables. Note 2.3.4 provides more detail on how lifetime losses are measured.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited in profit or loss.

1.4B Cash and cash equivalents

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

1.5 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of postal stationery and inventories held for resale is determined on a weighted average cost basis. The cost of other inventories is determined on a first-in first-out basis. The cost of inventories comprises the invoiced value of goods purchased and in general includes transport and handling costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.6 Intangible assets

1.6.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

1 **Summary of material accounting policies** *(continued)*

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount is the higher of fair value less costs to sell and value in use.

1.6.2 Computer software

Costs incurred to acquire and bring to use specific software are capitalised and amortised on the basis of the expected useful lives. Software has a maximum expected useful life of four years.

1.7 Property, plant and equipment

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

Freehold and long leasehold properties (land and buildings) comprise mainly branches and offices. Land and buildings are shown at fair value based on periodic valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete, and is suspended if the development of the asset is suspended.

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged to other comprehensive income and debited against the revaluation reserve; all other decreases are charged to profit or loss.

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

	Years
Buildings	100 or over period of lease arrangement
Leasehold property	Over period of lease arrangement
Computer equipment	4
Other	4 – 8

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 1.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

1 **Summary of material accounting policies** *(continued)*

1.8 Impairment of non-financial assets

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

1.9 Leases

1.9.1 When a Group company is the lessee

The Group recognises lease liabilities in relation to leases within 'other liabilities'. The lease liability is measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate. The associated right-of-use (ROU) assets are recognised and included within 'property, plant and equipment' and are measured at the amount equal to the lease liability.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term.

The lease term is the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to extend by exercising that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract to determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

The ROU asset is depreciated over the shorter of the ROU asset's useful economic life and the lease term on a straight-line basis.

The leases with a remaining lease term of less than 12 months are accounted as short-term operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

1.10 Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds. When shares are issued at a premium, the difference between the proceeds and the par value of the shares is recognised in the share premium account.

1.11 Financial liabilities

1.11.1 Initial recognition and measurement

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

1 **Summary of material accounting policies** *(continued)*

1.11.2 Classification and subsequent measurement

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

- financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition; and
- financial guarantee contracts and loan commitments.

Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, and other liabilities.

1.11.3 Derecognition

The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1.11A Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

1.12 Offsetting financial instruments

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

The Group has agreements in place with third parties to collect, through the Group's outlet network, amounts due to these third parties owed by their customers. Any amounts collected in respect of these agreements are retained by the Group until settlement with the respective third parties, during which time the Group is exposed to the risks and rewards emanating from the amounts collected. Such amounts are therefore presented within assets with a corresponding liability towards the third party presented within trade and other payables.

1.13 Provisions for liabilities and other charges

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

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

1.14 Provision for pension obligations

A subsidiary of the Bank provides for the obligation arising in terms of Article 8A of the Pensions Ordinance, (Chapter 93 of the Laws of Malta), covering those former Government employees who opted to become full-time employees of the subsidiary of the Bank, and who continued to be entitled to pension benefits which go beyond the National Insurance Scheme.

The pension related accounting costs are assessed using the projected unit credit method. Under this method, the cost of the subsidiary's obligation is charged to profit or loss so as to spread the cost over the years of service giving rise to entitlement to benefits in accordance with actuarial techniques. The obligation is measured as the present value of the estimated future cash

1 **Summary of material accounting policies** *(continued)*

outflows using interest rates of long-term Government bonds which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

The Group contributes towards the government pension defined contribution plan in accordance with local legislation as applicable and to which it has no commitment beyond the payment of fixed contributions. These obligations are recognised as an expense in the Income Statement as they accrue.

1.15 Interest income and expense

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

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

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

1.16 Fees and commissions

Fee and commission income and expense that are an integral part of the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate and treated as part of effective interest.

Other fees and commissions are generally recognised on an accrual basis when the service has been provided. Accordingly, fee and commission income, comprising account servicing fees, investment management fees, placement fees and other similar fees, are recognised as the related services are performed.

Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. When a loan commitment is not expected to result in the drawdown of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fee and commission expense, relating mainly to transaction and service fees, are expensed as the services are received.

1.17 Postal sales and other revenue

Postal sales and service revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the subsidiary’s activities. Revenue is shown net of sales taxes and discounts. It comprises revenue directly received from customers, commissions earned on postal and non-postal transactions and income from foreign outbound mail receivable from overseas postal administrators.

Income from sale of stamps, commissions earned on postal and non-postal transactions and revenue from foreign outbound mail from overseas postal administrators are recognised when the service is rendered. Allowance is made for the assessed amount of revenue from prepaid product sales at the end of the reporting period for which the service has not yet been provided.

1 **Summary of material accounting policies** *(continued)*

IFRS 15 requires that at contract inception the goods or services promised in a contract with a customer are assessed and each promise to transfer to the customer the good or service is identified as a performance obligation. Promises in a contract can be explicit or implicit if the promises create a valid expectation to provide a good or service based on the customary business practices, published policies or specific statements.

A contract asset must be recognised if the company recorded revenue for fulfilment of a contractual performance obligation before the customer paid consideration or before, irrespective of when payment is due, the requirements for billing and the consequent recognition of a receivable exist.

A contract liability must be recognised when the customer paid consideration or a receivable from the customer is due before the company fulfilled a contractual performance obligation and hence recognised revenue, such as in the case of prepaid stamps.

The Group measures revenue on a basis that reflects the amount of consideration that it expects to be entitled to; this measurement of revenue is however limited to amounts to which the Group has enforceable rights, and it excludes amounts collected on behalf of third parties.

Revenue is recognised when the Group satisfies a performance obligation, which occurs when it transfers control of a promised good or service to a customer. Control of a promised good or service is transferred to a customer when the customer is able to direct the use of the promised good or service. A performance obligation is satisfied at a point in time unless it meets certain criteria that indicate that it is satisfied over time.

1.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In the latter case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

1.19 Financial guarantee contracts and loan commitments

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

1 **Summary of material accounting policies** *(continued)*

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

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

- the amount of the loss allowance (calculated as described in note 1.4.3); and
- the premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

'Loan commitments' are the Bank's commitments to provide credit under pre-specified terms and conditions, and are measured at the amount of the loss allowance (calculated as described in note 1.4.3).

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

1.20 Dividend distribution

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

1.21 Segment reporting

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

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

2. **Financial risk management**

2.1 Introduction

2.1.1 Preamble

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Group considers risk management a core competency that helps produce consistently high returns for its various stakeholders. The Group aims to manage all major types of risk by applying methods that meet best practice. The Group considers it important to have a clear distribution of responsibilities within the area of risk management. One of the main tasks of the Group's executive management is to set the framework for this area. An understanding of risk-taking and transparency in risk-taking are key elements in the Group's business strategy and thus in its ambition to be a strong financial entity. The Group's internal risk management processes support this objective.

Risk management within the Bank is mainly carried out on a unified basis, using an integrated and entity-wide framework. This framework is based on local and international guidelines, such as the Basel IV Accord, corresponding Directives and Regulations of the European Union, including technical standards, as well as contemporary international banking practices. The Bank has adopted the Standardised Approach and the Basic Method with respect to the calculation of capital requirements

2 **Financial risk management** *(continued)*

in relation to, and management of, credit and market risks, and the Basic Indicator Approach with respect to operational risk. The Bank regularly updates its Internal Capital and Liquidity Adequacy Assessment Processes (ICAAP and ILAAP), that are approved by the Board of Directors.

2.1.2 Organisation

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

- setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
- selecting and appointing the Chief Executive Officer who is entrusted with the day-to-day operations of the Group;
- management of the Group's operations;
- ensuring that significant business risks are identified and appropriately managed; and
- setting the highest business standards and code for ethical behaviour, and monitoring adherence with these.

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business in the Assets & Liabilities Committee and Credit Committee, and, for the Group's day-to-day operations, in an Executive Team comprising the Chief Executive Officer and Chief Officers. The Audit & Risk Committee reviews the processes and procedures to ensure the effectiveness of the Group's system of internal control, as well as the implementation of the Board's risk strategy by management. The Audit & Risk Committee is supported by the Internal Audit, Risk Management and Compliance functions.

Authority to operate the Bank and its subsidiaries is delegated to the Chief Executive Officer within the limits set by the Board. The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all operations. Group policies and procedures are in place for the reporting and addressing of fraudulent activities.

The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

2.1.3 Risk policies

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

Internal controls, procedures and processes are managed within the following areas:

- Finance
- Treasury
- Credit
- Internal Audit
- Risk Management
- IT
- Compliance
- Anti-Money Laundering

2.1.4 Risk appetite

The risk appetite determines the maximum risk that the Group is willing to assume to meet business targets. To ensure coherence between the Group's strategic considerations regarding risk-taking and day-to-day decisions, from time to time,

2 **Financial risk management** *(continued)*

the Group formulates and updates its risk appetite for the purposes of strategic direction. The Group's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Group identifies a number of key risk components and for each, determines a target that represents the Group's view of the component in question. The following are the key risk components:

- Credit risk
- Market risk
- Capital risk
- Liquidity risk
- Operational risk
- Information & cyber security risk
- Information technology risk
- Information management risk
- Financial crime risk
- Compliance risk
- Environmental, social and governance ('ESG') risk

2.1.5 Reporting

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

2.2 Risk exposures

In terms of the Capital Requirement Regulation ('CRR'), 'an exposure' is the amount at risk arising from the reporting credit institution's assets and off-balance sheet items. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

- claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;
- contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and
- other on and off-balance sheet financial assets and commitments.

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

The main categories of risk are:

- *Credit risk*: Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Group's counterparties, resulting in the loss of equity and profit. It is the risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.
- *Market risk*: Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- *Liquidity risk*: Liquidity risk may be divided into two sub-categories:
  - Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and amount.
  - Funding liquidity risk: Risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- *Operational risk*: Risk of loss resulting from the lack of skilful management or good governance within the Group and the inadequacy of proper control, which might involve internal operations, personnel, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management

2 **Financial risk management** *(continued)*

framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

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

The Bank's approach to management of the above risks is addressed in this note.

2.3 Credit risk

2.3.1 Introduction

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees and letters of credit.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its investing activities.

Credit risk constitutes the Bank's largest risk in view of its significant lending and securities portfolios, which is monitored in a structured and formal manner through several mechanisms and procedures. The credit risk management and control functions are centralised.

2.3.2 Credit risk management

The granting of a credit facility (including loans and advances, loan commitments and guarantees) is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate, in all probability, the ability to repay the debt. Internal approval limits are in place starting from Bank operational managers leading up to the Credit Committee and the Board of Directors depending on the magnitude and the particular risks attached to the facility. Facilities are generally adequately secured either by property and/or guarantees and are reviewed periodically by management in terms of the exposure to the Bank and to ensure that collateral still covers the facility.

In order to minimise the credit risk undertaken, counterparty credit limits are defined with respect to investment activities, which limits consider a counterparty's creditworthiness, the value of collateral and guarantees pledged, which can reduce the overall credit risk exposure, as well as the type and the duration of the asset. In order to examine a counterparty's creditworthiness, the following are considered: country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates.

The Group has set limits of authority and has segregation of duties so as to maintain impartiality and independence during the approval process and control new and existing assets or credit facilities.

The Group manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The exposure to any one borrower including banks and brokers is further restricted by sublimits covering on and off-balance sheet exposures. Actual exposures against limits are monitored at end of day on a daily basis and on a real-time basis too.

During the financial year ended 31 December 2023, local economic activity remained resilient notwithstanding weaknesses resulting from the geopolitical uncertainties as a result of the military conflicts in Eastern Europe and in the Middle East. The local economic growth registered was in part a result of a strong recovery in the tourism sector with domestic demand being generally robust.

2 **Financial risk management** *(continued)*

The level of global economic uncertainty remained elevated during the financial year ended 31 December 2023, primarily driven by the geopolitical developments mentioned above, as well as widespread supply chain disruptions, which triggered inflationary pressures across the world. In order to curb the spiralling effect of inflationary pressures, the European Central Bank ('ECB') and other national central banks applied monetary policy tools at their disposal by increasing interest rates to manage demand.

In addition, in March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This created further turmoil and uncertainty in the international financial markets.

Locally, the Government has implemented price-mitigating fiscal measures to support households and firms, with energy prices in Malta remaining constant and the production of essential foodstuffs being subsidised. In this respect, inflation rates in Malta remained below those observed in most of the other euro area countries. Corrections to national salary levels were also implemented through the national Cost Of Living Adjustment ('COLA') mechanism.

Based on the above, economic uncertainty continues to prevail especially in view of the interest rate environment and inflationary pressures, partially mitigated by government support measures, though these are set to subside during 2024. This uncertainty impacts the business model, income levels and/or cash flow generation capacity of a portion of the Bank's customers. This has impacted the performance of the Bank's expected credit loss models, requiring enhanced monitoring of model outputs.

In view of the above, the Bank continued to closely monitor activities on its loan portfolio. During the year ended 31 December 2023, where required, the Bank continued to provide support to customers experiencing liquidity pressures as a result of the prevailing macro-economic scenario, though to a much lesser extent than the previous year.

In view of the nature of the Bank's portfolio, where a relatively small number of loans comprise a significant proportion of the loan book value, the Bank continued to apply an individual-debtor-focused credit management process. Such process enabled the identification of any deterioration in credit risk at the level of the Bank's material exposures at an early stage and the estimation of expected credit loss allowances using the best possible judgement.

Notwithstanding the resilience of the local economy, during 2023, the Bank continued to assess and individually rate on an ongoing basis those borrowers deemed mostly impacted by the current macro-economic uncertainties. Exposures deemed mostly impacted and in respect of which significant increase in credit risk ('SICR') and unlikeness-to-pay ('UTP') indicators have been observed are assigned an elevated internal credit rating, requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration).

The Bank continued to monitor closely corporate and commercial exposures previously assigned to any of the underperforming grades (P2, P3) (note 2.3.8) to update credit risk assessments by reference to actual financial performance and, where available, financial forecasts.

In relation to personal exposures, the Bank typically resorts more to portfolio measures or reviews in respect of groups of exposures exhibiting shared risk characteristics, unless specific debtor level information which suggests developments in the respective credit risk becomes known to the Bank.

The current macro-economic environment continues to give rise to an elevated level of uncertainty in respect of the economic outlook. Hence, the level of subjectivity underlying the ECL model parameters, including how these react to forward-looking economic conditions remains elevated. This necessitates more regular monitoring and rigorous evaluation of forecast economic conditions, together with heightened expert judgement, in order to best determine the range of possible economic outcomes used for the purposes of estimating ECL. Further information in respect of macro-economic forecasts reflected within the ECL calculations is provided in note 2.3.4. (Forward looking information incorporated in the ECL model).

2.3.3 Credit risk measurement

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD'). This is similar to the approach used for the purposes of measuring Expected Credit Loss ('ECL') under IFRS 9. Refer to note 2.3.4 for more details.

2 **Financial risk management** *(continued)*

(a) Loans and advances to customers

The Group uses internal credit risk gradings (note 2.3.8) to reflect its assessment of the Probability of Default of individual counterparties. Internal credit risk gradings are based on payment behaviour, loan specific information and expert judgement.

Corporate and commercial

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

The Group determines its internal rating grades at a borrower level. The Group incorporates any updated or new information/credit assessments on an ongoing basis. In addition, the Group also updates information about the creditworthiness of the borrower from sources such as financial statements.

The creditworthiness of the borrower is considered in every periodic review - normally on a yearly basis; or more frequent basis as deemed necessary. This determines the updated internal credit risk gradings.

Personal

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

(b) Other financial assets

Other financial assets include Balances with Central Bank of Malta, financial investments and loans and advances to banks. The Group utilises internally generated models (as described in note 2.3.4.3) to reflect its assessment of the Probability of Default of individual counterparties. These grades are continuously monitored and updated. The PDs associated with each grade are determined based on realised published default rates over the prior 12 months.

In determining the Probability of Default of individual counterparties, the Group distinguishes between exposures considered 'investment-grade' and 'non-investment grade' based on credit ratings by recognised external rating agencies.

2.3.4 Expected Credit Loss measurement

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

- a financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group;
- 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. Please refer to note 2.3.4.1 for a description of how the Bank determines when a significant increase in credit risk has occurred;
- if the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 2.3.4.2 for a description of how the Group defines credit-impaired and default;
- financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stages 2' or '3' have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 2.3.4.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL;
- a pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 2.3.4.4 includes an explanation of how the Group has incorporated this in its ECL models; and
- purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

Further explanation is also provided in respect of how the Group determines appropriate groupings of loans and advances to customers for ECL measurement (refer to note 2.3.4.5).

2 **Financial risk management** *(continued)*

The Expected Credit Loss requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12-month ECL). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). Financial assets where 12-month ECL is recognised are considered 'Stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'Stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit-impaired, would be classified as 'Stage 3'.

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

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

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

2.3.4.1 Significant increase in credit risk ('SICR')

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

The Group primarily identifies whether a SICR has occurred for an exposure within the loans and advances to customers, through the Group's internal risk gradings. The Group allocates each exposure to an internal rating grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal rating grade.

The Group identifies SICR and classifies such non-defaulted exposures into 'Stage 2' when they fulfil at least one of the following conditions:

- the exposure is considered forborne;
- the credit quality of any other exposure(s) of the same customer is/are not considered 'regular' (except where otherwise stated in the Group's Credit Policy e.g. cash covered facilities); and
- the borrower's internal rating grade is not considered 'performing', as defined in note 2.3.8.

As referred to previously, existing geopolitical factors as well as the current inflationary and interest rate scenarios, with the consequential economic conditions, continue to pose an elevated level of uncertainty, particularly with respect to the identification of customers that would have experienced a SICR.

The Bank's individual-debtor-focused approach enables the identification of SICR of significant exposures, specifically within its corporate and commercial portfolio. These exposures are assessed periodically for SICR through individual credit risk assessments, on the basis of recently obtained management information, including forecasts. Exposures in respect of which SICR has been observed are attributed higher ECL, and are assigned an elevated internal rating of P2 or P3, hence requiring closer and more frequent monitoring on a monthly or quarterly basis (depending on the extent of credit risk deterioration) to facilitate timely identification of further deterioration in financial condition. The assessments continue to be performed by the Commercial Credit Department and are discussed and reviewed at Credit Committee or Board level as applicable.

For the purpose of achieving a comprehensive assessment the Bank also utilises, as applicable, segmentation techniques in

2 **Financial risk management** *(continued)*

relation to identifying indicators of SICR within both corporate & commercial and personal portfolios.

In relation to personal portfolios, SICR is generally determined on the basis of delinquency related indicators since less information is available at asset level to enable the timely identification of a SICR. The Bank continues to apply rigorously its credit assessment and oversight processes, which include monitoring of arrears. Personal borrowers are considered to exhibit signs of SICR and consequently downgraded to Stage 2 if they met the following criteria:

- repayments being past-due by more than 30 days; and
- other qualitative criteria, including but not limited to actual or potential loss of personal income.

In respect of individually significant loans within the corporate and commercial portfolio, during 2023, the Bank focused particularly on those borrowers that are deemed to be more susceptible to the current inflationary and interest rate environment.

A set of criteria specifically designed to address credit risk deteriorations, is in place to determine whether borrowers exhibit signs of SICR. In summary, the Bank's monitoring typically includes the assessment of following risk criteria:

Corporate and commercial exposures	Personal exposures	All exposures
- information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with contractual conditions, quality of management and senior management changes; - data from credit reference agencies, press articles; and - actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	- internally collected data on customer behaviour – e.g. utilisation of credit card facilities; - affordability metrics; and - external data from credit reference agencies including industry-standard credit scores.	- payment record – this includes overdue status as well as a range of variables about payment ratios; - utilization of the granted limit; - requests for and granting of forbearance; and - existing and forecast changes in business, financial and economic conditions.

The assessment of SICR incorporates forward-looking information (refer to note 2.3.4.4 for further information) and is performed at the counterparty level on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Risk Management function.

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

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

2.3.4.2 Definition of default and credit-impaired assets

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

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

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

2 **Financial risk management** *(continued)*

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

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

In assessing whether a borrower is in default, the Group will consider indicators that are:

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

The default definition has been applied consistently to model the Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD') throughout the Bank's expected loss calculations.

As referred to previously, existing geopolitical conditions as well as the current inflationary and interest rate environments and the consequential economic impacts have continued to give rise to an elevated level of uncertainty, particularly with respect to the identification of customers that would have showed signs of unlikeness-to-pay ('UTP'). The Bank performs assessments to determine whether the current macro-economic circumstances may transform into long-term borrower financial difficulties, thereby potentially requiring a downgrade of individual exposures or exposures sharing similar credit risk characteristics to Stage 3 to reflect the level of change in credit risk.

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

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

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

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

The Expected Credit Loss ('ECL') is measured on either a 12-month (12M) or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD'). When calculating the Bank's ECL, special considerations were made to assess the impact of the current economic conditions. Further details are set out in note 2.3.4.4.

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

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

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

2 **Financial risk management** *(continued)*

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

PD estimates are estimates at a certain date, which, for the loans and advances to customers, are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally-compiled data comprising both quantitative and qualitative factors. The PD calculation is based on a transition matrix approach. The main assumptions underlying such approach is that the PD depends on the particular period after origination ('months on book') and the current characteristics of the exposure or borrower. Default is considered to be an absorbing state, whereby if an exposure is defaulted, it remains in this state during future years. Market data is used for the PD of loans and advances to banks and investment securities. If a counterparty or exposure migrates between internal rating grades or external credit ratings, then this will lead to a change in the associated PD.

The 12 month and lifetime PDs are developed by utilising statistical methodologies to analyse historical observed data to estimate the probability of a borrower's transition from one internal rating class to another (or of staying in the same class) within a given horizon. The conditional PD is adjusted to consider forward-looking information through macro-economic modelling.

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

EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

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

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

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

For secured products, LGD is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed. The LGD for exposures secured by real estate will be derived from the adjusted loan-to-value ratio of the individual facilities, and takes into account the expected recovery by applying a costs to sell haircut and a market value haircut to the property value, and by discounting (using the effective interest rate) the updated market value of the property after haircuts, over a period of time equivalent to the perceived time to sell. The LGD for other exposures is based on the Group's perceived risk on the collateral. For unsecured products, LGDs are typically set at product level due to the limited differentiation of recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered. In the case of revolving credit facilities, provided that such facilities do not have a fixed term or repayment structure, the Group defines the lifetime of such exposures as 12 months, in case the next substantive credit review is within the next 12 months. For the credit cards portfolio, the Group also applies a lifetime of 12 months.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. Refer to note 2.3.4.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

2 **Financial risk management** *(continued)*

The assumptions underlying the ECL calculations are monitored and reviewed on a regular basis.

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customer's business model and the capacity to generate cash flow to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including around valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The economic conditions within the local property market, driven by the current macro-economic environment, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral. To reflect the economic conditions currently being experienced, conservative judgements were applied by management in order to overcome limitations in respect of determining collateral valuations, and the uncertainty around the time to repossess properties held as collateral and to resell such properties in the open market.

2.3.4.4 Forward-looking information incorporated in the ECL model

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

In this respect, the Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has analysed relationships between macro-economic variables, credit risk and credit losses. The key drivers constitute Gross Domestic Product ('GDP') at constant prices, unemployment rates and inflation rates.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Three possible scenarios are considered to capture non-linearity across credit portfolios. The 'base line' scenario represents the most-likely outcome. It is based on authoritative sources forecasting these economic variables referred to above and providing the best estimate view of the economy. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios – Upside and Downside scenarios – which respectively represent a more optimistic and a more pessimistic outcome. Such scenarios reflect the current top and emergent risks and opportunities. The more optimistic and more pessimistic scenarios are economically plausible, and the more pessimistic scenario will not necessarily be as severe as scenarios used in stress testing.

Modelling of the economic scenarios, i.e. the forecast values of economic variables for optimistic and pessimistic scenarios, is performed on the basis of the historical values and annual forecast values for the base scenario, mainly based on the published three-year forecast of the Central Bank of Malta.

The pessimistic and optimistic scenarios are deemed to represent management's best forecast of an economically plausible upside and downside scenario.

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

As with any macro-economic forecasts, the projections and likelihood of occurrence are subject to an elevated degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected.

Notwithstanding the global economic events that occurred during the current financial year, the local economy in 2023 was characterised, despite relatively high inflation rates, by robust economic growth primarily driven by the export of services, including tourism, and private consumption. The tourism sector in Malta continued to show particularly strong growth exceeding 2019 levels.

2 **Financial risk management** *(continued)*

According to the Central Bank of Malta's latest forecasts, Malta's gross domestic product (GDP) growth is projected to moderate significantly from 6.3% in 2023 to 4.4% in 2024, and to decelerate further to 3.6% and 3.3% in 2025 and 2026, respectively. The Central Bank of Malta further projects that in 2024, domestic demand is expected to be the main driver of growth while employment growth is set to decline to 3.2% in 2024 before stabilising at 2.4% by 2026 as GDP growth eases.

Within the EU, economic growth in 2023 was mainly steered by the momentum of the post COVID-19 pandemic economic rebound though economic expansion is under pressure against the background of falling household purchasing power, collapsing external demand, a sharp rise in interest rates and the partial withdrawal of fiscal support in 2023. Against this backdrop, economic activity in the EU is expected to have expanded by 0.5% in 2023 but is forecasted to grow by 0.9% and 1.7% in 2024 and 2025 respectively.

Despite mild upward pressure from higher shipping costs in the wake of Red Sea trade disruptions, underlying inflation continues on a steady downward path mainly due to falls in energy prices. Credit conditions remain tight though monetary loosening is expected to start earlier than anticipated. As the labour market continues to perform strongly and inflation decelerates, the gradual acceleration of economic activity appears to be likely.

However, on the downside, protracted geopolitical tensions in Eastern Europe and the broadening of the Middle East conflict to the Red Sea tilt the balance of risks towards more adverse outcomes as additional trade disruptions could bring renewed stress to supply chains, hampering production and increasing fuel inflation. Moreover, a slower-than-expected loosing of the credit cycle could further delay the rebound in economic activity, pushing inflation lower while emerging risks, such as climate and environmental risks and the increasing frequency of extreme weather events continue to pose threats.

Economic forecasts remain subject to a significant degree of uncertainty. The changes in economic and market drivers, customer behaviours and Government actions caused by the economic events have also impacted the performance of ECL models, since the severity of projections of macro-economic variables being forecasted are outside the historical observations on which the ECL models have been built and calibrated.

In this regard, a very important judgement within the Bank's estimation of ECL allowances continues to be the determination of forward-looking scenarios reflecting potential future economic conditions under different scenarios and their impact on PDs and LGDs.

The most significant period-end assumptions used for the ECL estimate as at 31 December 2023 and 2022 are set out below. The 'base', 'upside' and 'downside' scenarios were used for all portfolios:

- The 'Base' Scenario captures business-as-usual macro-economic expectations, whereby the current rhythm of economic activity is maintained;
- The 'Downside' Scenario is based on a subdued level of economic activity hypothesized to correspond to prolonged period of an economic contraction;
- The 'Upside' Scenario is based on the assumption that it would be possible to marginally improve further over the economic conditions considered in the 'Base' Scenario.

	As of 31 December 2023		
	2024	**2025**	**2026**
Gross Domestic Product, constant prices (YoY)*			
'Base'	**3.80%**	**3.60%**	**3.30%**
Range of forecasts for alternative scenarios	**[0.8 - 6.8]%**	**[0.6 - 6.6]%**	**[0.3 - 6.3]%**
Unemployment rate (YoY)*			
'Base'	**2.9%**	**2.9%**	**3.0%**
Range of forecasts for alternative scenarios	**[0.1 - 5.9]%**	**[0.1 - 5.9]%**	**[0 – 6.0]%**
Inflation rate (YoY)*			
'Base'	**3.0%**	**2.3%**	**2.0%**
Range of forecasts for alternative scenarios	**[0 - 6.0]%**	**[0.30 - 5.3]%**	**[1 - 5]%**

2 **Financial risk management** *(continued)*

	As of 31 December 2022		
	2023	2024	2025
Gross Domestic Product, constant prices (YoY)*			
'Base'	3.70%	3.60%	3.50%
Range of forecasts for alternative scenarios	[0.8 – 6.6]%	[0.7 – 6.5]%	[0.6 – 6.4]%

*YoY = year on year % change

The weightings assigned to each economic scenario were 68% (2022: 68%) for the 'Base' Scenario, 16% (2022: 16%) for the 'Downside' scenario and 16% (2022: 16%) for the 'Upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle.

The Bank considers the macro-economic forecasts to represent its best estimate of the possible outcomes after analysing its different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Bank's weightings take into account the current performance of the Maltese economy over the foreseeable future. The Board considers that the probability weightings assigned to the respective scenarios reflect an unbiased evaluation of range of possible outcomes.

Based on the above, the estimation of credit loss allowances as of 31 December 2023 and 2022 continued to require an elevated level of subjectivity and expert judgement. Despite the recovery in economic conditions, ECL estimates remain subject to a degree of economic uncertainty. In this respect, judgements applied by management in estimating ECL continue to reflect a degree of caution, both in the determination of probability of defaults for selection of economic scenarios and in terms of the calibration of scenario weightings.

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

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made through the reflection of several forward-looking economic conditions. Management has assessed the sensitivity of the Bank's expected credit losses by assigning a 100% weighting to the baseline, downside and upside scenarios respectively. The Bank's credit loss allowances would decrease by €4.3 million (2022: €2.8 million) if the allowances had to be calculated solely on the baseline scenario; ECLs would increase by €2.8 million (2022: €0.5 million) if these had to be estimated using only the downside scenario and would reduce by €5.7 million (2022: €3.0 million) if the upside scenario only were to be taken into consideration. This demonstrates the Bank's resilience in overcoming negative shocks and its ability to absorb such allowance changes, if necessary.

2.3.4.5 Categorisation of loans and advances to customers for ECL measurement

As part of the ECL model, the Group classifies its exposures to loans and advances to customers into homogeneous groups with similar credit risk characteristics that include instrument type and credit risk gradings. In this respect, the Group considers the following categories for ECL measurement:

- personal portfolio, which includes loans and advances to individual customers such as mortgages, credit cards and other consumer credit;
- construction and real estate portfolio, which includes loans and advances to customers in respect of financing construction of real estate projects for the purpose of re-sale or rental; and
- corporate and commercial portfolio, which includes loans and advances to business entities, other than construction and real estate related borrowers.

2.3.5 Maximum exposure to credit risk

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

2 **Financial risk management** *(continued)*

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

	Group				**Bank**			
	2023		2022		**2023**		2022	
	Gross exposure € 000	**ECL allowance € 000**	Gross exposure € 000	ECL allowance € 000	**Gross exposure € 000**	**ECL allowance € 000**	Gross exposure € 000	ECL allowance € 000
Credit risk exposures relating to on-balance sheet assets:								
Subject to IFRS 9 expected credit loss								
Financial assets measured at amortised cost:								
Balances with Central Bank of Malta and treasury bills	**138,157**	**-**	132,119	-	**138,157**	**-**	132,119	-
Cheques in course of collection	**1,880**	**-**	1,053	-	**1,880**	**-**	1,053	-
Debt securities	**8,357**	**(72)**	-	-	**8,357**	**(72)**	-	-
Loans and advances to banks	**38,139**	**-**	27,615	-	**33,605**	**-**	20,936	-
Loans and advances to customers								
- Corporate and commercial	**529,052**	**(10,148)**	534,188	(9,159)	**529,052**	**(10,148)**	534,189	(9,159)
- Personal	**240,703**	**(1,303)**	187,373	(790)	**240,703**	**(1,303)**	187,373	(790)
Trade and other receivables	**11,460**	**(91)**	13,388	(145)	**3,405**	**-**	3,445	-
Accrued income and other assets	**3,704**	**-**	3,972	-	**3,676**	**-**	3,951	-
Debt securities measured at FVOCI	**199,965**	**(471)**	213,391	(526)	**197,700**	**(471)**	210,862	(526)
Credit risk exposure	**1,171,417**	**(12,085)**	1,113,099	(10,620)	**1,156,535**	**(11,994)**	1,093,928	(10,475)
Credit risk exposures relating to off-balance sheet instruments:								
Contingent liabilities	**14,315**	**(23)**	13,611	(36)	**14,315**	**(23)**	13,610	(36)
Undrawn commitments to lend	**257,338**	**(6)**	202,041	(7)	**258,448**	**(6)**	203,150	(7)
Credit risk exposure	**271,653**	**(29)**	215,652	(43)	**272,763**	**(29)**	216,760	(43)

Accrued income substantially arises from loans and advances to customers. Expected credit losses in respect of accrued income have been allocated to loans and advances to customers.

2.3.6 Credit concentration risk

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

2 **Financial risk management** *(continued)*

Credit concentration risk by industry sector

The Group and Bank's financial investments measured at FVOCI, excluding equity investments, are analysed by industry sector in the following table:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Government	**162,743**	169,725	**161,609**	168,377
Corporate				
Tourism	**422**	503	**379**	459
Property and construction	**1,368**	1,345	**804**	768
Financial institutions	**32,345**	37,094	**31,821**	36,534
Other sectors	**3,087**	4,724	**3,087**	4,724
Gross financial investments measured at FVOCI	**199,965**	213,391	**197,700**	210,862

The Group and Bank's financial investments measured at amortised cost are analysed by industry sector in the following table:

	2023	2022
	€ 000	€ 000
Government	**7,020**	-
Corporate		
Tourism	**72**	-
Financial institutions	**224**	-
Other sectors	**1,041**	-
Gross financial investments measured at amortised cost	**8,357**	**-**

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

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Manufacturing	**10,223**	9,754	**10,223**	9,754
Tourism	**56,601**	58,187	**56,601**	58,187
Trade	**51,210**	45,296	**51,210**	45,296
Property and construction	**254,919**	266,643	**254,919**	266,643
Personal, professional and home loans	**249,196**	196,334	**249,196**	196,334
Financial institutions	**136,319**	133,771	**136,319**	133,771
Other sectors	**11,287**	11,576	**11,287**	11,577
Gross advances to customers	**769,755**	721,561	**769,755**	721,562

The majority of the Bank's loans and advances to customers comprise exposures to corporates.

2 **Financial risk management** *(continued)*

As at 31 December 2023 and 2022, no loans and advances to customers were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four: Large Exposures, of the CRR. A limited number of customers account for a certain percentage of the Bank's loans and advances. Whilst no individual customer or group of dependent customers is considered by management as a significant concentration of credit risk in the context of the CRR, these exposures are monitored and reported more frequently and rigorously.

Credit concentration risk by geographical region

The Group also monitors credit concentration risk by geographical region. The majority of the Group's exposures are in Malta in view of the Group's lending operations being conducted with Maltese entities. Moreover, the significant part of the Group investments in debt securities are issued by local government and local corporate entities.

The Group and Bank's balances with correspondent banks in different jurisdictions are split by geographical region as shown in the following table:

	Group		**Bank**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Loans and advances to banks				
Spain	**9,668**	123	**9,668**	123
Germany	**9,086**	10,706	**9,086**	10,706
Ireland	**7,264**	-	**7,264**	-
Malta	**4,542**	6,689	**8**	10
United States of America	**2,824**	4,508	**2,824**	4,508
United Kingdom	**2,200**	2,927	**2,200**	2,927
Italy	**1,863**	-	**1,863**	-
Belgium	**437**	433	**437**	433
Switzerland	**249**	2,090	**249**	2,090
Other	**6**	139	**6**	139
Gross loans and advances to banks	**38,139**	27,615	**33,605**	20,936

2.3.7 Information on credit quality of balances with banks, investments and treasury bills

The Group holds debt instruments that are issued by local government, local banks and other local corporate entities. All such securities are listed on the Malta Stock Exchange, which is currently the only locally-based Recognised Investment Exchange ('RIE'). The other debt securities held by the Group, issued by foreign governments and entities, are listed on other recognised exchanges. The Bank acquires debt securities and similar instruments issued by counterparties having strong financial background. These issuers are approved and regularly reviewed considering the process previously highlighted, focusing on market developments.

Within its daily operations the Bank transacts with banks and other financial institutions. The Bank primarily places short-term funds with pre-approved banks subject to limits in place and subject to the respective institution's credit rating being within controlled parameters. By conducting these transactions the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. Actual exposures are monitored against the limits on a daily basis and in a real-time manner. The credit status of the pre-authorised banks is monitored on an ongoing basis.

2 **Financial risk management** *(continued)*

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects, and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically. The Bank's assets are predominantly in Malta. The Bank's exposures to other countries are mainly limited to bank balances and money market placements with a total carrying amount of €33,597,000 (2022: €20,926,000) at the end of the reporting period.

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

The following tables set out information about the credit quality of financial assets of the Bank measured at amortised cost and financial investments at FVOCI excluding equity investments. The credit quality of financial assets is based on external credit ratings assigned to issuers or counterparties by recognised external rating agencies:

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Balances with Central Bank of Malta and treasury bills at amortised cost				
Gross carrying amount	**138,157**	-	-	**138,157**
Loss allowance	-	-	-	-
Carrying amount – net of loss allowance	**138,157**	-	-	**138,157**

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Balances with Central Bank of Malta and treasury bills at amortised cost				
Gross carrying amount	132,119	-	-	132,119
Loss allowance	-	-	-	-
Carrying amount – net of loss allowance	132,119	-	-	132,119

The credit rating of the Government of Malta as at 31 December 2023 and 2022 was considered as 'investment grade' and hence no loss allowance in respect of balances with the Central Bank of Malta was recognised.

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Debt securities measured at FVOCI				
AAA to AA-	**15,500**	-	-	**15,500**
A+ to A-	**158,253**	-	-	**158,253**
BBB+ to BBB-	**17,599**	-	-	**17,599**
Unrated	**6,348**	-	-	**6,348**
Carrying amount – fair value	**197,700**	-	-	**197,700**
Loss allowance	**(471)**	-	-	**(471)**
Debt securities measured at amortised cost				
A+ to A-	**7,020**	-	-	**7,020**
Unrated	**1,337**	-	-	**1,337**
Gross carrying amount	**8,357**	-	-	**8,357**
Loss allowance	**(72)**	-	-	**(72)**
Carrying amount – net of loss allowance	**8,285**	-	-	**8,285**
Loans and advances to banks at amortised cost				
AAA to AA-	**3,266**	-	-	**3,266**
A+ to A-	**28,466**	-	-	**28,466**
BBB+ to BBB-	**1,863**	-	-	**1,863**
Unrated	**10**	-	-	**10**
Gross carrying amount	**33,605**	-	-	**33,605**
Loss allowance	-	-	-	-
Carrying amount – net of loss allowance	**33,605**	-	-	**33,605**

Unrated debt securities primarily represent bonds listed on the Malta Stock Exchange which are unrated by international credit rating agencies.

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Debt securities measured at FVOCI				
AAA to AA-	19,037	-	-	19,037
A+ to A-	164,291	-	-	164,291
BBB+ to BBB-	19,479	-	-	19,479
Unrated	8,055	-	-	8,055
Carrying amount – fair value	210,862	-	-	210,862
Loss allowance	(526)	-	-	(526)
Loans and advances to banks at amortised cost				
AAA to AA-	4,941	-	-	4,941
A+ to A-	3,050	-	-	3,050
BBB+ to BBB-	12,932	-	-	12,932
Lower than BB-	2	-	-	2
Unrated	11	-	-	11
Gross carrying amount	20,936	-	-	20,936
Loss allowance	-	-	-	-

As at 31 December 2023 and 2022, there were no purchased credit-impaired assets.

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

2.3.8 Information on credit quality of loans and advances to customers

The Bank manages the credit quality of its loans and advances to customers by using internal risk grades, which provide a progressively increasing risk profile ranging from 'P1' (best quality, less risky) to 'NP'. These risk grades are an essential tool for the Bank to identify both non-performing exposures and better-performing customers. The internal risk grades used by the Bank are as follows:

- Performing: Internal grade 'P1'
- Under performing: Internal grades 'P2', 'P3' and 'PF'; and
- Non-performing: Internal grade 'NP'.

P1

The Bank's loans and advances to customers which are categorised as 'P1' are principally debts in respect of which the payment of interest and/or capital is not overdue by 30 days and no recent history of customer default exists. Management does not expect any losses from non-performance by these customers.

P2

Loans and advances which attract a 'P2' grading are those which are receiving the close attention of the Bank's management and are being reviewed periodically in order to determine whether such advances should be reclassified to either the 'P1' or the 'P3' classification. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 30 days and over but not exceeding 60 days.

2 **Financial risk management** *(continued)*

P3

Loans and advances which attract a 'P3' grading are those having the weaknesses inherent in those loans and advances classified as 'P2' with the added characteristics that repayment is inadequately protected by the current sound worth and paying capacity of the borrower. Loans and advances so graded have a well-defined weakness or weaknesses that could jeopardise the repayment of the debt. They are characterised by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 60 days and over but not exceeding 90 days.

PF

Loans and advances which attract a 'PF' grading are those facilities (other than Non-Performing Exposures) in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (financial difficulties).

A concession is deemed to have taken place when any of the following two actions are taken;

(a) a modification of the previous terms and conditions of a contract, as the debtor is considered unable to comply therewith, due to its financial difficulties ('troubled debt') to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; and/or

(b) a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

NP

Loans and advances which attract a 'NP' grading are those facilities where the Bank deems the recoverability of principal to be remote as a result of worsening conditions of loans and advances classified as 'P3'. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 90 days and over. Accordingly, these loans and advances are generally past due by more than 90 days and comprise those exposures which are deemed by the Bank as credit-impaired (see definition in note 2.3.4.2).

The following table sets out information about the credit quality of the Bank's loans and advances to customers measured at amortised cost. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in note 2.3.4.3.

		2023		
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Corporate and commercial				
P1	**379,074**	**1,841**	**-**	**380,915**
P2	**-**	**51,370**	**-**	**51,370**
P3	**-**	**16,262**	**-**	**16,262**
PF	**-**	**52,562**	**-**	**52,562**
NP	**-**	**-**	**27,943**	**27,943**
Gross carrying amount	**379,074**	**122,035**	**27,943**	**529,052**
Loss allowance	**(1,270)**	**(1,020)**	**(7,858)**	**(10,148)**
Carrying amount	**377,804**	**121,015**	**20,085**	**518,904**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Personal				
P1	**232,239**	**3,440**	**-**	**235,679**
P2	**-**	**1,962**	**-**	**1,962**
P3	**-**	**175**	**-**	**175**
PF	**-**	**1,612**	**-**	**1,612**
NP	**-**	**-**	**1,275**	**1,275**
Gross carrying amount	**232,239**	**7,189**	**1,275**	**240,703**
Loss allowance	**(310)**	**(867)**	**(126)**	**(1,303)**
Carrying amount	**231,929**	**6,322**	**1,149**	**239,400**

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Total				
P1	**611,313**	**5,281**	**-**	**616,594**
P2	**-**	**53,332**	**-**	**53,332**
P3	**-**	**16,437**	**-**	**16,437**
PF	**-**	**54,174**	**-**	**54,174**
NP	**-**	**-**	**29,218**	**29,218**
Gross carrying amount	**611,313**	**129,224**	**29,218**	**769,755**
Loss allowance	**(1,580)**	**(1,887)**	**(7,984)**	**(11,451)**
Carrying amount	**609,733**	**127,337**	**21,234**	**758,304**

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Corporate and commercial				
P1	344,302	32,942	-	377,244
P2	-	56,231	-	56,231
P3	-	26,445	-	26,445
PF	-	48,453	-	48,453
NP	-	-	25,816	25,816
Gross carrying amount	344,302	164,071	25,816	534,189
Loss allowance	(1,924)	(1,548)	(5,687)	(9,159)
Carrying amount	342,378	162,523	20,129	525,030

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Personal				
P1	181,897	705	-	182,602
P2	-	1,095	-	1,095
P3	-	89	-	89
PF	-	1,591	-	1,591
NP	-	-	1,996	1,996
Gross carrying amount	181,897	3,480	1,996	187,373
Loss allowance	(415)	(66)	(309)	(790)
Carrying amount	181,482	3,414	1,687	186,583

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Total				
P1	526,199	33,647	-	559,846
P2	-	57,326	-	57,326
P3	-	26,534	-	26,534
PF	-	50,044	-	50,044
NP	-	-	27,812	27,812
Gross carrying amount	526,199	167,551	27,812	721,562
Loss allowance	(2,339)	(1,614)	(5,996)	(9,949)
Carrying amount	523,860	165,937	21,816	711,613

As at 31 December 2023, the Bank's undrawn commitments to lend amounted to €258,448,000 (2022: €203,150,000) and predominantly comprise of sanctioned but not yet drawn facilities which are classified as 'Stage 1' (12-month ECL) upon drawdown by customers. Undrawn facilities in respect of existing 'Stage 2' and 'Stage 3' (Lifetime ECL) facilities as at 31 December 2023 were not considered significant. ECL allowances on undrawn commitments specifically connected to revolving credit facilities to lend as at 31 December 2023 amounted to €6,000 (2022: €7,000).

Contingent liabilities as at 31 December 2023 amounting to €14,315,000 (2022: €13,610,000) are all classified as 'Stage 1' (12-month ECL) by the Bank. ECL allowances on contingent liabilities as at 31 December 2023 amounted to €23,000 (2022: €36,000).

As at 31 December 2023 and 2022, there were no purchased credit-impaired assets.

2 **Financial risk management** *(continued)*

The following table analyses the Bank's impaired loans and advances, gross of impairment allowances, by industry sector:

	2023 € 000	2022 € 000
Manufacturing	**423**	472
Tourism	**2,494**	2,483
Trade	**550**	1,645
Property and construction	**20,801**	19,488
Personal, professional and home loans	**1,383**	2,094
Financial institutions	**564**	534
Other sectors	**3,003**	1,096
Gross impaired advances to customers	**29,218**	27,812

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio as at 31 December 2023:

	Non-forborne exposures 2023 € 000	Forborne exposures 2023 € 000	Total 2023 € 000
Performing - Stage 1			
Loans which are not past due	**604,157**	**-**	**604,157**
Loans which are past due up to 30 days	**7,156**	**-**	**7,156**
	611,313	**-**	**611,313**
Performing - Stage 2			
Loans which are not past due			
P1	**5,092**	**-**	**5,092**
P2	**51,341**	**-**	**51,341**
P3	**16,242**	**-**	**16,242**
PF	**-**	**51,302**	**51,302**
Loans which are past up to 90 days			
Past due between 1 and 30 days	**825**	**2,872**	**3,697**
Past due between 31 to 90 days	**1,550**	**-**	**1,550**
	75,050	**54,174**	**129,224**
Non-performing - Stage 3			
Past due loans by 90 days or more and credit-impaired loans	**22,166**	**7,052**	**29,218**
Gross loans and advances	**708,529**	**61,226**	**769,755**
Expected credit losses			
12-month ECL	**(1,580)**	**-**	**(1,580)**
Lifetime ECL	**(9,040)**	**(831)**	**(9,871)**
Net loans and advances	**697,909**	**60,395**	**758,304**

2 **Financial risk management** *(continued)*

Interest income recognised during the financial year ended 31 December 2023 in respect of forborne exposures amounted to €2,682,000 (2022: €2,377,000).

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

	Non-forborne exposures 2022 € 000	Forborne exposures 2022 € 000	Total 2022 € 000
Performing - Stage 1			
Loans which are not past due	523,599	-	523,599
Loans which are past due up to 30 days	2,600	-	2,600
	526,199	-	526,199
Performing - Stage 2			
Loans which are not past due			
P1	32,137	-	32,137
P2	56,177	-	56,177
P3	26,534	-	26,534
PF	-	50,044	50,044
Loans which are past due up to 90 days			
Past due between 1 and 30 days	1,981	-	1,981
Past due between 31 to 90 days	678	-	678
	117,507	50,044	167,551
Non-performing - Stage 3			
Past due loans by 90 days or more and credit-impaired loans	19,816	7,996	27,812
Gross loans and advances	663,522	58,040	721,562
Expected credit losses			
12-month ECL	(2,339)	-	(2,339)
Lifetime ECL	(7,026)	(584)	(7,610)
Net loans and advances	654,157	57,456	711,613

The Bank participated in the Malta Development Bank COVID-19 Guarantee Scheme, whereby the risk of originated loans under the scheme to viable businesses experiencing liquidity pressures resulting from the effects of the COVID-19 pandemic are mitigated by a government guarantee. In this respect, as at 31 December 2022, gross loans outstanding subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €6.4 million (2022: €9.0 million), of which a maximum amount of €5.8 million (2022: €8.1 million) is considered guaranteed, though subject to an overall capping of €2.9 million (2022: €4.9 million). As at 31 December 2023, originated gross loans, under this scheme, classified as Stage 1 and Stage 2, amounted to €3.4 million (2022: €3.7 million) and €3.0 million (2022: €5.2 million) respectively. As at 31 December 2023 and 2022, there were no originated loans under this scheme classified in Stage 3. As at 31 December 2023 and 2022, the total ECL allowance in respect of Stage 1 and Stage 2 loans subject to the Malta Development Bank COVID-19 Guarantee Scheme was insignificant.

2 **Financial risk management** *(continued)*

2.3.9 Modification of financial assets

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

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

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

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

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

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

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

Term extension is the most common type of modification granted by the Group. Other types of concession, namely transfer to an interest-only arrangement or interest rate changes, occur less often.

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

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

The risk of default of modified assets is assessed at the reporting date and compared with the risk under the original terms at initial recognition.

When the modification is not substantial it does not result in derecognition of the original asset (refer to note 1.4.5).

2 **Financial risk management** *(continued)*

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

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

The gross carrying amount of the assets subject to modifications described above, not considered as forbearance activities, as at 31 December 2023 amounted to €26,909,000 (2022: €3,442,000).

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

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

	Forborne exposures 2023 € 000	Forborne exposures 2022 € 000
At 1 January	**58,040**	60,859
Loans to which forbearance measures have been extended during the year	**30,910**	7,611
Repayments	**(815)**	(6,988)
Retired from forborne	**(26,909)**	(3,442)
At 31 December	**61,226**	58,040

Forborne loans, gross of expected credit losses, are analysed by industry sector as follows:

	2023 € 000	2022 € 000
Property and construction	**34,340**	10,211
Financial institutions	**17,523**	30,898
Trade	**5,645**	3,178
Personal, professional and home loans	**2,202**	3,259
Other sectors	**1,516**	3,417
Manufacturing	**-**	196
Tourism	**-**	6,881
	61,226	58,040

As at 31 December 2023 and 2022, forborne loans mainly comprised of exposures to customers based in Malta.

2 **Financial risk management** *(continued)*

2.3.10 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

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

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

The following tables explain the changes in the Group's loss allowance between the beginning and the end of the annual period:

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Debt securities measured at FVOCI				
Loss allowance as at 1 January 2023	**526**	-	-	**526**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	**(55)**	-	-	**(55)**
Total net income statement credit during the year	**(55)**	-	-	**(55)**
Loss allowance as at 31 December 2023	**471**	-	-	**471**
Debt securities measured at amortised cost				
Loss allowance as at 1 January 2023	-	-	-	-
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	**72**	-	-	**72**
Total net income statement charge during the year	**72**	-	-	**72**
Loss allowance as at 31 December 2023	**72**	-	-	**72**
Undrawn commitments				
Loss allowance as at 1 January 2023	**6**	-	**1**	**7**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	**(6)**	**5**	-	**(1)**
Total net income statement credit/(charge) during the year	**(6)**	**5**	-	**(1)**
Loss allowance as at 31 December 2023	-	**5**	**1**	**6**
Contingent liabilities				
Loss allowance as at 1 January 2023	**36**	-	-	**36**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	**(13)**	-	-	**(13)**
Total net income statement credit during the year	(13)	-	-	(13)
Loss allowance as at 31 December 2023	**23**	-	-	**23**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Corporate and commercial				
Loss allowance as at 1 January 2023	**1,924**	**1,548**	**5,687**	**9,159**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(287)**	**287**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(4)**	**-**	**4**	**-**
Transfer from Stage 2 to Stage 1	**450**	**(450)**	**-**	**-**
Transfer from Stage 3 to Stage 1	**3**	**-**	**(3)**	**-**
Net remeasurement of ECL arising from stage transfers	**(189)**	**143**	**-**	**(46)**
Total remeasurement of loss allowance arising from transfers in stages	**(27)**	**20**	**1**	**(46)**
New financial assets originated	**397**	**160**	**-**	**557**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	**(980)**	**(381)**	**1,950**	**589**
Financial assets derecognised	**(44)**	**(287)**	**(13)**	**(344)**
Total net income statement (charge)/credit during the year	**(654)**	**(528)**	**1,938**	**756**
Other movements				
Unwinding of discount	**-**	**-**	**233**	**233**
Loss allowance as at 31 December 2023	**1,270**	**1,020**	**7,858**	**10,148**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Personal				
Loss allowance as at 1 January 2023	**415**	**66**	**309**	**790**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(19)**	**19**	**-**	**-**
Transfer from Stage 2 to Stage 1	**31**	**(31)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(1)**	**1**	**-**
Transfer from Stage 3 to Stage 1	**39**	**-**	**(39)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**158**	**(158)**	**-**
Net remeasurement of ECL arising from stage transfers	**(9)**	**34**	**-**	**25**
Total remeasurement of loss allowance arising from transfers in stages	**42**	**179**	**(196)**	**25**
New financial assets originated	**177**	**13**	**2**	**192**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	**(299)**	**610**	**12**	**323**
Financial assets derecognised	**(25)**	**(1)**	**(3)**	**(29)**
Total net income statement (charge)/credit during the year	**(105)**	**801**	**(185)**	**511**
Other movements				
Unwinding of discount	**-**	**-**	**2**	**2**
Loss allowance as at 31 December 2023	**310**	**867**	**126**	**1,303**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Total				
Loss allowance as at 1 January 2023	**2,339**	**1,614**	**5,996**	**9,949**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(306)**	**306**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(4)**	**-**	**4**	**-**
Transfer from Stage 2 to Stage 1	**481**	**(481)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(1)**	**1**	**-**
Transfer from Stage 3 to Stage 1	**42**	**-**	**(42)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**158**	**(158)**	**-**
Net remeasurement of ECL arising from stage transfers	**(198)**	**177**	**-**	**(21)**
Total remeasurement of loss allowance arising from transfers in stages	**15**	**159**	**(195)**	**(21)**
New financial assets originated	**574**	**173**	**2**	**749**
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	**(1,279)**	**229**	**1,962**	**912**
Financial assets derecognised	**(69)**	**(288)**	**(16)**	**(373)**
Total net income statement (charge)/credit during the year	**(759)**	**273**	**1,753**	**1,267**
Other movements				
Unwinding of discount	**-**	**-**	**235**	**235**
Loss allowance as at 31 December 2023	**1,580**	**1,887**	**7,984**	**11,451**

The movements reflected within the line item “Changes to risk parameters” have been analysed and described in notes 2.3.4.3, 2.3.4.4 and 2.3.9.

*The movements reflected within the line item “Changes to risk parameters” reflect changes in ECL as a consequence of updates to specific model inputs impacting Stage 1 and Stage 2 PDs. The increase in ECL on Stage 3 exposures principally arises on a particular borrower following an update to the respective LGD parameter.

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Debt securities measured at FVOCI				
Loss allowance as at 1 January 2022	464	-	-	464
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	62	-	-	62
Total net income statement charge during the year	62	-	-	62
Loss allowance as at 31 December 2022	526	-	-	526
Undrawn commitments				
Loss allowance as at 1 January 2022	33	11	1	45
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	(27)	(11)	-	(38)
Total net income statement credit during the year	(27)	(11)	-	(38)
Loss allowance as at 31 December 2022	6	-	1	7
Contingent liabilities				
Loss allowance as at 1 January 2022	24	-	-	24
Changes to risk parameters (model inputs: PDs/LGDs/EADs)	12	-	-	12
Total net income statement charge during the year	12	-	-	12
Loss allowance as at 31 December 2022	36	-	-	36

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Corporate and commercial				
Loss allowance as at 1 January 2022	4,740	3,226	16,961	24,927
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(46)	46	-	-
Transfer from Stage 2 to Stage 3	-	1	(1)	-
Transfer from Stage 3 to Stage 2	-	62	(62)	-
Net remeasurement of ECL arising from stage transfers	-	38	(22)	16
Total remeasurement of loss allowance arising from transfers in stages	(46)	147	(85)	16
New financial assets originated	869	127	(1)	995
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	(3,521)	(1,800)	970	(4,351)
Financial assets derecognised**	(118)	(152)	(12,330)	(12,600)
Total net income statement credit during the year	(2,816)	(1,678)	(11,446)	(15,940)
Other movements				
Write-offs	-	-	(45)	(45)
Unwinding of discount	-	-	217	217
Loss allowance as at 31 December 2022	1,924	1,548	5,687	9,159

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Personal				
Loss allowance as at 1 January 2022	447	135	113	695
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(2)	2	-	-
Transfer from Stage 1 to Stage 3	(8)	-	8	-
Transfer from Stage 2 to Stage 1	5	(5)	-	-
Transfer from Stage 3 to Stage 1	5	-	(5)	-
Transfer from Stage 3 to Stage 2	-	4	(4)	-
Net remeasurement of ECL arising from stage transfers	(4)	(11)	42	27
Total remeasurement of loss allowance arising from transfers in stages	(4)	(10)	41	27
New financial assets originated	191	4	5	200
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	(198)	(34)	147	(85)
Financial assets derecognised**	(21)	(29)	(6)	(56)
Total net income statement credit during the year	(32)	(69)	187	86
Other movements				
Write-offs	-	-	(1)	(1)
Unwinding of discount	-	-	10	10
Loss allowance as at 31 December 2022	415	66	309	790

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL € 000	Stage 2 Lifetime ECL € 000	Stage 3 Lifetime ECL € 000	Total € 000
Loans and advances to customers at amortised cost				
Total				
Loss allowance as at 1 January 2022	5,187	3,361	17,074	25,622
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(48)	48	-	-
Transfer from Stage 1 to Stage 3	(8)	-	8	-
Transfer from Stage 2 to Stage 1	5	(5)	-	-
Transfer from Stage 2 to Stage 3	-	1	(1)	-
Transfer from Stage 3 to Stage 1	5	-	(5)	-
Transfer from Stage 3 to Stage 2	-	66	(66)	-
Net remeasurement of ECL arising from stage transfers	(4)	27	20	43
Total remeasurement of loss allowance arising from transfers in stages	(50)	137	(44)	43
New financial assets originated	1,060	131	4	1,195
Changes to risk parameters (model inputs: PDs/LGDs/EADs)*	(3,719)	(1,834)	1,117	(4,436)
Financial assets derecognised**	(139)	(181)	(12,336)	(12,656)
Total net income statement credit during the year	(2,848)	(1,747)	(11,259)	(15,854)
Other movements				
Write-offs	-	-	(46)	(46)
Unwinding of discount	-	-	227	227
Loss allowance as at 31 December 2022	2,339	1,614	5,996	9,949

The movements reflected within the line item “Changes to risk parameters” have been analysed and described in notes 2.3.4.3, 2.3.4.4 and 2.3.9.

* The changes to risk parameters include the reversal of a post-model adjustment of €3 million within Stage 1 ECL, which had been accounted for as of 31 December 2021 as elevated risks relating to the impact of the COVID-19 pandemic subsided during 2022. The changes in ECL within Stage 2 principally arise on one exposure, in respect of which specific model input relating to the PD and LGD were updated. The increase in ECL on Stage 3 exposures is attributable to a number of updates affected to the underlying LGD inputs.

** Financial assets derecognised include a €12 million write-back of an ECL allowance on a particular Stage 3 exposure following full repayment of such exposure during 2022.

2 **Financial risk management** *(continued)*

The unwinding of discount on 'Stage 3' financial assets is reported within 'Interest Income' so that interest income is recognised on the amortised cost basis (after deducting the ECL allowance).

Remeasurement of loss allowances arising from foreign-exchange and other movements were not considered significant.

Changes in the gross carrying amount that contributed to changes in loss allowance

The following table explains changes in the gross carrying amount of the Group's financial assets to help demonstrate their significance to the changes in the loss allowance for the same portfolios as discussed above:

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Balances with Central Bank of Malta and treasury bills				
Gross carrying amount as at 1 January 2023	**132,119**	-	-	**132,119**
New financial assets originated	**3,986,316**	-	-	**3,986,316**
Financial assets derecognised	**(3,980,278)**	-	-	**(3,980,278)**
Gross carrying amount as at 31 December 2023	**138,157**	-	-	**138,157**
Debt securities measured at FVOCI				
Gross carrying amount as at 1 January 2023	**213,391**	-	-	**213,391**
Financial assets derecognised	**(9,477)**	-	-	**(9,477)**
Fair value and other movements	**(3,949)**	-	-	**(3,949)**
Gross carrying amount as at 31 December 2023	**199,965**	-	-	**199,965**
Debt securities measured at amortised cost				
New financial assets purchased	**8,359**	-	-	**8,359**
Fair value and other movements	**(2)**	-	-	**(2)**
Gross carrying amount as at 31 December 2023	**8,357**	-	-	**8,357**
Loans and advances to banks at amortised cost				
Gross carrying amount as at 1 January 2023	**27,615**	-	-	**27,615**
New financial assets originated	**271,954**	-	-	**271,954**
Financial assets derecognised	**(261,430)**	-	-	**(261,430)**
Gross carrying amount as at 31 December 2023	**38,139**	-	-	**38,139**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Corporate and commercial				
Gross carrying amount as at 1 January 2023	**344,301**	**164,071**	**25,816**	**534,188**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(29,758)**	**29,758**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(2,322)**	**-**	**2,322**	**-**
Transfer from Stage 2 to Stage 1	**68,134**	**(68,134)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(254)**	**254**	**-**
Transfer from Stage 3 to Stage 1	**51**	**-**	**(51)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**281**	**(281)**	**-**
Total changes in gross carrying amounts arising from transfers in stages	**36,105**	**(38,349)**	**2,244**	**-**
New financial assets originated	**39,903**	**11,869**	**47**	**51,819**
Changes in gross carrying amount in respect of facilities present as at 1 January 2023	**(14,539)**	**(5,022)**	**883**	**(18,678)**
Financial assets derecognised	**(26,696)**	**(10,534)**	**(1,047)**	**(38,277)**
Total net change during the year	**34,773**	**(42,036)**	**2,127**	**(5,136)**
Gross carrying amount as at 31 December 2023	**379,074**	**122,035**	**27,943**	**529,052**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Personal				
Gross carrying amount as at 1 January 2023	**181,897**	**3,480**	**1,996**	**187,373**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(2,636)**	**2,636**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(198)**	**-**	**198**	**-**
Transfer from Stage 2 to Stage 1	**616**	**(616)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(97)**	**97**	**-**
Transfer from Stage 3 to Stage 1	**338**	**-**	**(338)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**515**	**(515)**	**-**
Total changes in gross carrying amounts arising from transfers in stages	**(1,880)**	**2,438**	**(558)**	**-**
New financial assets originated	**63,147**	**65**	**2**	**63,214**
Changes in gross carrying amount in respect of facilities present as at 1 January 2023	**(3,424)**	**(1,861)**	**(141)**	**(1,704)**
Financial assets derecognised	**(7,501)**	**(655)**	**(24)**	**(8,180)**
Total net change during the year	**50,342**	**3,709**	**(721)**	**53,330**
Gross carrying amount as at 31 December 2023	**232,239**	**7,189**	**1,275**	**240,703**

2 **Financial risk management** *(continued)*

	2023			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
Loans and advances to customers at amortised cost				
Total				
Gross carrying amount as at 1 January 2023	**526,198**	**167,551**	**27,812**	**721,561**
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	**(32,394)**	**32,394**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(2,520)**	**-**	**2,520**	**-**
Transfer from Stage 2 to Stage 1	**68,750**	**(68,750)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(351)**	**351**	**-**
Transfer from Stage 3 to Stage 1	**389**	**-**	**(389)**	**-**
Transfer from Stage 3 to Stage 2	**-**	**796**	**(796)**	**-**
Total changes in gross carrying amounts arising from transfers in stages	**34,225**	**(35,911)**	**1,686**	**-**
New financial assets originated	**103,050**	**11,934**	**49**	**115,033**
Changes in gross carrying amount in respect of facilities present as at 1 January 2023	**(17,963)**	**(3,161)**	**742**	**(20,382)**
Financial assets derecognised	**(34,197)**	**(11,189)**	**(1,071)**	**(46,457)**
Total net change during the year	**85,115**	**(38,327)**	**1,406**	**48,194**
Gross carrying amount as at 31 December 2023	**611,313**	**129,224**	**29,218**	**769,755**

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Balances with Central Bank of Malta and treasury bills				
Gross carrying amount as at 1 January 2022	119,395	-	-	119,395
New financial assets originated	11,347,585	-	-	11,347,585
Financial assets derecognised	(11,334,861)	-	-	(11,334,861)
Gross carrying amount as at 31 December 2022	132,119	-	-	132,119
Debt securities measured at FVOCI				
Gross carrying amount as at 1 January 2022	218,080	-	-	218,080
New financial assets purchased	27,417	-	-	27,417
Financial assets derecognised	(5,215)	-	-	(5,215)
Fair value and other movements	(26,891)	-	-	(26,891)
Gross carrying amount as at 31 December 2022	213,391	-	-	213,391
Loans and advances to banks at amortised cost				
Gross carrying amount as at 1 January 2022	78,279	-	-	78,279
New financial assets originated	1,527,708	-	-	1,527,708
Financial assets derecognised	(1,578,372)	-	-	(1,578,372)
Gross carrying amount as at 31 December 2022	27,615	-	-	27,615

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Corporate and commercial				
Gross carrying amount as at 1 January 2022	360,014	108,058	48,661	516,733
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(69,515)	69,515	-	-
Transfer from Stage 1 to Stage 3	(2,395)	-	2,395	-
Transfer from Stage 2 to Stage 1	4,787	(4,787)	-	-
Transfer from Stage 2 to Stage 3	-	(5,386)	5,386	-
Transfer from Stage 3 to Stage 1	-	-	-	-
Transfer from Stage 3 to Stage 2	-	7,079	(7,079)	-
Total changes in gross carrying amounts arising from transfers in stages	(67,123)	66,421	702	-
New financial assets originated	104,433	27,134	612	132,179
Changes in gross carrying amount in respect of facilities present as at 1 January 2022	(7,294)	(18,456)	573	(25,177)
Financial assets derecognised	(45,729)	(19,086)	(24,687)	(89,502)
Write-offs	-	-	(45)	(45)
Total net change during the year	(15,713)	56,013	(22,845)	17,455
Gross carrying amount as at 31 December 2022	344,301	164,071	25,816	534,188

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Personal				
Gross carrying amount as at 1 January 2022	144,463	4,225	3,096	151,784
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(1,260)	1,260	-	-
Transfer from Stage 1 to Stage 3	(911)	-	911	-
Transfer from Stage 2 to Stage 1	51	(51)	-	-
Transfer from Stage 2 to Stage 3	-	(95)	95	-
Transfer from Stage 3 to Stage 1	22	-	(22)	-
Transfer from Stage 3 to Stage 2	-	988	(988)	-
Total changes in gross carrying amounts arising from transfers in stages	(2,098)	2,102	(4)	-
New financial assets originated	49,837	(2,550)	3	47,290
Changes in gross carrying amount in respect of facilities present as at 1 January 2022	(3,635)	(201)	(201)	(4,037)
Financial assets derecognised	(6,670)	(96)	(896)	(7,662)
Write-offs	-	-	(2)	(2)
Total net change during the year	37,434	(745)	(1,100)	35,589
Gross carrying amount as at 31 December 2022	181,897	3,480	1,996	187,373

2 **Financial risk management** *(continued)*

	2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€ 000	€ 000	€ 000	€ 000
Loans and advances to customers at amortised cost				
Total				
Gross carrying amount as at 1 January 2022	504,477	112,283	51,757	668,517
Transfers of financial instruments				
Transfer from Stage 1 to Stage 2	(70,775)	70,775	-	-
Transfer from Stage 1 to Stage 3	(3,306)	-	3,306	-
Transfer from Stage 2 to Stage 1	4,838	(4,838)	-	-
Transfer from Stage 2 to Stage 3	-	(5,481)	5,481	-
Transfer from Stage 3 to Stage 1	22	-	(22)	-
Transfer from Stage 3 to Stage 2	-	8,067	(8,067)	-
Total changes in gross carrying amounts arising from transfers in stages	(69,221)	68,523	698	-
New financial assets originated	154,270	24,584	615	179,469
Changes in gross carrying amount in respect of facilities present as at 1 January 2022	(10,929)	(18,657)	372	(29,214)
Financial assets derecognised	(52,399)	(19,182)	(25,583)	(97,164)
Write-offs	-	-	(47)	(47)
Total net change during the year	21,721	55,268	(23,945)	53,044
Gross carrying amount as at 31 December 2022	526,198	167,551	27,812	721,561

Undrawn commitments to lend as at 31 December 2023 amounted to €257,338,000 (2022: €202,041,000) and predominantly comprise of sanctioned but not yet drawn facilities which are classified as ‘Stage 1’ (12-month ECL) upon drawdown by customers. Changes in gross carrying amount of undrawn commitments to lend mainly relate to existing facilities drawn down by customers and new facilities sanctioned during 2023 and 2022.

Contingent liabilities as at 31 December 2023 amounting to €14,315,000 (2022: €13,611,000) are all classified as ‘Stage 1’ (12-month ECL) by the Group. Changes in gross carrying amount of contingent liabilities mainly related to the expiry or enforcement of existing financial guarantees and the issuance of new financial guarantees during 2023 and 2022.

Changes in gross carrying amount arising from foreign-exchange and other movements were not significant.

2.3.11 Write-off policy

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

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

There were no write offs during the year ended 31 December 2023 (2022: €47,000).

2 **Financial risk management** *(continued)*

2.3.12 Collateral

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

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

The main types of collateral obtained are as follows:

- for corporate and commercial lending, charges over real estate properties, cash or securities; and
- for personal lending (including home loans and consumer credit), mortgages over residential properties, cash or securities.

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

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

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

A portion of the Group's financial assets has sufficiently low 'loan-to-value' ('LTV') ratios, which result in nil loss allowance being recognised in accordance with the Group's Expected Credit Loss model. As at 31 December 2023, the gross carrying amount of such financial assets is €485,112,000 (2022: €496,600,000).

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

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

	As at 31 December 2023			
Credit-impaired assets	**Gross exposure € 000**	**Impairment allowance € 000**	**Carrying amount € 000**	**Extendible value of collateral held € 000**
Corporate and commercial				
- Overdrafts	**4,253**	**1,108**	**3,145**	**6,324**
- Term loans	**20,581**	**4,859**	**15,722**	**48,377**
Personal				
- Term loans	**1,235**	**86**	**1,149**	**3,694**
- Credit cards	**3**	**1**	**2**	**3**
Total credit-impaired assets	**26,072**	**6,054**	**20,018**	**58,398**

2 **Financial risk management** *(continued)*

	As at 31 December 2022			
Credit-impaired assets	Gross exposure € 000	Impairment allowance € 000	Carrying amount € 000	Extendible value of collateral held € 000
Corporate and commercial				
- Overdrafts	5,432	462	4,970	14,794
- Term loans	17,436	3,367	14,069	43,392
- Credit cards	4	-	4	13
Personal				
- Term loans	1,793	125	1,668	5,848
- Credit cards	1	1	-	-
Total credit-impaired assets	24,666	3,955	20,711	64,047

Financial assets that are credit-impaired, but with no collateral held in this respect, are shown below:

	As at 31 December 2023		
Credit-impaired assets	**Gross exposure € 000**	**Impairment allowance € 000**	**Carrying amount € 000**
Corporate and commercial			
- Overdrafts	**629**	**387**	**242**
- Term loans	**2,480**	**1,506**	**974**
Personal			
- Overdrafts	**8**	**8**	**-**
- Term loans	**9**	**9**	**-**
- Credit cards	**20**	**20**	**-**
Total credit-impaired assets	**3,146**	**1,930**	**1,216**

	As at 31 December 2022		
Credit-impaired assets	Gross exposure € 000	Impairment allowance € 000	Carrying amount € 000
Corporate and commercial			
- Overdrafts	486	374	112
- Term loans	2,455	1,480	975
- Credit cards	3	3	-
Personal			
- Overdrafts	7	7	-
- Term loans	180	162	18
- Credit cards	15	15	-
Total credit-impaired assets	3,146	2,041	1,105

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

2 **Financial risk management** *(continued)*

The following tables show the distribution of LTV ratios for the Bank's loans and advances to customers.

Corporate and commercial

	Non-forborne exposures 2023 € 000	Forborne exposures 2023 € 000	Total 2023 € 000	Non-forborne exposures 2022 € 000	Forborne exposures 2022 € 000	Total 2022 € 000
Performing - Stage 1						
Not collateralised	**39,069**	**-**	**39,069**	39,152	-	39,152
Fully collateralised:						
Less than 50% LTV	**276,216**	**-**	**276,216**	232,540	-	232,540
51% to 75% LTV	**42,182**	**-**	**42,182**	54,465	-	54,465
76% to 90% LTV	**1,829**	**-**	**1,829**	2,616	-	2,616
91% to 100% LTV	**14,095**	**-**	**14,095**	5,435	-	5,435
	334,322	**-**	**334,322**	295,056	-	295,056
Partially collateralised:						
Greater than 100% LTV	**5,683**	**-**	**5,683**	10,094	-	10,094
Total performing – Stage 1	**379,074**	**-**	**379,074**	344,302	-	344,302
Underperforming – Stage 2						
Not collateralised	**1,715**	**2,121**	**3,836**	15,880	1,166	17,046
Fully collateralised:						
Less than 50% LTV	**46,345**	**25,979**	**72,324**	76,275	24,679	100,954
51% to 75% LTV	**19,304**	**11,253**	**30,557**	14,681	7,399	22,080
76% to 90% LTV	**377**	**-**	**377**	967	747	1,714
91% to 100% LTV	**-**	**-**	**-**	2,537	13,002	15,539
	66,026	**37,232**	**103,258**	94,460	45,827	140,287
Partially collateralised:						
Greater than 100% LTV	**1,732**	**13,209**	**14,941**	5,278	1,460	6,738
Total underperforming – Stage 2	**69,473**	**52,562**	**122,035**	115,618	48,453	164,071
Non-Performing – Stage 3						
Not collateralised	**3,109**	**-**	**3,109**	2,938	6	2,944
Fully collateralised:						
Less than 50% LTV	**6,034**	**5,809**	**11,843**	6,471	6,237	12,708
51% to 75% LTV	**6,298**	**653**	**6,951**	4,960	603	5,563
76% to 90% LTV	**1,910**	**-**	**1,910**	944	-	944
91% to 100% LTV	**-**	**-**	**-**	672	-	672
	14,242	**6,462**	**20,704**	13,047	6,840	19,887
Partially collateralised:						
Greater than 100% LTV	**4,130**	**-**	**4,130**	2,985	-	2,985
Total non-performing – Stage 3	**21,481**	**6,462**	**27,943**	18,970	6,846	25,816
At 31 December	**470,028**	**59,024**	**529,052**	478,890	55,299	534,189

2 **Financial risk management** *(continued)*

Personal

	Non-forborne exposures 2023 € 000	Forborne exposures 2023 € 000	Total 2023 € 000	Non-forborne exposures 2022 € 000	Forborne exposures 2022 € 000	Total 2022 € 000
Performing - Stage 1						
Not collateralised	**10,888**	**-**	**10,888**	6,820	-	6,820
Fully collateralised:						
Less than 50% LTV	**61,904**	**-**	**61,904**	53,068	-	53,068
51% to 75% LTV	**69,804**	**-**	**69,804**	53,962	-	53,962
76% to 90% LTV	**85,895**	**-**	**85,895**	63,071	-	63,071
91% to 100% LTV	**3,161**	**-**	**3,161**	4,184	-	4,184
	220,764	**-**	**220,764**	174,285	-	174,285
Partially collateralised:						
Greater than 100% LTV	**587**	**-**	**587**	792	-	792
Total performing – Stage 1	**232,239**	**-**	**232,239**	181,897	-	181,897
Underperforming – Stage 2						
Not collateralised	**3,902**	**2**	**3,904**	218	13	231
Fully collateralised:						
Less than 50% LTV	**257**	**1,112**	**1,369**	228	1,071	1,299
51% to 75% LTV	**657**	**259**	**916**	1,202	-	1,202
76% to 90% LTV	**713**	**239**	**952**	3	507	510
91% to 100% LTV	**48**	**-**	**48**	185	-	185
	1,675	**1,610**	**3,285**	1,618	1,578	3,196
Partially collateralised:						
Greater than 100% LTV	**-**	**-**	**-**	53	-	53
Total underperforming – Stage 2	**5,577**	**1,612**	**7,189**	1,889	1,591	3,480
Non-Performing – Stage 3						
Not collateralised	**31**	**6**	**37**	198	4	202
Fully collateralised:						
Less than 50% LTV	**433**	**212**	**645**	125	608	733
51% to 75% LTV	**1**	**-**	**1**	304	156	460
76% to 90% LTV	**217**	**372**	**589**	218	382	600
	651	**584**	**1,235**	647	1,146	1,793
Partially collateralised:						
Greater than 100% LTV	**3**	**-**	**3**	1	-	1
Total non-performing – Stage 3	**685**	**590**	**1,275**	846	1,150	1,996
At 31 December	**238,501**	**2,202**	**240,703**	184,632	2,741	187,373

2 **Financial risk management** *(continued)*

Total

	Non-forborne exposures 2023 € 000	**Forborne exposures 2023 € 000**	**Total 2023 € 000**	Non-forborne exposures 2022 € 000	Forborne exposures 2022 € 000	Total 2022 € 000
Performing - Stage 1						
Not collateralised	**49,957**	**-**	**49,957**	45,972	-	45,972
Fully collateralised:						
Less than 50% LTV	**338,120**	**-**	**338,120**	285,608	-	285,608
51% to 75% LTV	**111,986**	**-**	**111,986**	108,427	-	108,427
76% to 90% LTV	**87,724**	**-**	**87,724**	65,687	-	65,687
91% to 100% LTV	**17,256**	**-**	**17,256**	9,619	-	9,619
	555,086	**-**	**555,086**	469,341	-	469,341
Partially collateralised:						
Greater than 100% LTV	**6,270**	**-**	**6,270**	10,886	-	10,886
Total performing – Stage 1	**611,313**	**-**	**611,313**	526,199	-	526,199
Underperforming – Stage 2						
Not collateralised	**5,617**	**2,123**	**7,740**	16,098	1,179	17,277
Fully collateralised:						
Less than 50% LTV	**46,602**	**27,091**	**73,693**	76,503	25,750	102,253
51% to 75% LTV	**19,961**	**11,512**	**31,473**	15,883	7,399	23,282
76% to 90% LTV	**1,090**	**239**	**1,329**	970	1,254	2,224
91% to 100% LTV	**48**	**-**	**48**	2,722	13,002	15,724
	67,701	**38,842**	**106,543**	96,078	47,405	143,483
Partially collateralised:						
Greater than 100% LTV	**1,732**	**13,209**	**14,941**	5,331	1,460	6,791
Total underperforming – Stage 2	**75,050**	**54,174**	**129,224**	117,507	50,044	167,551
Non-Performing – Stage 3						
Not collateralised	**3,140**	**6**	**3,146**	3,136	10	3,146
Fully collateralised:						
Less than 50% LTV	**6,467**	**6,021**	**12,488**	6,596	6,845	13,441
51% to 75% LTV	**6,299**	**653**	**6,952**	5,264	759	6,023
76% to 90% LTV	**2,127**	**372**	**2,499**	1,162	382	1,544
91% to 100% LTV	**-**	**-**	**-**	672	-	672
	14,893	**7,046**	**21,939**	13,694	7,986	21,680
Partially collateralised:						
Greater than 100% LTV	**4,133**	**-**	**4,133**	2,986	-	2,986
Total non-performing – Stage 3	**22,166**	**7,052**	**29,218**	19,816	7,996	27,812
At 31 December	**708,529**	**61,226**	**769,755**	663,522	58,040	721,562

2 **Financial risk management** *(continued)*

2.3.13 Trade and other receivables

The Bank's subsidiary assesses the credit quality of its customers taking into account financial position, past experience and other factors. It has policies in place to ensure that sales of products and services are effected to customers with an appropriate credit history in the case of credit sales. The subsidiary monitors the performance of these financial assets on a regular basis to identify expected and incurred collection losses which are inherent in the subsidiary's receivables taking into account historical experience in collection of accounts receivable.

Standard credit terms are in place for individual clients, however, wherever possible, new corporate and commercial customers are analysed individually for creditworthiness before the subsidiary's standard payment and service delivery terms and conditions are offered. The entity's review includes external creditworthiness databases when available. The subsidiary establishes an allowance for credit losses that represents its estimate of both incurred and expected losses in respect of trade and other receivables. This allowance represents expected credit losses ('ECL') against individual exposures.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of time before the reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The movement in provisions for impairment in respect of trade receivables is disclosed in note 16. Other overdue trade receivables include €431,000, which are principally overdue by at least three months, but were not impaired (2022: €86,000).

The subsidiary's receivables, which are not impaired financial assets, are principally in respect of transactions with customers for whom there is no recent history of default. Management does not expect any material losses from non-performance by these customers.

2.3.14 Contingencies and commitments

Guarantees and standby letters of credit carry the same credit risk as loans. Documentary credits and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner outlined above in respect of loans and advances.

2.4 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Accordingly, market risk for the Group 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 Group's positions in foreign currency because of changes in exchange rates; and
- Equity price risk, which is the risk of losses because of changes in investment prices.

2 **Financial risk management** *(continued)*

2.4.1 Interest rate risk

Interest rate risk is the risk that the value or cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Group, through its banking operations, takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but losses may occur in the event that unexpected movements arise.

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice within different time periods or on different terms. The Bank accepts deposits from customers at both fixed and floating rates and for varying terms. This poses a risk to the Bank, which risk is managed by monitoring on a continuous basis the level of mismatch of interest rate repricing taking cognisance of the terms of the Bank's main assets, loans and advances to customers, that are principally repriceable at the Bank's discretion. The Bank also invests in highly liquid quality assets and other short-term instruments for the purposes of mitigating exposures to fluctuations in interest rates. The Bank is accordingly in a position to manage the interest rate terms of its principal financial assets and simultaneously to effect changes to interest terms of liabilities reflecting the Bank's strategy together with market developments. The Group seeks to manage its net interest spread, considering the cost of capital, by investing funds in a portfolio of assets with a longer term than the liabilities funding them (therefore normally giving rise to a negative maturity gap position) but with shorter repricing periods or terms. The Bank manages the shorter term nature of the liabilities funding the assets for the purposes of ensuring a steady base of deposits with differing terms over the medium to longer term. The Bank's Assets & Liabilities Committee is primarily responsible for oversight over the Bank's interest rate risk management process and monitors actively the interest rate risk measures utilised by the Bank.

Credit facilities and commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

The Group has evaluated the effect of the discontinuation of the Interbank Offered rates ('IBOR') on local loans and advances granted by the same Group. During 2023, the Bank migrated all loans that were previously referenced to the LIBOR rate to the Secured Overnight Financing Rate ('SOFR'). The effect of this change did not result in any significant impact on the Bank's operations and financial position. The Group will continue to monitor regulatory developments, with a particular focus on developments relating to the EURIBOR reference rate.

The financial years ended 31 December 2023 and 2022 have been characterised by unprecedented economic conditions. Despite a general recovery, the level of estimation uncertainty and judgement has remained elevated during 2023 as a result of the economic effects of the global geopolitical developments, particularly the ongoing military conflict between Russia and Ukraine as well as the escalation of the military conflict between Israel and Hamas in the Middle East, that resulted in supply chain disruptions causing significant inflationary pressures experienced both locally and on a global context. In turn, this triggered a response by the European Central Bank ('ECB') as well as other national central banks across Europe from a monetary policy perspective, with announced increases in interest rates designed to curb the spiralling effect of inflationary pressures.

2 **Financial risk management** *(continued)*

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

Group	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	Non-interest bearing
	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
As at 31 December 2023							
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	**147,043**	**4.19**	**137,174**	**983**	**-**	**-**	**8,886**
Debt and other fixed income instruments measured at FVOCI	**199,965**	**1.01**	**1,475**	**26,998**	**97,100**	**74,392**	**-**
Debt and other fixed income instruments measured at amortised cost	**8,285**	**5.12**	**-**	**-**	**7,227**	**1,058**	**-**
Loans and advances to banks	**38,139**	**2.59**	**37,739**	**400**	**-**	**-**	**-**
Loans and advances to customers	**758,304**	**3.67**	**594,376**	**53,652**	**106,060**	**759**	**3,457**
Total financial assets	**1,151,736**		**770,764**	**82,033**	**210,387**	**76,209**	**12,343**
Financial liabilities							
Amounts owed to banks	**145**	**0.22**	**134**	**-**	**-**	**-**	**11**
Amounts owed to customers	**1,019,075**	**1.09**	**488,388**	**104,885**	**167,407**	**77,571**	**180,824**
Total financial liabilities	**1,019,220**		**488,522**	**104,885**	**167,407**	**77,571**	**180,835**
Interest repricing gap			**282,242**	**(22,852)**	**42,980**	**(1,362)**	
Cumulative gap			**282,242**	**259,390**	**302,370**	**301,008**	

2 **Financial risk management** *(continued)*

Group	**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**	**Non-interest bearing**
	€ 000	**%**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 31 December 2022							
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	139,234	2.15	111,917	21,238	-	-	7,115
Debt and other fixed income instruments measured at FVOCI	213,391	1.15	1,682	4,747	120,840	86,122	-
Loans and advances to banks	27,615	0.05	26,115	1,500	-	-	-
Loans and advances to customers	711,612	3.73	576,810	40,546	80,374	10,047	3,835
Total financial assets	1,091,852		716,524	68,031	201,214	96,169	10,950
Financial liabilities							
Amounts owed to banks	535	0.16	535	-	-	-	-
Amounts owed to customers	1,008,431	0.87	479,584	85,209	192,235	78,368	173,035
Total financial liabilities	1,008,966		480,119	85,209	192,235	78,368	173,035
Interest repricing gap			236,405	(17,178)	8,979	17,801	
Cumulative gap			236,405	219,227	228,206	246,007	

2 **Financial risk management** *(continued)*

Bank

	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	Non-interest bearing
	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
As at 31 December 2023							
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	**146,308**	**4.19**	**137,174**	**983**	**-**	**-**	**8,151**
Debt and other fixed income instruments measured at FVOCI	**197,700**	**1.01**	**1,474**	**26,682**	**96,611**	**72,933**	**-**
Debt and other fixed income instruments measured at amortised cost	**8,285**	**5.12**	**-**	**-**	**7,227**	**1,058**	**-**
Loans and advances to banks	**33,605**	**2.59**	**33,605**	**-**	**-**	**-**	**-**
Loans and advances to customers	**758,304**	**3.67**	**594,376**	**53,652**	**106,060**	**759**	**3,457**
Total financial assets	**1,144,202**		**766,629**	**81,317**	**209,898**	**74,750**	**11,608**
Financial liabilities							
Amounts owed to banks	**145**	**0.22**	**134**	**-**	**-**	**-**	**11**
Amounts owed to customers	**1,021,254**	**1.09**	**488,764**	**105,285**	**167,407**	**77,571**	**182,227**
Total financial liabilities	**1,021,399**		**488,898**	**105,285**	**167,407**	**77,571**	**182,238**
Interest repricing gap			277,731	(23,968)	42,491	(2,821)	
Cumulative gap			277,731	253,763	296,254	293,433	

2 **Financial risk management** *(continued)*

Bank

	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	Non-interest bearing
	€ 000	%	€ 000	€ 000	€ 000	€ 000	€ 000
As at 31 December 2022							
Financial assets							
Balances with Central Bank of Malta, treasury bills and cash	138,393	2.15	110,881	21,238	-	-	6,274
Debt and other fixed income instruments measured at FVOCI	210,862	1.11	1,682	4,747	120,384	84,049	-
Loans and advances to banks	20,936	-	20,936	-	-	-	-
Loans and advances to customers	711,613	3.73	576,811	40,546	80,374	10,047	3,835
Total financial assets	1,081,804		710,310	66,531	200,758	94,096	10,109
Financial liabilities							
Amounts owed to banks	535	0.16	535	-	-	-	-
Amounts owed to customers	1,010,100	0.87	480,024	85,609	192,235	78,368	173,864
Total financial liabilities	1,010,635		480,559	85,609	192,235	78,368	173,864
Interest repricing gap			229,751	(19,078)	8,523	15,728	
Cumulative gap			229,751	210,673	219,196	234,924	

2 **Financial risk management** *(continued)*

2.4.2 Interest rate profile

At the end of the reporting periods the interest rate profile of the Group's interest-bearing financial instruments was:

Group	**Fixed rate**		**Variable rate**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Interest-bearing assets				
Balances with Central Bank of Malta and treasury bills	**129,737**	123,872	**8,420**	8,247
Debt and other fixed income instruments measured at: FVOCI	**199,965**	213,391	**-**	-
Amortised cost	**8,285**	-	**-**	-
Loans and advances to banks	**16,698**	2,600	**21,441**	25,015
Loans and advances to customers	**168,298**	132,948	**586,548**	574,829
	522,983	472,811	**616,409**	608,091
Interest-bearing liabilities				
Amounts owed to banks	**23**	23	**112**	512
Amounts owed to customers	**431,721**	391,895	**406,530**	443,501
	431,744	391,918	**406,642**	444,013

At the end of the reporting periods the interest rate profile of the Bank's interest-bearing financial instruments was:

Bank	**Fixed rate**		**Variable rate**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Interest-bearing assets				
Balances with Central Bank of Malta and treasury bills	**129,737**	123,872	**8,420**	8,247
Debt and other fixed income instruments measured at: FVOCI	**197,700**	210,862	**-**	-
Amortised cost	**8,285**	-	**-**	-
Loans and advances to banks	**16,298**	-	**17,307**	20,936
Loans and advances to customers	**168,298**	132,948	**586,548**	574,830
	520,318	467,682	**612,275**	604,013
Interest-bearing liabilities				
Amounts owed to banks	**23**	23	**112**	512
Amounts owed to customers	**432,121**	392,296	**406,906**	443,940
	432,144	392,319	**407,018**	444,452

2 **Financial risk management** *(continued)*

2.4.3 Fair value sensitivity analysis for fixed rate instruments

The Group's instruments exposing the Bank to fair value interest rate risk consist of quoted debt securities measured at FVOCI (also refer to note 6) since these are fair valued with fair value changes recognised in other comprehensive income. In this respect, the fair value sensitivity for fixed rate instruments is performed in respect of debt financial investments measured at FVOCI. An increase of 200 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 €14.1 million (2022: €20.7 million). Likewise, a decrease of 200 basis points in interest rates would lead to an increase in value of debt financial investments measured at FVOCI amounting to €22.9 million (2022: €21.9 million). All other financial instruments subject to fixed interest rates are measured at amortised cost.

2.4.4 Cash flow sensitivity analysis for variable rate instruments

At the end of the reporting period, if interest rates had increased/decreased by 250 basis points (assuming a parallel shift of 250 basis points in yields) with all other variables held constant, the pre-tax result for the year would change by the following amounts determined by applying the shift to the net variable interest exposure of the Group/Bank at the end of the reporting periods:

Group	**2023** **€ 000**	2022 € 000
(+) 250 bp	**5,060**	4,102
(-) 250 bp	**(5,060)**	(4,102)

Bank	**2023** **€ 000**	2022 € 000
(+) 250 bp	**4,947**	3,989
(-) 250 bp	**(4,947)**	(3,989)

2.4.5 Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows particularly within the Bank's operations. Foreign exchange risk to the Bank is the risk that earnings and values fluctuate as a result of changes in foreign exchange rates. The Bank's foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

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

The Bank maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions which are monitored on a real-time basis.

The Bank enters into forward foreign exchange contracts with customers in the normal course of its business. Generally, it is the Bank's policy to cover the exposure arising from forward contracts. As a result, the Group would not be exposed to any significant exchange risk in respect of outstanding derivative financial instruments. The Bank also retains a deposit margin covering a portion of the notional amount of the respective contract from the customer thereby reducing the extent of credit risk should the derivative client default. The Bank did not have any outstanding derivative financial instruments as at 31 December 2023 and 2022.

2 **Financial risk management** *(continued)*

The following tables summarise the Group's exposures to foreign currency risk. Included in the tables are the Group's financial instruments which are subject to foreign exchange risk at carrying amounts, categorised by currency.

Group	**Total**	**EUR**	**GBP**	**USD**	**Other**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 31 December 2023					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	**147,043**	**124,871**	**220**	**21,932**	**20**
Financial investments measured at FVOCI	**208,485**	**194,479**	**4,915**	**9,091**	**-**
Financial investments measured at amortised cost	**8,285**	**8,285**	**-**	**-**	**-**
Loans and advances to banks	**38,139**	**11,098**	**4,099**	**20,135**	**2,807**
Loans and advances to customers	**758,304**	**749,956**	**7,201**	**1,143**	**4**
Other assets	**15,898**	**13,084**	**425**	**1,734**	**655**
Total financial assets	**1,176,154**	**1,101,773**	**16,860**	**54,035**	**3,486**
Financial liabilities					
Amounts owed to banks	**145**	**145**	**-**	**-**	**-**
Amounts owed to customers	**1,019,075**	**947,752**	**16,400**	**52,127**	**2,796**
Other liabilities	**41,621**	**39,767**	**316**	**1,077**	**461**
Total financial liabilities	**1,060,841**	**987,664**	**16,716**	**53,204**	**3,257**
Net currency position		**114,109**	**144**	**831**	**229**
Commitments and contingent liabilities	**271,624**	**269,917**	**1,164**	**543**	**-**

2 **Financial risk management** *(continued)*

Group	Total	EUR	GBP	USD	Other
	€ 000	€ 000	€ 000	€ 000	€ 000
As at 31 December 2022					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	139,234	93,586	21,624	24,017	7
Financial investments measured at FVOCI	220,815	201,823	6,338	12,654	-
Loans and advances to banks	27,615	10,059	5,300	7,916	4,340
Loans and advances to customers	711,612	706,056	4,594	962	-
Other assets	17,215	13,785	392	2,232	806
Total financial assets	1,116,491	1,025,309	38,248	47,781	5,153
Financial liabilities					
Amounts owed to banks	535	535	-	-	-
Amounts owed to customers	1,008,431	919,963	38,334	45,769	4,365
Other liabilities	44,362	42,756	216	1,091	299
Total financial liabilities	1,053,328	963,254	38,550	46,860	4,664
Net currency position		62,055	(302)	921	489
Commitments and contingent liabilities	215,611	214,180	432	999	-

Under the scenario that the euro appreciates by 20% against all currencies the effect would result in a decrease of €240,000 (2022: €222,000) in the carrying amount of financial instruments with the adverse impact recognised in profit or loss. Should the euro depreciate against all currencies by 20%, the effect would result in a gain of €240,000 (2022: €222,000) in the carrying amount of financial instruments and the favourable impact would be recognised in profit or loss.

2 **Financial risk management** *(continued)*

The following tables summarise the Bank's exposures to foreign currency risk. Included in the tables are the entity's financial instruments which are subject to foreign exchange risk at carrying amounts, categorised by currency.

Bank	**Total**	**EUR**	**GBP**	**USD**	**Other**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 31 December 2023					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	**146,308**	**124,136**	**220**	**21,932**	**20**
Financial investments measured at FVOCI	**206,220**	**192,214**	**4,915**	**9,091**	**-**
Financial investments measured at amortised cost	**8,285**	**8,285**	**-**	**-**	**-**
Loans and advances to banks	**33,605**	**6,563**	**4,099**	**20,136**	**2,807**
Loans and advances to customers	**758,304**	**749,956**	**7,201**	**1,143**	**4**
Other assets	**7,906**	**7,509**	**91**	**305**	**1**
Total financial assets	**1,160,628**	**1,088,663**	**16,526**	**52,607**	**2,832**
Financial liabilities					
Amounts owed to banks	**145**	**145**	**-**	**-**	**-**
Amounts owed to customers	**1,021,254**	**949,930**	**16,400**	**52,128**	**2,796**
Other liabilities	**25,749**	**25,509**	**142**	**87**	**11**
Total financial liabilities	**1,047,148**	**975,584**	**16,542**	**52,215**	**2,807**
Net currency position		**113,079**	**(16)**	**392**	**25**
Commitments and contingent liabilities	**272,734**	**271,027**	**1,164**	**543**	**-**

Bank	**Total**	**EUR**	**GBP**	**USD**	**Other**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Aa at 31 December 2022					
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	138,393	92,746	21,624	24,017	6
Financial investments measured at FVOCI	218,286	199,294	6,338	12,654	-
Loans and advances to banks	20,936	3,191	5,300	8,104	4,341
Loans and advances to customers	711,613	706,057	4,594	962	-
Other assets	7,396	6,839	86	471	-
Total financial assets	1,096,624	1,008,127	37,942	46,208	4,347
Financial liabilities					
Amounts owed to banks	535	535	-	-	-
Amounts owed to customers	1,010,100	921,440	38,334	45,962	4,364
Other liabilities	24,809	24,226	108	463	12
Total financial liabilities	1,035,444	946,201	38,442	46,425	4,376
Net currency position		61,926	(500)	(217)	(29)
Commitments and contingent liabilities	216,717	215,286	432	999	-

2 **Financial risk management** *(continued)*

Under the scenario that the euro appreciates by 20% against all currencies the effect would result in a decrease of €80,000 (2022: €149,000) in the carrying amount of financial instruments with the adverse impact recognised in profit or loss. Should the euro depreciate against all currencies by 20%, the effect would result in a gain of €80,000 (2022: €149,000) in the carrying amount of financial instruments and the favourable impact would be recognised in profit or loss.

2.4.6 Equity price risk

The exposure of the Group to this risk is not significant in view of the extent of the Group's holdings of equity investments designated at FVOCI (refer to note 6) which are not deemed significant in the context of the Group's statement of financial position. These investments are principally locally quoted equity instruments issued by local well-known corporates. Frequent management reviews are carried out to ensure continued high quality of the portfolio.

2.5 Liquidity risk

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

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

In relation to the Bank's operations, liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan draw-downs and guarantees together with other related off-balance sheet instruments. Such outflows would deplete available cash resources for client lending and investments. In extreme circumstances, lack of liquidity could result in sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

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

The Group manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. However, the Bank ought to manage its net interest spread by investing funds in a portfolio of assets with a longer term than the liabilities funding them (therefore giving rise to a negative maturity gap position). To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of Malta Government treasury bills, money market placements and other short-term instruments for managing liquidity risk to support payment obligations and contingent funding in a stressed market environment.

The Bank's Advances-to-Deposit ratio of 74.3% (2022: 70.4%) at the end of the reporting period reflects Management's prudent stance in the context of liquidity management.

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is designed to promote the short-term resilience of a bank's liquidity profile. This ratio became a minimum regulatory standard under the European Commission Delegated Regulation 2015/61.

The LCR aims to ensure that a bank has adequate unencumbered high-quality liquid assets ('HQLA') to meet its liquidity requirements within a 30-calendar-day liquidity stress scenario. Generally, HQLA consists of cash or assets that can be converted into cash at little or no loss of value in markets.

The LCR as at 31 December 2023 as calculated by the Bank was 301.8% (2022: 210.7%). During the financial years ended 31 December 2023 and 2022, the LCR was in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

2 **Financial risk management** *(continued)*

Net Stable Funding Ratio

The Net Stable Funding Ratio ('NSFR') is a metric showing how a bank is able to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (typically, with a term of more than one year).

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

The NSFR as at 31 December 2023 as calculated by the Bank was 155.7% (2022: 148.3%). During the financial years ended 31 December 2023 and 2022, the NSFR was in excess of both the regulatory minimum and the risk appetite thresholds set by the bank.

The Bank's ALCO focuses on the Bank's management process with respect to market and funding liquidity risks.

The Group's liquidity management process, focusing on the liquidity of the Bank and that of its principal subsidiary, includes:

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

The Bank also monitors the level and type of undrawn lending commitments and the impact of contingent liabilities such as guarantees as part of the liquidity management process previously referred to. As at 31 December 2023, the Bank had outstanding guarantees on behalf of third parties amounting to €11,286,000 (2022: €10,886,000), which are cancellable upon the request of the third parties. The Group's liquidity exposures arising from these commitments and contingencies are expected to expire principally within a period of twelve months from the end of the reporting period.

The following tables analyse the Group's and Bank's principal financial assets and liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

2 **Financial risk management** *(continued)*

Group	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 31 December 2023						
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	**138,702**	**983**	**-**	**-**	**7,358**	**147,043**
Financial investments measured at FVOCI	**1,475**	**26,998**	**97,100**	**74,392**	**8,520**	**208,485**
Financial investments measured at amortised cost	**-**	**-**	**7,227**	**1,058**	**-**	**8,285**
Loans and advances to banks	**37,739**	**400**	**-**	**-**	**-**	**38,139**
Loans and advances to customers	**137,556**	**49,065**	**140,617**	**431,066**	**-**	**758,304**
Other assets	**13,275**	**2,379**	**-**	**-**	**244**	**15,898**
Total financial assets	**328,747**	**79,825**	**244,944**	**506,516**	**16,122**	**1,176,154**
Financial liabilities						
Amounts owed to banks	**145**	**-**	**-**	**-**	**-**	**145**
Amounts owed to customers	**669,212**	**104,885**	**167,407**	**77,571**	**-**	**1,019,075**
Other liabilities	**23,974**	**594**	**1,269**	**7,853**	**7,931**	**41,621**
Total financial liabilities	**693,331**	**105,479**	**168,676**	**85,424**	**7,931**	**1,060,841**
Maturity gap	**(364,584)**	**(25,654)**	**76,268**	**421,092**		
Cumulative gap	**(364,584)**	**(390,238)**	**(313,970)**	**107,122**		
As at 31 December 2022						
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	110,470	21,238	-	-	7,526	139,234
Financial investments measured at FVOCI	1,682	4,747	120,840	86,122	7,424	220,815
Loans and advances to banks	26,115	1,500	-	-	-	27,615
Loans and advances to customers	146,697	29,675	157,474	377,766	-	711,612
Other assets	14,447	2,379	-	-	389	17,215
Total financial assets	299,411	59,539	278,314	463,888	15,339	1,116,491
Financial liabilities						
Amounts owed to banks	535	-	-	-	-	535
Amounts owed to customers	652,619	85,609	191,835	78,368	-	1,008,431
Other liabilities	27,053	28	1,453	8,283	7,545	44,362
Total financial liabilities	680,207	85,637	193,288	86,651	7,545	1,053,328
Maturity gap	(380,796)	(26,098)	85,026	377,237		
Cumulative gap	(380,796)	(406,894)	(321,868)	55,369		

2 **Financial risk management** *(continued)*

Bank	**Less than 3 months**	**Between 3 months and 1 year**	**Between 1 year and 5 years**	**More than 5 years**	**No maturity date**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
As at 31 December 2023						
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	**137,967**	**983**	**-**	**-**	**7,358**	**146,308**
Financial investments measured at FVOCI	**1,475**	**26,682**	**96,611**	**72,932**	**8,520**	**206,220**
Financial investments measured at amortised cost	**-**	**-**	**7,227**	**1,058**	**-**	**8,285**
Loans and advances to banks	**33,605**	**-**	**-**	**-**	**-**	**33,605**
Loans and advances to customers	**137,556**	**49,065**	**140,617**	**431,066**	**-**	**758,304**
Other assets	**5,283**	**2,379**	**-**	**-**	**244**	**7,906**
Total financial assets	**315,886**	**79,109**	**244,455**	**505,056**	**16,122**	**1,160,628**
Financial liabilities						
Amounts owed to banks	**145**	**-**	**-**	**-**	**-**	**145**
Amounts owed to customers	**670,991**	**105,285**	**167,407**	**77,571**	**-**	**1,021,254**
Other liabilities	**12,923**	**594**	**1,269**	**6,378**	**4,585**	**25,749**
Total financial liabilities	**684,059**	**105,879**	**168,676**	**83,949**	**4,585**	**1,047,148**
Maturity gap	**(368,173)**	**(26,770)**	**75,779**	**421,107**		
Cumulative gap	**(368,173)**	**(394,943)**	**(319,164)**	**101,943**		
As at 31 December 2022						
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	109,629	21,238	-	-	7,526	138,393
Financial investments measured at FVOCI	1,682	4,747	120,384	84,049	7,424	218,286
Loans and advances to banks	20,936	-	-	-	-	20,936
Loans and advances to customers	146,698	29,675	157,474	377,766	-	711,613
Other assets	4,628	2,379	-	-	389	7,396
Total financial assets	283,573	58,039	277,858	461,815	15,339	1,096,624
Financial liabilities						
Amounts owed to banks	535	-	-	-	-	535
Amounts owed to customers	653,888	85,609	192,235	78,368	-	1,010,100
Other liabilities	12,049	28	1,453	7,160	4,119	24,809
Total financial liabilities	666,472	85,637	193,688	85,528	4,119	1,035,444
Maturity gap	(382,899)	(27,598)	84,170	376,287		
Cumulative gap	(382,899)	(410,497)	(326,327)	49,960		

The Bank's amounts owed to customers of €589,133,000 (2022: €617,804,000) as at 31 December 2023 are repayable on demand and included in the "within 3 months" bucket in the tables. However, the Bank's experience is that a significant portion of such deposits remains stable. Additionally, a significant part of other deposits maturing within 3 months from the end of the reporting period is typically renewed. The tables below analyse the Group's and Bank's principal non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

2 **Financial risk management** *(continued)*

Group

	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Total € 000
As at 31 December 2023					
Financial liabilities					
Amounts owed to banks	**145**	**-**	**-**	**-**	**145**
Amounts owed to customers	**669,922**	**106,960**	**177,459**	**90,185**	**1,044,526**
Other liabilities	**24,055**	**997**	**3,206**	**6,093**	**34,351**
Total financial liabilities	**694,122**	**107,957**	**180,665**	**96,278**	**1,079,022**
As at 31 December 2022					
Financial liabilities					
Amounts owed to banks	535	-	-	-	535
Amounts owed to customers	652,841	87,921	205,829	87,297	1,033,888
Other liabilities	27,127	399	3,257	7,063	37,846
Total financial liabilities	680,503	88,320	209,086	94,360	1,072,269

Bank

	Less than 3 months € 000	Between 3 months and 1 year € 000	Between 1 year and 5 years € 000	More than 5 years € 000	Total € 000
As at 31 December 2023					
Financial liabilities					
Amounts owed to banks	**145**	**-**	**-**	**-**	**145**
Amounts owed to customers	**671,702**	**107,363**	**177,459**	**90,185**	**1,046,709**
Other liabilities	**12,928**	**795**	**2,517**	**5,328**	**21,568**
Total financial liabilities	**684,775**	**108,158**	**179,976**	**95,513**	**1,068,422**
As at 31 December 2022					
Financial liabilities					
Amounts owed to banks	535	-	-	-	535
Amounts owed to customers	654,111	87,922	206,229	87,297	1,035,559
Other liabilities	12,049	208	2,734	6,212	21,203
Total financial liabilities	666,695	88,130	208,963	93,509	1,057,297

2 **Financial risk management** *(continued)*

2.6 Operational risk

Operational risk is the risk of losses due to:

- deficient or erroneous internal procedures;
- human or system errors;
- external events, including legal events;
- internal and external fraud;
- employment practices and workplace safety;
- clients, products and business practices;
- damage to physical assets;
- business disruption and system failures; and
- execution, delivery and process management.

Operational risk is thus often associated with specific and one-off events, such as failure to observe business or working procedures, defects or breakdowns of the technical infrastructure, criminal acts, fire and storm damage or litigation. Operational risks are non-financial risks. Operational risk management relies on a framework of policies implemented by the different operational functions and which implementation is overseen by the Risk Management Function.

A financial measurement of this risk is arrived at by the Bank for the purpose of allocating risk capital using the Basic Indicator Approach under the European Union Directive on Capital Requirements Regulation ('CRR') rules. The capital requirement for operational risk under this method was calculated at €4,464,000 (2022: €4,214,000).

2.7 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the consolidated statement of financial position, are:

- to comply with the capital requirements set by the MFSA with respect to the Bank's operations;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Accordingly, the purpose of the Group's capital management is essentially that of ensuring efficient use of capital taking cognisance of the Group's risk appetite and profile as well as its objectives for business development. The Group is subject to externally imposed capital requirements only in respect of the Bank's activities as a credit institution. The Bank is a licensed financial services provider and must therefore comply with the capital requirements under the relevant laws and regulations.

The Bank's Executive Team and ALCO are responsible for managing the Bank's regulatory capital. The Bank aims to maintain a strong capital base to support the risks inherent in its business, investing in accordance with its strategy and meeting regulatory capital requirements at all times. Internal capital adequacy assessments are aligned with the regulatory and supervisory requirements and with the Bank's assessment of risk, including credit, market and operational risks.

The Bank manages its capital requirements based on internal targets, which are set above the prescribed minimum capital requirements, i.e. levels established within the CRR and the additional capital requirements required by the MFSA for supervisory purposes.

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 V 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 V combined buffer.

2 **Financial risk management** *(continued)*

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 are both composed of CET1 capital.

CRD V 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%.

In March 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 2% and made up entirely of CET 1 Capital is to be held over and above the Overall Capital Requirement ('OCR') of 13.75%. Hence, the Bank's OCR plus P2G stood at 15.86% as at December 2023. Moreover, during 2023, the Central Bank of Malta introduced a Sectoral Systemic Risk Buffer ('sSyRB') of 1% on risk-weighted domestic mortgage exposures to households to be increased to 1.5% during 2024.

During the financial year ended 31 December 2023, the Bank's OCR was met at all times. The Bank's P2G was also met at all times with the exception of short periods during the fourth quarter of financial year 2023 resulting from a decline in the fair-value of fixed-income securities. Following the Rights Issue and the issuance of 61,828,332 new ordinary shares at a price of €0.75 per share, as disclosed in Note 18, the P2G was also met at year end. The proceeds from the rights issue, amounting to €45.7 million and constituting CET1 capital, have been applied by the Bank to further strengthen its capital base with a view to ensuring that the Bank is well-positioned to meet the capital buffers required in terms of regulatory requirements and to supplement the funding requirements for the implementation of the Bank's strategic objectives as describe in the Prospectus.

During the financial year ended 31 December 2022, the Bank's OCR was met at all times. The Bank's P2G was also met at all times, with the exception of short periods during the last quarter of the financial year 2022 attributable to the significant decline in market value of fixed-income securities held as a direct result of interest rate changes. A Capital Plan was submitted to the MFSA in December 2022, highlighting the Bank's strategy in respect of capital management.

The Capital requirements ratio expresses Own funds as a proportion of risk-weighted assets and off-balance sheet instruments in relation to Credit Risk together with notional risk-weighted assets in respect of Operational Risk and Market Risk.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet instruments, with some adjustments to reflect the more contingent nature of the potential losses. Risk-weighted assets are measured using the 'Standardised Approach' for credit risk with risk-weights being assigned to assets and off-balance sheet instruments according to their asset class and credit risk mitigation. For the determination of credit assessments, independent rating agencies are nominated as required.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

2.8 Fair values of financial assets and liabilities

2.8.1 Financial instruments measured at fair value

The Group's financial instruments which are carried at fair value include the Group's debt securities and equity instruments measured at FVOCI (note 6). The Group is required to disclose fair value measurements by level of the following fair value measurement hierarchy for financial instruments that are measured in the statement of financial position at fair value:

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

2 **Financial risk management** *(continued)*

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

The Bank considers only relevant and observable market prices in its valuations. Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations.

The fair value of the Bank's financial assets measured at FVOCI, which are principally traded in active markets, is mainly based on quoted market prices. Hence, as at 31 December 2023 and 2022, the principal financial instruments that are measured at fair value, consisting of the investments measured at FVOCI, were valued using principally Level 1 inputs.

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.

2.8.2 Financial instruments not measured at fair value

Loans and advances to banks and customers

These categories of assets are presented net of expected credit loss allowances. As at 31 December 2023, the Group's aggregate carrying amount in this respect was €796,442,000 (2022: €739,227,000). The loans and advances to customers, which are subject to floating interest rates, are measured at the amount of €586,548,000 (2022: €574,829,000). This carrying value approximates to fair value in view of the fact that these loans and advances are repriceable at the Group's discretion. The carrying amount of loans and advances to customers, which are subject to fixed interest rates, is deemed fairly close to fair value in view of their maturity profile. A significant part of loans and advances to customers are repayable on call and at short notice, as highlighted in Note 8. Loans and advances to banks, comprising term placements maturing within one month from the end of the reporting period, are carried at the amount of €16,698,000 (2022: €2,600,000). Other loans and advances to banks are predominantly repayable on call and at short notice, as disclosed in Note 7 to the financial statements. Generally, interest rates on advances reflect current market rates, and the Directors consider the carrying amounts to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods. The current market interest rates utilised for fair value estimation, which reflect essentially the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

Trade and other receivables

This category principally represents short-term trade receivables arising from postal operations in respect of which the carrying amount is a reasonable approximation of fair value.

Amounts owed to banks and customers

These categories of financial liabilities are carried at amortised cost and amount to €1,019,220,000 as at 31 December 2023 (2022: €1,008,966,000). 17.7% (2022: 17.1%) of these liabilities are non-interest bearing, 47.9% (2022: 47.6%) of these liabilities have a contractual repricing term of three months or less, 10.3% (2022: 8.4%) reprice between three months and one year, 16.4% (2022: 19.1%) reprice between one year and five years while 7.6% (2022: 7.8%) are repriceable after more than five years. A very significant portion of amounts owed to banks and customers are repayable on demand as disclosed within Note 20 and 21 to the financial statements. Accordingly, in view of their profile, the fair value of these financial liabilities is not deemed to be significantly different from their carrying amounts. This applies to variable rate deposits in view of the short periods to repricing, but also applies to liabilities subject to fixed interest rates, based on discounting future contractual cash flows at current market interest rates, taking into account the short periods to maturity. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

Debt securities measured at amortised cost

Debt securities measured at amortised cost had a fair value of €8,447,000 as at 31 December 2023 (2022: nil), compared to the carrying amount of €8,285,000. The fair value of these investments, which are principally traded in active markets, is mainly based on quoted market prices which are categorised as Level 1 inputs.

2 **Financial risk management** *(continued)*

Other financial instruments

The fair values of certain other financial assets, including balances with the Central Bank of Malta and accrued income, are considered to approximate their respective carrying values due to their short-term nature.

3 **Accounting estimates and judgements**

3.1 Critical accounting estimates and judgements in applying the Group's accounting policies

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

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

3.2 Measurement of expected credit losses

The measurement of the Expected Credit Loss allowance for financial assets measured at amortised cost and debt securities measured at FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 2.

A number of significant judgements are required in measurement of Expected Credit Loss, such as:

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

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 2.

3.3 Assessment of estimates and judgements

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

However, the Directors would like to draw attention to those accounting judgements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this respect these primarily comprise assumptions and estimates relating to the calculation of expected credit loss allowances in respect of loans and advances to customers (see notes 2.3, 8 and 32).

As previously explained, despite a robust recovery in economic conditions during 2023, the level of economic uncertainty remained elevated during the financial year ended 31 December 2023, primarily driven by the geopolitical developments as a result of the continued military conflict between Russia and Ukraine, as well as widespread supply chain disruptions because of the broadening of the Middle East conflict to the Red Sea. These developments have triggered significant inflationary pressures across the world such that the European Central Bank ('ECB') and other national central banks applied monetary policy tools at their disposal by increasing interest rates to manage such pressures.

Moreover, in March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This created further turmoil and uncertainty in the international financial markets.

3 **Accounting estimates and judgements** *(continued)*

The exercise of judgement in making estimations requires the use of assumptions that are highly subjective and very sensitive to the risk factors, detailed in note 2.3.4. In addition, many of the factors have a high degree of interdependency and there is no single factor to which loan credit loss allowances as a whole is sensitive.

The underlying models and their calibration, including how they react to forward-looking economic conditions, continue to remain highly subjective.

Significant judgement is required in establishing the number, severity and relative weightings of forward-looking economic scenarios given the rapidly changing economic conditions and wide economic forecasts due to the potential impacts of further escalation of inflationary pressures and ensuing monetary policy changes, geopolitical developments in respect of the military conflict between Russia and Ukraine together with other conflicts in the Middle East, and the effect of the implementation and eventual unwinding of government support measures designed to alleviate adverse economic impacts, including subsidies in respect of energy prices and foodstuffs.

Significant judgement is therefore also required in making assumptions about the effects of inflation, interest rates, economic growth, and supply chain disruptions. As alluded to earlier, there is an absence of an observable historical trend that can accurately represent the severity and speed of such forecasts, which represent a high degree of estimation uncertainty, particularly in assessing downside scenarios. Such complexities have never been modelled.

Consequently, management applied a higher level of expert judgement in order to assess the impact of the current geopolitical and macro-economic environment on the local group's level of defaults, including evaluating the impact of monetary policy and government support schemes, and the unwinding of such measures, on both the incidence of default events and the severity of losses as described below.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty is also highly judgemental due to limitations in available credit information on customers in certain instances. This is particularly relevant in those instances where customers are significantly dependent on government support measures, such as subsidies in respect of energy prices and foodstuffs, to address short-term liquidity issues.

As previously explained in view of the nature of the Bank's portfolio, where a relatively small number of loans comprise a significant proportion of the loan book value, the Bank continued to apply an individual-debtor-focused credit management process.

Judgement was required in determining whether individually significant loans have experienced a SICR or a UTP event, especially within the Bank's corporate and commercial portfolio. In this respect, as part of management's response to the current inflationary pressures and interest rate environment, the Bank assesses and individually rates those individually significant borrowers which are deemed mostly impacted by these macro-economic pressures through individual periodic credit assessments on the basis of recently obtained management information, including forecasts. 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 view of the above, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario.

The effect of economic uncertainty on the ECL outcome is disclosed in the sensitivity analysis presented in Note 2.3.4.4. The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes as there is a high degree of estimation uncertainty in the numbers representing tail risk scenarios when assigned a 100% weighting.

For individually significant credit impaired loans, management determines the size of the allowance required based on a range of factors such as the realisable value of security, the viability of the customers' business model and the capacity to generate cash flows to service debt obligations, under different scenarios. Judgement is applied in estimating the expected future cash flows from each borrower and the time to recover these cash flows under the different scenarios as well as to attach probabilities to those scenarios. The assumptions around forecasted recoveries from the sale of collateralised properties, including valuation haircuts and time to recovery, are key drivers in the estimation of credit loss allowances in respect of individually assessed loans. The current economic conditions within the local property market, driven by the current inflationary pressures and interest rate environment, increases the level of expert judgement required to predict with reasonable accuracy the recoverability of exposures through the sale of collateral.

3 **Accounting estimates and judgements** *(continued)*

During 2023 the Bank continued to perform regular and detailed reviews on its lending customers on individual and sectorial bases. The results of such reviews, also in the context of the improved economic performance during 2023, suggest a marked improvement in the business and prospects of the same borrowers and accordingly the Bank determined that the level of credit risk emanating directly from the unprecedented economic disruptions has decreased considerably.

In respect of corporate and commercial exposures, during 2023, the Bank continued to assess and individually rate such borrowers on an ongoing basis. These assessments are carried out through individual ad-hoc credit reviews on the basis of recently obtained management information including forecasts.

In line with the results of reviews described above, the outcome of the individual assessments indicate that the level of business experienced by the borrowers is robust and indicative of more effective business models. The current economic developments are unlikely to have any significant impact on any of the Bank's individually significant customers, which would then in turn materially impact the overall Bank's credit risk level, other than what is already considered in the forward looking information incorporated within the ECL model.

4 **Segmental information**

The Group has two reporting segments, as described below, which are the Group's strategic business units and cash-generating units. The strategic business units offer different services and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Board of Directors reviews internal management reports. The following summary describes the operations in each of the Group's reportable segments:

- Banking services comprise the Group's banking and other activities carried out as a licensed credit institution, an authorised currency dealer and financial intermediary. Stockbroking activities may also be carried out since the Bank is a member of the Malta Stock Exchange; and
- Postal services comprise the Group's postal activities, being the sole licensed Universal Service Provider of postal services in Malta.

4 **Segmental information** *(continued)*

The Group's internal reporting to the Board of Directors and senior executives is analysed according to the below segments. Information about reportable segments:

	Banking services		Postal services		Total	
	2023	2022	**2023**	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000	**€ 000**	€ 000
Interest receivable	**33,585**	28,905	**113**	115	**33,698**	29,020
Interest expense	**(7,780)**	(6,693)	**(57)**	(51)	**(7,837)**	(6,744)
Postal sales and other revenue	**109**	281	**38,611**	30,412	**38,720**	30,693
Net fee and commission income	**4,184**	4,314	**999**	1,102	**5,183**	5,416
Other operating income	**668**	805	**(39)**	438	**629**	1,243
Segment operating income	**30,766**	27,612	**39,627**	32,016	**70,393**	59,628
Depreciation and amortisation	**(1,184)**	(1,090)	**(1,975)**	(1,825)	**(3,159)**	(2,915)
Net movement in expected credit losses	**(1,316)**	16,111	**55**	132	**(1,261)**	16,243
Employee compensation and benefits	**(8,895)**	(8,676)	**(15,489)**	(15,336)	**(24,384)**	(24,012)
Other costs	**(7,215)**	(6,941)	**(19,532)**	(13,928)	**(26,747)**	(20,869)
Operating profit	**12,156**	27,016	**2,686**	1,059	**14,842**	28,075
Share of profit/(loss) attributed to investment accounted for using the equity method, net of tax	**53**	24	**(368)**	(423)	**(315)**	(399)
Profit before taxation	**12,209**	27,040	**2,318**	636	**14,527**	27,676
Income tax expense	**(4,474)**	(9,699)	**(435)**	(351)	**(4,909)**	(10,050)
Profit for the year	**7,735**	17,341	**1,883**	285	**9,618**	17,626
Segment total assets	**1,217,744**	1,153,537	**47,390**	49,878	**1,265,134**	1,203,415
Capital expenditure during the year	**900**	1,563	**1,757**	2,145	**2,657**	3,708
Segment total liabilities	**1,047,870**	1,036,610	**18,472**	22,505	**1,066,342**	1,059,115

There were no material inter-segment transactions.

The Group mainly provides banking and postal services within the local market and economic sectors. From a customers' perspective, during 2023 MaltaPost p.l.c. generated 52.0% (2022: 42.2%) of its revenue internationally.

The Group's reliance on any single customer is not considered significant for disclosure purposes.

5 **Balances with Central Bank of Malta, treasury bills and cash**

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Balances with Central Bank of Malta	**126,302**	53,578	**126,302**	53,578
Malta Government treasury bills	**11,855**	78,541	**11,855**	78,541
Cash in hand	**8,886**	7,115	**8,151**	6,274
	147,043	139,234	**146,308**	138,393

5 **Balances with Central Bank of Malta, treasury bills and cash** *(continued)*

Balances with the Central Bank of Malta include a reserve deposit amounting to €7,358,000 (2022: €1,437,000) held in terms of Regulation (EC) No.1745/2003 of the European Central Bank. The average reserve deposit requirement held for the relevant maintenance period amounted to €7,358,000 (2022: €7,526,000).

At 31 December 2023, the Bank had pledged a deposit with the Central Bank of Malta amounting to €1,062,000 (2022: €854,000) in favour of the Depositor Compensation Scheme to comply with local regulatory requirements.

As at 31 December 2023 and 2022, the credit loss allowance on balances with Central Bank of Malta and Malta Government treasury bills was insignificant.

6 **Financial investments**

Financial investments include the following:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Debt securities measured at FVOCI				
Debt and other fixed income instruments	**199,965**	213,391	**197,700**	210,862
Equity instruments	**8,520**	7,424	**8,520**	7,424
Debt securities measured at amortised cost				
Debt and other fixed income instruments	**8,285**	-	**8,285**	-
	216,770	220,815	**214,505**	218,286

Debt and other fixed income instruments measured at FVOCI are analysed as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Issued by public bodies:				
- local government	**156,209**	161,305	**155,075**	159,957
- foreign government	**6,534**	8,420	**6,534**	8,420
- supranational	**7,304**	7,791	**7,304**	7,791
Issued by public issuers:				
- local banks	**11,748**	11,153	**11,225**	10,593
- local corporates	**3,554**	5,335	**2,946**	4,714
- foreign banks	**8,763**	12,414	**8,763**	12,414
- foreign corporates	**5,853**	6,973	**5,853**	6,973
	199,965	213,391	**197,700**	210,862

As at 31 December 2023, credit loss allowances in respect of debt instruments measured at FVOCI computed in accordance with the IFRS 9 expected credit loss model, were €471,000 (2022: €526,000).

6 **Financial investments** *(continued)*

Debt and other fixed income instruments measured at amortised cost are analysed as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Issued by public bodies:				
- local government	**7,020**	-	**7,020**	-
Issued by public issuers:				
- local banks	**224**	-	**224**	-
- local corporates	**1,113**	-	**1,113**	-
Expected credit loss allowances	**(72)**	-	**(72)**	-
	8,285	-	**8,285**	-

At 31 December 2023, the Bank held Malta Government Stocks measured at FVOCI with a carrying amount of €7,893,000 (2022: €7,991,000) pledged with the Central Bank of Malta, in terms of Directive No. 8 (Chapter 204 of the Central Bank of Malta Act) as security for a facility that was not utilised during the reporting periods.

The debt securities held by the Group are listed on the Malta Stock Exchange or on other recognised exchanges.

Equity instruments measured at FVOCI consist of equities listed on the Malta Stock Exchange.

The movement in debt and other fixed income financial investments measured at FVOCI is summarised as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
At 1 January	**213,391**	218,080	**210,862**	215,179
Acquisitions	**-**	27,417	**-**	27,417
Amortisation	**(1,364)**	(1,108)	**(1,364)**	(1,100)
Redemptions/disposals	**(9,478)**	(5,215)	**(9,348)**	(5,193)
Fair value movement	**(2,380)**	(25,825)	**(2,243)**	(25,483)
Foreign exchange differences	**(204)**	42	**(207)**	42
At 31 December	**199,965**	213,391	**197,700**	210,862

The movement in debt and other fixed income financial investments measured at amortised cost is summarised as follows:

	Group and Bank	
	2023	2022
	€ 000	€ 000
At 1 January	**-**	-
Acquisitions	**8,359**	-
Amortisation	**(2)**	-
Expected credit loss allowances	**(72)**	-
At 31 December	**8,285**	-

6 Financial investments *(continued)*

The movement in equity financial investments designated at FVOCI is summarised as follows:

	Group and Bank	
	2023	2022
	€ 000	€ 000
At 1 January	**7,424**	9,055
Acquisitions	**-**	102
Fair value movement	**1,123**	(1,717)
Foreign exchange differences	**(27)**	(16)
At 31 December	**8,520**	7,424

The disclosure requirements emanating from IFRS 13 in respect of equity investments designated at FVOCI were not deemed necessary by the directors taking cognisance of the insignificance of the carrying amount of these equity investments in the context of the statement of financial position as at 31 December 2023 and 2022.

7 Loans and advances to banks

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Repayable on call and at short notice	**19,841**	25,015	**17,307**	20,936
Term loans and advances	**18,298**	2,600	**16,298**	-
	38,139	27,615	**33,605**	20,936

8 Loans and advances to customers

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Repayable on call and at short notice	**118,166**	116,386	**118,166**	116,387
Term loans and advances	**651,589**	605,175	**651,589**	605,175
Gross loans and advances to customers	**769,755**	721,561	**769,755**	721,562
Credit loss allowances	**(11,451)**	(9,949)	**(11,451)**	(9,949)
Net loans and advances to customers	**758,304**	711,612	**758,304**	711,613
Credit loss allowances				
Stage 1	**1,580**	2,339	**1,580**	2,339
Stage 2	**1,887**	1,614	**1,887**	1,614
Stage 3	**7,984**	5,996	**7,984**	5,996
	11,451	9,949	**11,451**	9,949

Assets acquired in settlement of debt amounting to €703,000 (2022: €703,000) are presented as assets classified as held for sale.

9 Investments in subsidiaries

Name of company	Country of incorporation	Nature of business	Equity interest		Carrying amount	
			2023	2022	**2023**	2022
			%	%	**€ 000**	€ 000
Redbox Limited	Malta	Holding company	**100**	100	**16,809**	15,732
Lombard Capital Asset Management Ltd	Malta	Asset management	**100**	100	**325**	325
Lombard Select SICAV p.l.c.	Malta	Collective Investment Scheme	**100**	100	**1**	1

The registered office of these entities is situated at 67, Republic Street, Valletta, Malta.

At 31 December 2023, Redbox Limited held 72.0% (2022: 71.5%) of the equity share capital and voting rights of MaltaPost p.l.c., a listed company incorporated and operating in Malta, comprising the Group's postal services reportable segment (see note 4). The remaining 28.0% (2022: 28.5%) is held by the general public.

The increase in the investment in Redbox Limited is attributable to the allotment of ordinary shares of MaltaPost p.l.c. of €0.25 each at a premium of €0.84 each as a scrip issue in lieu of dividends payable to Redbox Limited.

MaltaPost p.l.c. subsidiaries are shown below:

Subsidiary	Registered office	Percentage of shares held	Nature of business
Tanseana Limited	305, Qormi Road, Marsa, MTP 1001, Malta	100% of ordinary shares	Document management Services
Ciabro Limited formerly known as Ciantar Brothers Limited	22, Warehouse il-Moll tal-Pont, Marsa, MRS1400, Malta	100% of ordinary shares	Leasing warehouse space
PostaInsure Agency Limited	4, Old Bakery Street, Valletta, VLT 1450, Malta	49% of ordinary shares (rights to appoint 60% of the investee's Board of Directors)	Insurance agent - General insurance services

The profit or loss allocated to non-controlling interests of MaltaPost p.l.c. during the financial year under review, accumulated non-controlling interests of the subsidiary at the end of the reporting period and dividends paid to non-controlling interests are presented within the Group's statement of changes in equity. Financial information about the assets, liabilities, revenues, profit or loss, total comprehensive income and cash flows of the subsidiary are disclosed within the annual report and financial statements of MaltaPost p.l.c., which are publicly available in view of the company's listed status. Financial information about the subsidiary is also disclosed within note 4 to these financial statements dealing with segmental information. The non-controlling interests of this subsidiary are not deemed material to the reporting entity with respect to the Bank's consolidated financial statements for the purpose of disclosures in terms of the requirements of IFRS 12 'Disclosure of interests in other entities'.

The end of the reporting period of the audited financial statements of MaltaPost p.l.c. and its associate IVALIFE Insurance Limited that have been utilised in the preparation of these consolidated financial statements is 30 September 2023, since the financial statements prepared as of this date constitute the most recent audited financial statements of the respective companies. The Bank has considered the utilisation of the subsidiary's financial information as at 31 December 2023 as impractical for the purposes of preparation of its consolidation financial statements.

Acquisition of controlling stake in subsidiaries

Lombard Select SICAV p.l.c. and Lombard Capital Asset Management Limited

These entities are wholly-owned subsidiaries of the Bank which had not yet started operating as at 31 December 2023. Lombard Select SICAV p.l.c. will be a multi-fund public liability investment company with variable share capital (SICAV) under registration number SV 554. The Company qualifies as a 'Maltese undertaking for the collective investment in transferable

9 **Investments in subsidiaries** *(continued)*

securities ('UCITS')' in terms of the UCITS Regulation and the UCITS Directive. Lombard Capital Asset Management Limited will be a UCITS management company which will primarily provide investment management services to collective investment schemes, carry on such other investment services business in terms of its licence and provide any ancillary services. During 2022, the Bank injected further capital in Lombard Capital Asset Management Limited amounting to €200,000.

10 **Investments in associates**

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
At 1 January	**2,607**	3,006	**1,645**	1,645
Additions	**1,000**	-	**-**	-
Share of results	**(315)**	(399)	**-**	-
At 31 December	**3,292**	2,607	**1,645**	1,645
At 31 December				
Cost	**4,520**	3,520	**1,645**	1,645
Share of results	**(1,228)**	(913)	**-**	-
Carrying amount	**3,292**	2,607	**1,645**	1,645

The Group's associates at 31 December 2023 and 2022 are shown below:

Name of company	Country of incorporation	Nature of business	Equity interest		Group Carrying amount	
			2023	2022	**2023**	2022
			%	%	**€ 000**	€ 000
Gozo Hotels Company Limited	Malta	Accommodation	**33.3**	33.3	**1,576**	1,523
IVALIFE Insurance Limited	Malta	Insurance	**25.0**	25.0	**1,716**	1,084

MaltaPost p.l.c. controls 25% of the share capital (and holds an equivalent amount of voting rights) of IVALIFE Insurance Limited, an unlisted company which was incorporated in Malta towards the end of 2019 and commenced operations in 2021. The company was established to provide Class I and Class III long term business of insurance within Malta with a registered office at Centris Business Gateway II, Level 1 D, Triq is-Salib tal-Imrieħel, Central Business District, Birkirkara, Malta. During the 2023 financial year, MaltaPost p.l.c. further injected capital amounting to €1,000,000 in its associate IVALIFE Insurance Limited. The Group's 25% share of the losses registered by the associate during the current financial year amounting to €368,000 was reflected within the Group's 2023 financial results. The adoption of IFRS17 Insurance Contracts by IVALIFE Insurance Limited during 2023 did not have a material impact on the financial statements of the Group.

In previous financial years the exposure with Gozo Hotels Company Limited with a carrying amount of €1,645,000 had been recognised as an investment in associate on the basis that the Bank controls 33.3% of the shares (and holds an equivalent amount of voting rights). The Group is deemed to have significant influence over the investee in accordance with the requirements of IAS 28 'Investments in Associates'. The Group's share of profits amounting to €53,000 (2022: €24,000), was reflected within the Group's 2023 financial result in respect of this investment.

Gozo Hotels Company Limited is an unlisted company incorporated and operating in Malta. Its principal activity is the operation of the Hotel Calypso in Marsalforn, Gozo, and its registered address is 'Calypso', Għar Qawqla Street, Żebbuġ, Gozo.

These associates are not considered material for the reporting entity, with respect to the Bank's consolidated financial statements, as at 31 December 2023 for the purposes of disclosures in terms of the requirements of IFRS 12 'Disclosure of interests in other entities'.

11 Intangible assets

	Group				Bank
	Goodwill € 000	Computer software € 000	Other intangible assets € 000	Total € 000	Computer software € 000
At 1 January 2022					
Cost	857	7,125	140	8,122	3,421
Accumulated amortisation	-	(5,959)	(18)	(5,977)	(3,299)
Net book amount	857	1,166	122	2,145	122
Year ended 31 December 2022					
At 1 January 2022	857	1,166	122	2,145	122
Additions	-	658	-	658	28
Amortisation for the year	-	(664)	(18)	(682)	(93)
At 31 December 2022	857	1,160	104	2,121	57
At 31 December 2022					
Cost	857	7,783	140	8,780	3,449
Accumulated amortisation	-	(6,623)	(36)	(6,659)	(3,392)
Net book amount	857	1,160	104	2,121	57
Year ended 31 December 2023					
At 1 January 2023	**857**	**1,160**	**104**	**2,121**	**57**
Additions	**-**	**666**	**-**	**666**	**-**
Amortisation for the year	**-**	**(577)**	**(18)**	**(595)**	**(38)**
At 31 December 2023	**857**	**1,249**	**86**	**2,192**	**19**
At 31 December 2023					
Cost	**857**	**8,449**	**140**	**9,446**	**3,449**
Accumulated amortisation	**-**	**(7,200)**	**(54)**	**(7,254)**	**(3,430)**
Net book amount	**857**	**1,249**	**86**	**2,192**	**19**

11.1 *Impairment test for the cash-generating unit to which goodwill has been allocated*

The recognised goodwill represents payments made by the Group in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. As at 31 December 2023 and 2022 the recognised goodwill amounted to €857,000 and related to the acquisition of MaltaPost p.l.c.

In applying the requirements of IAS 36, 'Impairment of assets', in relation to goodwill arising in business combinations, the Directors carried out an impairment test at the end of the reporting period to obtain comfort that the recoverable amount of the cash-generating unit to which goodwill has been allocated is at least equal to its carrying amount.

The recoverable amount of the cash-generating unit is based on fair value less costs to sell.

This calculation takes into account the market capitalisation of MaltaPost p.l.c. based on the quoted price of its equity on the Malta Stock Exchange at a price per share of €0.47 as at 31 December 2023 (2022: €0.55 as adjusted to reflect the impacts of the share split effected by MaltaPost p.l.c.). On this basis, the recoverable amount of the cash-generating unit is higher than its carrying amount.

12 **Property, plant and equipment**

Group	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
At 1 January 2022				
Cost	62,958	4,407	13,703	81,068
Accumulated depreciation	(2,686)	(3,627)	(9,409)	(15,722)
Net book amount	60,272	780	4,294	65,346
Year ended 31 December 2022				
At 1 January 2022	60,272	780	4,294	65,346
Additions	1,029	774	1,248	3,051
Disposals	-	(40)	(18)	(58)
Adjustments to right-of-use assets	212	-	-	212
Depreciation charge for the year	(1,013)	(388)	(832)	(2,233)
Depreciation released on disposals	-	40	17	57
At 31 December 2022	60,500	1,166	4,709	66,375
At 31 December 2022				
Cost or valuation	64,199	5,141	14,933	84,273
Accumulated depreciation	(3,699)	(3,975)	(10,224)	(17,898)
Net book amount	60,500	1,166	4,709	66,375
Year ended 31 December 2023				
At 1 January 2023	**60,500**	**1,166**	**4,709**	**66,375**
Additions	**419**	**617**	**1,163**	**2,199**
Disposals	**-**	**(11)**	**(20)**	**(31)**
Adjustments to right-of-use assets	**503**	**-**	**-**	**503**
Depreciation charge for the year	**(1,014)**	**(554)**	**(996)**	**(2,564)**
Depreciation released on disposals	**-**	**11**	**18**	**29**
At 31 December 2023	**60,408**	**1,229**	**4,874**	**66,511**
At 31 December 2023				
Cost or valuation	**65,121**	**5,747**	**16,076**	**86,944**
Accumulated depreciation	**(4,713)**	**(4,518)**	**(11,202)**	**(20,433)**
Net book amount	**60,408**	**1,229**	**4,874**	**66,511**

12 **Property, plant and equipment** *(continued)*

Bank	Land and buildings € 000	Computer equipment € 000	Other € 000	Total € 000
At 1 January 2022				
Cost	41,910	2,709	2,919	47,538
Accumulated depreciation	(1,394)	(2,131)	(2,428)	(5,953)
Net book amount	40,516	578	491	41,585
Year ended 31 December 2022				
At 1 January 2022	40,516	578	491	41,585
Additions	797	560	275	1,632
Disposals	-	(40)	(14)	(54)
Adjustments to right-of-use assets	212	-	-	212
Depreciation charge for the year	(608)	(279)	(141)	(1,028)
Depreciation released on disposals	-	40	13	53
At 31 December 2022	40,917	859	624	42,400
At 31 December 2022				
Cost or valuation	42,919	3,229	3,180	49,328
Accumulated depreciation	(2,002)	(2,370)	(2,556)	(6,928)
Net book amount	40,917	859	624	42,400
Year ended 31 December 2023				
At 1 January 2023	**40,917**	**859**	**624**	**42,400**
Additions	**318**	**457**	**245**	**1,020**
Disposals	**-**	**(11)**	**(20)**	**(31)**
Adjustments to right-of-use assets	**18**	**-**	**-**	**18**
Depreciation charge for the year	**(592)**	**(404)**	**(185)**	**(1,181)**
Depreciation released on disposals	**-**	**11**	**18**	**29**
At 31 December 2023	**40,661**	**912**	**682**	**42,255**
At 31 December 2023				
Cost or valuation	**43,255**	**3,675**	**3,405**	**50,335**
Accumulated depreciation	**(2,594)**	**(2,763)**	**(2,723)**	**(8,080)**
Net book amount	**40,661**	**912**	**682**	**42,255**

In 2023, the adjustments to the Group's right-of-use assets referred to in the table above, comprise the impacts of the reassessment of the lease term in respect of lease extensions in respect of lease agreements of MaltaPost p.l.c, which resulted in an increase in right-of-use assets of €503,000.

The adjustment to the Bank's right-of-use assets pertains to a specific lease contract resulting in an increase in right-of-use assets of €18,000.

In 2022, the adjustments to right-of-use assets referred in the tables above, consist of the impacts of reassessment of lease payments, determined on the basis of an index. These comprise adjustments of the future lease payments based on the NSO Index of Inflation for the Housing (Decontrol) Ordinance in accordance with the respective lease agreement which resulted in an increase in right-of-use assets of €212,000.

12 **Property, plant and equipment** *(continued)*

Land and buildings presented in the tables above include improvements to leasehold properties as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
At 1 January	**2,126**	2,121	**1,493**	1,529
Additions	**155**	296	**147**	120
Depreciation charge for the year	**(265)**	(291)	**(111)**	(156)
At 31 December	**2,016**	2,126	**1,529**	1,493

As at 31 December 2023, property, plant and equipment of the Group and the Bank includes right-of-use assets of €4,442,000 (2022: €4,287,000) and €3,011,000 (2022: €3,174,000) respectively, as disclosed in note 13.

12.1 Fair valuation of land and buildings

The Bank's land and buildings were last revalued on 25 May 2021 while the subsidiary's land and buildings were last revalued on 30 September 2021, by an independent firm of property valuers having appropriate recognised professional qualifications and experience in the location and category of the property being valued. The Directors had reviewed the carrying amounts of the Group's properties, on the basis of the valuations carried out by the independent property valuers.

Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location. During 2021, the carrying values of the properties, classified within property, plant and equipment, have been adjusted to the valuations and the net resultant increase in the carrying values to reflect the property's estimated open market value on an individual asset level, was recognised in other comprehensive income in the property revaluation reserve. The Directors assessed the carrying amounts as at 31 December 2023 on the basis of management's assessments of estimated changes in significant inputs to valuations and other developments since the last external valuation, and concluded that no adjustment to these carrying amounts were necessary as at the date taking cognisance of the development that occurred during the current financial year.

The revaluation surplus net of applicable deferred income taxes is accordingly shown in 'other reserves' in shareholders' equity (note 19).

The Group 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).

The Bank's land and buildings comprise various offices and operational premises, including the Bank's head office. The subsidiary's land and buildings, within property, plant and equipment, comprises the head office, mail delivery hubs and retail outlets. All the Group's recurring property fair value measurements use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 December 2023 and 2022.

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 value hierarchy, is reflected in the table above. The principal movements reflect additions and depreciation charge for the years ended 31 December 2023 and 2022.

For all Group properties, their current use equates to the highest and best use.

12 **Property, plant and equipment** *(continued)*

12.2 Valuation processes

The valuations of the properties are performed on a periodic basis taking into consideration the valuation reports prepared by independent and qualified valuers. These reports are based on both:

- information provided by the Bank such as current terms and conditions of lease agreements. This information is derived from the Bank's financial systems and is subject to the Bank's overall control environment; and
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as rental yields, discount rates and sales prices. These are based on professional judgement and market observation.

The information provided to the valuers, together with the assumptions and the valuation models used by the valuers, are reviewed by management.

When management considers that the valuation report is appropriate, the valuation report is considered by the Audit & Risk Committee as part of its monitoring responsibility for effective financial reporting.

At the end of every reporting period, management and the CFO assess whether any significant changes or developments have been experienced since the last external valuation. This is supported by an assessment performed by the independent firm of property valuers. Management and the CFO report to the Audit and Risk Committee on the outcome of this assessment.

12.3 Valuation techniques

The Level 3 fair valuation of the Bank's property was determined using discounted cash flow (DCF) projections based on significant unobservable inputs. These inputs include estimated rental values per square metre, estimated growth rate in rental values and the discount rate applied.

The external valuations of the subsidiary's Level 3 property have been performed using an adjusted sales comparison approach for the land component and the replacement cost approach for the buildings component.

In view of a limited number of similar sales in the local market, the valuations have predominately been performed using unobservable inputs. The significant input to the adjusted sales comparison approach is generally a sales price per square metre related to transactions in comparable properties located in proximity to the subsidiary's property, with significant adjustments for differences in size, age, exact location and condition of the property. The significant input to the replacement cost approach is the estimated development costs per square metre.

12.4 Information about fair value measurements using significant unobservable inputs (Level 3)

			Significant unobservable inputs		
Description by class based on highest and best use	**Fair value**	**Valuation technique**	**Weighted average rental value €/sqm**	**Growth rate %**	**Discount rate %**
Current use as Bank's offices and operational premises	€27 million	Discounted cash flow approach	358	2	5

Description by class based on highest and best use	**Fair value**	**Valuation technique**	**Significant unobservable input**	**Weighted average €/sqm**
Current use as subsidiary's office premises, retail outlets and mail delivery hubs	€18 million	Adjusted sales comparison approach	Sales price per square metre	2,795

The higher the rental value or the growth rate, the higher the resultant fair value. Conversely, the lower the discount rate, the higher the resultant fair value.

The higher the sales price per square metre or the development costs per square metre, the higher the resultant fair valuation.

12 **Property, plant and equipment** *(continued)*

12.5 Historical cost of land and buildings

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Cost	**38,331**	38,021	**24,550**	24,232
Accumulated depreciation	**(3,491)**	(3,170)	**(2,897)**	(2,592)
Net book amount at 31 December	**34,840**	34,851	**21,653**	21,640

13 **Leases**

The Group leases various locations for offsite ATMs, offices and branches as well as low value items such as IT equipment. Rental contracts are typically made for fixed periods but may have extension options. Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. Most extension options in property and motor vehicle leases have been included in the lease liability as the lease term reflects the exercise of such options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset within 'Property, plant and equipment' (note 12) and a corresponding liability at the date at which the leased asset is available for use by the Group within 'Other liabilities' (note 23).

	Group			Bank		
	Buildings	**Other**	**Total**	**Buildings**	**Other**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
At 1 January 2022						
Cost	5,290	315	5,605	3,582	-	3,582
Accumulated depreciation	(873)	(118)	(991)	(441)	-	(441)
Net book amount	4,417	197	4,614	3,141	-	3,141
Year ended 31 December 2022						
At 1 January 2022	4,417	197	4,614	3,141	-	3,141
Additions	-	-	-	97	-	97
Adjustments upon reassessment of lease payments (see Note 12)	212	-	212	212	-	212
Depreciation charge for the year	(478)	(61)	(539)	(276)	-	(276)
At 31 December 2022	4,151	136	4,287	3,174	-	3,174
At 31 December 2022						
Cost or valuation	5,502	315	5,817	3,891	-	3,891
Accumulated depreciation	(1,351)	(179)	(1,530)	(717)	-	(717)
Net book amount	4,151	136	4,287	3,174	-	3,174

13 **Leases** *(continued)*

	Group			Bank		
	Buildings € 000	**Other € 000**	**Total € 000**	**Buildings € 000**	**Other € 000**	**Total € 000**
Year ended 31 December 2023						
At 1 January 2023	**4,151**	**136**	**4,287**	**3,174**	**-**	**3,174**
Additions	**90**	**120**	**210**	**-**	**120**	**120**
Adjustments upon reassessment of lease term in respect of extensions (see Note 12)	**503**	**-**	**503**	**-**	**-**	**-**
Adjustments upon reassessment of lease payment (see Note 12)	**-**	**-**	**-**	**18**	**-**	**18**
Depreciation charge for the year	**(474)**	**(84)**	**(558)**	**(279)**	**(22)**	**(301)**
At 31 December 2023	**4,270**	**172**	**4,442**	**2,913**	**98**	**3,011**
At 31 December 2023						
Cost or valuation	**6,095**	**435**	**6,530**	**3,909**	**120**	**4,029**
Accumulated depreciation	**(1,825)**	**(263)**	**(2,088)**	**(996)**	**(22)**	**(1,018)**
Net book amount	**4,270**	**172**	**4,442**	**2,913**	**98**	**3,011**

The Group and the Bank's lease liabilities are presented below:

	Group		Bank	
	2023 € 000	2022 € 000	**2023 € 000**	2022 € 000
Lease liabilities (Note 23)				
Current	**407**	361	**149**	131
Non-current	**4,138**	3,867	**2,921**	2,973
	4,545	4,228	**3,070**	3,104

The following tables show the movements in lease liabilities during the year:

	Group		Bank	
	2023 € 000	2022 € 000	**2023 € 000**	2022 € 000
Lease liabilities				
At beginning of year	**4,228**	4,381	**3,104**	2,885
Additions	**183**	-	**69**	97
Payments	**(491)**	(478)	**(194)**	(162)
Interest charge	**122**	113	**73**	72
Adjustments upon reassessment of lease term in respect of extensions	**503**	-	**-**	-
Adjustments upon reassessment of lease payments	**-**	212	**18**	212
At end of year	**4,545**	4,228	**3,070**	3,104

13 **Leases** *(continued)*

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
The income statement reflects the following amounts relating to leases:				
Depreciation charge of right-of-use assets	**558**	539	**301**	276
Interest expense	**122**	113	**73**	72
Expense relating to short-term leases (included in administrative expenses)	**394**	412	**87**	89
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in administrative expenses)	**205**	251	**33**	52

The total cash payments for leases, including short-term and low-value leases, in 2023 was €1,212,000 (2022: €1,188,000) for the Group and €319,000 (2022: €280,000) for the Bank.

There were no expenses relating to variable lease payments which were not included in the measurement of lease liabilities.

14 **Deferred tax assets and liabilities**

Deferred taxes are calculated using the principal tax rate of 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, based on tax effects on the transfer value.

Deferred tax assets and liabilities are attributable to the following:

Group	**Assets**	**Liabilities**	**Net**	Assets	Liabilities	Net
	2023	**2023**	**2023**	2022	2022	2022
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Deferred tax asset, after offsetting						
Differences between depreciation and capital allowances	**-**	**(42)**	**(42)**	-	(110)	(110)
Provisions for liabilities and charges	**288**	**-**	**288**	344	-	344
Credit loss allowances	**4,385**	**-**	**4,385**	3,831	-	3,831
Fair value movements on financial investments	**7,048**	**-**	**7,048**	6,788	-	6,788
Others	**15**	**-**	**15**	36	-	36
	11,736	**(42)**	**11,694**	10,999	(110)	10,889
Deferred tax liability						
Revaluation of property	**-**	**(4,099)**	**(4,099)**	-	(4,099)	(4,099)
	-	**(4,099)**	**(4,099)**	-	(4,099)	(4,099)

14 **Deferred tax assets and liabilities** *(continued)*

Bank	Assets 2023 € 000	Liabilities 2023 € 000	Net 2023 € 000	Assets 2022 € 000	Liabilities 2022 € 000	Net 2022 € 000
Deferred tax asset, after offsetting						
Differences between depreciation and capital allowances	**-**	**(140)**	**(140)**	-	(134)	(134)
Provisions for liabilities and charges	**119**	**-**	**119**	119	-	119
Credit loss allowances	**4,353**	**-**	**4,353**	3,778	-	3,778
Fair value movements on financial investments	**7,049**	**-**	**7,049**	6,789	-	6,789
	11,521	**(140)**	**11,381**	10,686	(134)	10,552
Deferred tax liability						
Revaluation of property	**-**	**(2,800)**	**(2,800)**	-	(2,800)	(2,800)
	-	**(2,800)**	**(2,800)**	-	(2,800)	(2,800)

Movement in deferred tax assets and liabilities relate to:

Group

	At 1 January 2022 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2022 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2023 € 000
Differences between depreciation and capital allowances	(31)	(79)	-	**(110)**	**68**	**-**	**(42)**
Provisions for liabilities and charges	441	(5)	(92)	**344**	**-**	**(56)**	**288**
Credit loss allowances	9,372	(5,519)	(22)	**3,831**	**535**	**19**	**4,385**
Revaluation of property	(4,099)	-	-	**(4,099)**	**-**	**-**	**(4,099)**
Fair value movements on investments	(2,748)	-	9,536	**6,788**	**-**	**260**	**7,048**
Others	-	36	-	**36**	**(21)**	**-**	**15**
	2,935	(5,567)	9,422	**6,790**	**582**	**223**	**7,595**

Bank

	At 1 January 2022 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2022 € 000	Recognised in profit or loss € 000	Recognised in other comprehensive income € 000	At 31 December 2023 € 000
Differences between depreciation and capital allowances	(117)	(17)	-	**(134)**	**(6)**	**-**	**(140)**
Provisions for liabilities and charges	128	(9)	-	**119**	**-**	**-**	**119**
Credit loss allowances	9,274	(5,474)	(22)	**3,778**	**556**	**19**	**4,353**
Revaluation of property	(2,800)	-	-	**(2,800)**	**-**	**-**	**(2,800)**
Fair value movements on investments	(2,747)	-	9,536	**6,789**	**-**	**260**	**7,049**
	3,738	(5,500)	9,514	**7,752**	**550**	**279**	**8,581**

14 Deferred tax assets and liabilities *(continued)*

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months from the end of the reporting period. The deferred tax liabilities reflected in other comprehensive income relate principally to the revaluation of property, plant and equipment and the fair valuation of investments measured at FVOCI (note 34).

15 Inventories

	Group		**Bank**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Postal supplies and materials	**327**	312	**-**	-
Merchandise	**425**	356	**-**	-
Stocks for resale	**570**	544	**570**	544
Other stock items	**69**	59	**69**	58
	1,391	1,271	**639**	602

16 Trade and other receivables

	Group		**Bank**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Trade receivables - net of expected credit loss allowances	**4,840**	5,911	**-**	-
Others	**6,529**	7,332	**3,405**	3,445
	11,369	13,243	**3,405**	3,445

The Expected Credit Loss allowances in respect of trade receivables are analysed as follows:

	Group		**Bank**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Loss allowance as at 1 January	**146**	277	**-**	-
Net credit recognised in profit or loss during the year	**(55)**	(132)	**-**	-
Loss allowance as at 31 December	**91**	145	**-**	-

17 Accrued income and other assets

	Group		**Bank**	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Accrued income	**2,405**	2,533	**2,377**	2,510
Prepayments	**1,499**	1,330	**861**	630
Other assets	**1,299**	1,439	**1,299**	1,441
	5,203	5,302	**4,537**	4,581

18 **Share capital**

Bank

	2023		2022	
	No. of shares 000s	**€ 000**	No. of shares 000s	€ 000
Authorised				
Ordinary shares of €0.125 each	**300,000**	**37,500**	300,000	37,500
Issued				
Ordinary shares of €0.125 each	**154,572**	**19,322**	90,728	11,341

By virtue of a resolution dated 26 May 2022, the shareholders of the Bank approved the allotment of 596,906 ordinary shares of €0.25 each as a bonus issue of one (1) share for every seventy-five (75) shares held by shareholders on the Company's Register of Shareholders as at close of business on 22 June 2022, and thereby increased the issued and fully paid share capital to 45,363,867 shares of €0.25 each, resulting in a paid up share capital of €11,340,967.

By virtue of an Extraordinary General Meeting held on 10 November 2022, the shareholders of the Bank approved extraordinary resolutions relating to the redenomination of the nominal value of the Bank's Share Capital (Share Split) and the increase in the Bank's Authorised Share Capital with effect from 17 November 2022. As at 31 December 2022, the Authorised Share Capital of the Bank stood at €37,500,000 divided into 300,000,000 Ordinary Shares of a nominal value of €0.125 each and the Issued and Fully Paid-Up Share Capital of the Bank stood at €11,340,967 divided into 90,727,734 Ordinary Shares of a nominal value of €0.125 each.

By virtue of a resolution dated 22 June 2023, the shareholders of the Bank approved the allotment of 2,016,197 ordinary shares of €0.125 each as a bonus issue of one (1) for every forty-five (45) held by shareholders on the Company's Register of Shareholders as at close of business on 19 July 2023, and thereby increased the issued and fully paid share capital to 92,743,931 shares of €0.125 each, resulting in a paid share capital of €11,592,991.

By virtue of a resolution dated 22 June 2023, the shareholders of the Bank approved the issuance of up to 65,000,000 new ordinary shares of a nominal value of €0.125 per share in the same class as the shares in the Bank which were in issue as at the date. On 20 September 2023 the Bank announced that it received regulatory approval from Malta Financial Services Authority for a prospectus dated 20 September 2023 in relation to a rights issue of 2 new ordinary shares for every 3 ordinary shares held by shareholders appearing on the Bank's Register of Members at the Central Securities Depositary of the Malta Stock Exchange as at the close of trading on 19 September 2023, at an offer price of €0.75 per share. The admissibility to listing on the Official List of the Malta Stock Exchange of up to 61,828,332 new ordinary shares in the Bank having a nominal value of €0.125 each was also approved.

New ordinary shares of 61,828,332 having a nominal value of €0.125 each were issued, allotted, and admitted to listing on the Official List of Malta Stock Exchange on 16 November 2023, with trading commencing on 17 November 2023, thereby increasing the issued share capital to €19,321,533 divided into 154,572,263 Ordinary Shares of €0.125 each, fully paid-up.

The proceeds have been applied by the Bank to further strengthen its capital base with a view to ensuring that the Bank is well-positioned to meet the capital buffers required in terms of regulatory requirements and to supplement the funding requirements for the implementation of the Bank's strategic objectives as described in the Prospectus.

19 **Reserves**

These reserves are non-distributable.

19.1 Share premium

The increase in the share premium reflected during the financial year ended 31 December 2023 comprises the effects of the issuance of 61,828,332 new ordinary shares at a premium of €0.625 per share (see Note 18), net of incremental costs amounting to €638,000 which are directly attributable to the issue of the new ordinary shares.

Utilisation of the share premium account is governed by the requirements of Article 114 within the Companies' Act, Chapter 386 of the Laws of Malta.

19 **Reserves** *(continued)*

19.2 Revaluation and other reserves

The Group and the Bank had the following reserves as at end of the reporting period:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Property revaluation reserve	**13,109**	13,087	**10,168**	10,168
Investment revaluation reserve	**(13,349)**	(12,733)	**(13,345)**	(12,825)
Reserve for General Banking Risks	**-**	2,903	**-**	2,903
Other reserve	**1,660**	1,382	**1,880**	1,672
	1,420	4,639	**(1,297)**	1,918

The property revaluation reserve relates to the fair valuation of the land and buildings component of property, plant and equipment, and the balance represents the cumulative net increase in fair value of such property, net of related deferred tax.

The investment revaluation reserve represents the cumulative net change in fair values of financial assets measured at FVOCI held by the Group and by the Bank, net of related deferred tax impacts.

Banking Rule BR 09 'Measures addressing credit risks arising from the assessment of the quality of asset portfolios of credit institutions authorised under the Banking Act 1994', issued by the MFSA, requires banks in Malta to hold additional reserves for general banking risks in respect of non-performing loans. This reserve was required to be funded from planned dividends. During the year ended 31 December 2023, this requirement was revoked and the Bank released the carrying amount of the 'Reserve for General Banking Risks' of €2,903,000 to 'Retained earnings'.

The other reserve mainly represents amounts set aside by the Bank from its retained earnings in relation to the Depositor Compensation Scheme (the "Scheme"), reflecting the carrying amount of assets which as at end of the financial year are pledged in favour of the Scheme to comply with local regulatory requirements. The other reserve also reflects the impact of actuarial gains and losses with respect to pension obligations in respect of Maltapost p.l.c. recognised in other comprehensive income in accordance with the Group's accounting policy, net of any related deferred tax impacts.

20 **Amounts owed to banks**

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Term deposits with agreed maturity dates or periods of notice	**23**	23	**23**	23
Repayable on demand	**122**	512	**122**	512
	145	535	**145**	535

21 **Amounts owed to customers**

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Term deposits with agreed maturity dates	**431,721**	391,895	**432,121**	392,296
Repayable on demand	**587,354**	616,536	**589,133**	617,804
	1,019,075	1,008,431	**1,021,254**	1,010,100

22 Provisions for liabilities and other charges

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Obligation to Government	**1,034**	1,305	**-**	-
Legal	**340**	340	**340**	340
Other Expected Credit Losses on off-balance sheet items	**29**	43	**29**	43
	1,403	1,688	**369**	383

These provisions are predominantly non-current in nature.

Group	**2023**				2022			
	Obligation to Government	**Legal claims**	**Expected Credit Loss allowance**	**Total**	Obligation to Government	Legal claims	Expected Credit Loss allowance	Total
	€ 000	**€ 000**	**€ 000**	**€ 000**	€ 000	€ 000	€ 000	€ 000
At 1 January	**1,305**	**340**	**43**	**1,688**	1,678	366	69	2,113
Actuarial gains - recognised in other comprehensive income	**(159)**	**-**	**-**	**(159)**	(264)	-	-	(264)
(Reversal)/charge - recognised in profit or loss	**(429)**	**-**	**-**	**(429)**	28	(26)	-	2
Crystallised obligations	**(150)**	**-**	**-**	**(150)**	(137)	-	-	(137)
Impact of settlements	**467**	**-**	**-**	**467**	-	-	-	-
Change in ECL provision on off-balance sheet items	**-**	**-**	**(14)**	**(14)**	-	-	(26)	(26)
At 31 December	**1,034**	**340**	**29**	**1,403**	1,305	340	43	1,688

The obligation to Government arises in terms of Article 8A of the Pensions Ordinance (Chapter 93 of the Laws of Malta), covering former Government employees who opted to become full-time employees of MaltaPost p.l.c., and who continued to be entitled to pension benefits which go beyond the National Insurance Scheme. The pension benefits scheme is a final salary defined benefit plan and is unfunded.

Obligation to Government recognised in the statement of financial position is derived as follows:

	2023	2022
	€ 000	€ 000
Present value of unfunded obligations	**1,817**	3,754
Crystallised obligations	**(783)**	(1,750)
Fair value of obligations to be reimbursed by Government	**-**	(699)
	1,034	1,305

The amounts recognised in other comprehensive income are as follows:

	2023	2022
	€ 000	€ 000
Net actuarial gains		
- attributable to financial assumptions	**159**	264
	159	264

Crystallised obligations relate to amounts which became payable as at the end of the reporting period.

22 Provisions for liabilities and other charges *(continued)*

In computing the provision, the Group used a weighted average discount rate of 4.42% (2022: 3.85%). Assumptions regarding future mortality experience are based on published mortality tables in Malta, which translate into an average life expectancy of 83 (2022: 83) depending on age and gender of the beneficiaries. These factors are deemed to be the main assumptions used in the computation of the liability. The sensitivity of the obligation to changes in these assumptions is considered immaterial for disclosure purposes.

Bank

	2023			2022		
	Legal claims € 000	**Expected Credit Loss allowance € 000**	**Total € 000**	Legal claims € 000	Expected Credit Loss allowance € 000	Total € 000
At 1 January	**340**	**43**	**383**	366	69	435
Reversal recognised in profit or loss	**-**	**-**	**-**	(26)	-	(26)
Change in ECL provision on off-balance sheet items	**-**	**(14)**	**(14)**	-	(26)	(26)
At 31 December	**340**	**29**	**369**	340	43	383

In addition, the Bank is also a defendant in legal actions by other customers as a result of which the Directors are of the opinion that no liability will arise.

23 Other liabilities

	Group		**Bank**	
	2023 € 000	2022 € 000	**2023 € 000**	2022 € 000
Trade payables	**7,242**	7,150	**-**	-
Bills payable	**3,845**	4,104	**3,845**	4,104
Cash collateral	**764**	846	**764**	846
Lease liabilities	**4,545**	4,228	**3,070**	3,104
Other payables	**12,366**	17,019	**8,557**	9,166
	28,762	33,347	**16,236**	17,220

24 Accruals and deferred income

	Group		**Bank**	
	2023 € 000	2022 € 000	**2023 € 000**	2022 € 000
Accrued interest	**6,152**	5,905	**6,153**	5,906
Other	**5,150**	5,110	**1,805**	1,683
	11,302	11,015	**7,958**	7,589

25 Commitments and contingent liabilities

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Contingent liabilities				
Guarantee obligations incurred on behalf of third parties	**11,286**	10,887	**11,286**	10,886
Documentary credits	**3,029**	2,724	**3,029**	2,724
	14,315	13,611	**14,315**	13,610
Commitments				
Credit facilities and other commitments to lend	**257,338**	202,041	**258,448**	203,150
Capital commitments	**77**	355	**77**	135
	257,415	202,396	**258,525**	203,285

Credit facilities and other commitments to lend funds to customers are granted at prevailing market interest rates at drawdown date.

As at 31 December 2023, expected credit losses arising on contingent liabilities and undrawn commitments to lend of the Group and the Bank amounted to €29,000 (2022: €43,000).

Capital commitments as at 31 December 2023 and 2022 mainly relate to the acquisition of property, plant and equipment.

Total future minimum lease payments under non-cancellable short-term leases, with a lease term of less than 12 months, are as follows:

	2023	2022
	€ 000	€ 000
Current		
Within 1 year	**538**	539

Specific lease agreements include an option to renew the lease after the original term but the amounts presented in the table above do not reflect payments subsequent to renewal.

The Group is also committed to pay a licence fee of 1.50% (2022: 1.50%) of its total gross revenue from postal services within the scope of the universal services.

26 Net interest income

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Interest income				
On loans and advances to banks	**296**	66	**263**	24
On loans and advances to customers	**26,461**	25,520	**26,461**	25,520
On balances with Central Bank of Malta	**3,778**	832	**3,778**	832
On Malta Government treasury bills	**990**	79	**990**	79
	31,525	26,497	**31,492**	26,455
On debt and other fixed income instruments	**3,539**	3,631	**3,460**	3,550
Net amortisation of premiums and discounts	**(1,366)**	(1,108)	**(1,366)**	(1,100)
	2,173	2,523	**2,094**	2,450
Total interest income	**33,698**	29,020	**33,586**	28,905
Interest expense				
On amounts owed to banks	**(2)**	-	**(2)**	-
On amounts owed to customers	**(7,713)**	(6,631)	**(7,716)**	(6,630)
On leases	**(122)**	(113)	**(73)**	(72)
Total interest expense	**(7,837)**	(6,744)	**(7,791)**	(6,702)
Net interest income	**25,861**	22,276	**25,795**	22,203

27 Net fee and commission income

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Fee and commission income				
Retail banking customer fees	**3,246**	3,432	**3,249**	3,434
Brokerage	**59**	63	**59**	63
Other	**2,166**	2,174	**1,167**	1,072
Total fee and commission income	**5,471**	5,669	**4,475**	4,569
Fee and commission expense				
Inter-bank transaction fees	**(270)**	(234)	**(270)**	(234)
Other	**(18)**	(19)	**(18)**	(19)
Total fee and commission expense	**(288)**	(253)	**(288)**	(253)
Net fee and commission income	**5,183**	5,416	**4,187**	4,316

Fee and commission income is principally recognised at a point in time.

28 Postal sales and other revenues

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Stamps, parcel post and postal stationery including income from foreign inbound mail	**33,629**	25,892	**-**	-
Collectibles and philatelic sales	**772**	980	**488**	605
Other	**4,319**	3,821	**-**	-
	38,720	30,693	**488**	605

29 Dividend income

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Subsidiary undertaking	**-**	-	**1,657**	1,657
Equity investment measured at FVOCI	**203**	141	**203**	141
	203	141	**1,860**	1,798

30 Net trading income

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Gains on foreign exchange activities	**378**	793	**525**	634

31 Employee compensation and benefits

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Staff costs				
Wages, salaries and allowances	**22,738**	22,363	**8,424**	8,234
Social security costs	**1,646**	1,649	**471**	449
	24,384	24,012	**8,895**	8,683

	Group		Bank	
	2023	2022	**2023**	2022
Average number of employees				
Executives and senior managerial	**48**	45	**36**	36
Other managerial, supervisory and clerical	**356**	461	**169**	165
Others	**502**	436	**6**	6
	906	942	**211**	207

32 Net movement in expected credit losses

Movement in expected credit losses during 2023 was as follows:

	Group			Bank		
	Write-downs € 000	Reversals of write-downs € 000	Total € 000	Write-downs € 000	Reversals of write-downs € 000	Total € 000
Trade receivables						
Stage 3	-	55	55	-	-	-
Total trade receivables	-	55	55	-	-	-
Loans and advances to customers						
Stage 1	-	759	759	-	759	759
Stage 2	(273)	-	(273)	(273)	-	(273)
Stage 3	(1,753)	-	(1,753)	(1,753)	-	(1,753)
Recoveries	-	38	38	-	38	38
Total loans and advances to customers	(2,026)	797	(1,229)	(2,026)	797	(1,229)
Debt securities measured at FVOCI						
Stage 1	-	55	55	-	55	55
Total financial investments measured at FVOCI	-	55	55	-	55	55
Debt securities measured at amortised cost						
Stage 1	(72)	-	(72)	(72)	-	(72)
Total financial Investments measured at amortised Cost	(72)	-	(72)	(72)	-	(72)
Other financial assets						
Stage 1	(84)	-	(84)	(84)	-	(84)
Total other financial assets	(84)	-	(84)	(84)	-	(84)
Off-balance sheet items						
Stage 1	-	19	19	-	19	19
Stage 2	(5)	-	(5)	(5)	-	(5)
Total off-balance sheet items	(5)	19	14	(5)	19	14
Net movement in expected credit losses	(2,187)	926	(1,261)	(2,187)	871	(1,316)

32 Net movement in expected credit losses *(continued)*

Movement in expected credit losses during 2022 was as follows:

	Group			Bank		
	Write-downs € 000	Reversals of write-downs € 000	Total € 000	Write-downs € 000	Reversals of write-downs € 000	Total € 000
Trade receivables						
Stage 3	-	132	132	-	-	-
Total trade receivables	-	132	132	-	-	-
Loans and advances to customers						
Stage 1	-	2,848	2,848	-	2,848	2,848
Stage 2	-	1,747	1,747	-	1,747	1,747
Stage 3	-	11,259	11,259	-	11,259	11,259
Recoveries	-	293	293	-	293	293
Total loans and advances to customers	-	16,147	16,147	-	16,147	16,147
Debt securities measured at FVOCI						
Stage 1	(62)	-	(62)	(62)	-	(62)
Total financial investments measured at FVOCI	(62)	-	(62)	(62)	-	(62)
Off-balance sheet items						
Stage 1	-	15	15	-	15	15
Stage 2	-	11	11	-	11	11
Total off-balance sheet items	-	26	26	-	26	26
Net movement in expected credit losses	(62)	16,305	16,243	(62)	16,173	16,111

33 Profit before taxation

Profit before taxation is stated after charging and crediting the following:

	Group		Bank	
	2023 € 000	2022 € 000	**2023 € 000**	2022 € 000
After charging				
Directors' emoluments				
- fees	**139**	130	**93**	86
- other emoluments	**395**	392	**391**	388
After crediting				
Net income from investment services	**334**	326	**334**	326

33 **Profit before taxation** *(continued)*

Other operating costs are analysed as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Foreign outbound mail	**14,889**	8,904	**-**	-
Utilities, insurance and security	**1,020**	1,049	**649**	636
Depositor and investor compensation schemes	**488**	570	**488**	570
Information system and telecommunication	**2,570**	2,469	**1,759**	1,603
Repairs and maintenance	**1,194**	1,044	**422**	368
Short-term and low value leases	**599**	663	**121**	141
Expenses associated with card services	**1,108**	1,040	**1,108**	1,040
Licence fees	**639**	737	**403**	498
Legal and professional fees	**635**	525	**405**	281
Other administrative expenses	**4,034**	3,866	**2,241**	2,102
Total other operating costs	**27,176**	20,867	**7,596**	7,239

Other administrative expenses mainly comprise professional expenses, subcontracted services and other services or expense items which are incurred in the course of the operations of the Group and the Bank.

Fees charged by the parent company auditor for services rendered during the financial years ended 31 December 2023 and 2022 relate to the following:

	Audit	**Other assurance/ advisory services**	**Tax compliance services**
	€ 000	**€ 000**	**€ 000**
Bank			
2023	**108**	**26**	**4**
2022	103	26	4
Subsidiary companies			
2023	**85**	**18**	**7**
2022	82	18	2

During the current year, fees amounting to €115,500 (2022: €55,500) have been charged to the Bank by connected undertakings of the Bank's auditor, in respect of regulatory advisory services.

During the current year, fees amounting to €5,000 (2022: €23,500) have been charged to the subsidiary companies by connected undertakings of the subsidiaries' auditor, in respect of regulatory advisory services, and tax advisory and compliance services.

34 Income tax expense

Recognised in profit or loss:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Current taxation				
Current tax expense	**5,491**	4,483	**5,603**	4,779
Deferred taxation				
Deferred tax (credit)/charge (note 14)	**(582)**	5,567	**(550)**	5,500
	4,909	10,050	**5,053**	10,279

The tax on the profit before income tax differs from the theoretical amount that would arise using the tax rate applicable as follows:

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Profit before tax	**14,527**	27,676	**13,850**	28,767
Tax on profit at 35%	**5,084**	9,687	**4,848**	10,068
Tax effect of:				
Expenses not deductible for tax purposes	**313**	290	**295**	257
Deductions attributable to usage of electric vehicles	**(445)**	-	**-**	-
Income taxed at different tax rates	**(38)**	(24)	**(16)**	(1)
Share of results of associate	**110**	140	**-**	-
Other differences	**(115)**	(43)	**(74)**	(45)
	4,909	10,050	**5,053**	10,279

The tax impacts, which are entirely attributable to deferred taxation, relating to components of other comprehensive income and accordingly presented directly in equity are as follows:

Group	**2023**			2022		
	Before tax	**Tax credit/ (charge)**	**Net of tax**	Before tax	Tax credit /(charge)	Net of tax
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Fair valuation of financial assets measured at FVOCI:						
- Net changes in fair value	**(1,257)**	**392**	**(865)**	(27,542)	9,536	(18,006)
- Reclassification adjustments to profit or loss upon disposal	**376**	**(132)**	**244**	-	-	-
- Net movement attributable to change in credit risk	**(55)**	**19**	**(36)**	62	(22)	40
Remeasurements of defined benefit obligations	**159**	**(56)**	**103**	264	(92)	172
	(777)	**223**	**(554)**	(27,216)	9,422	(17,794)

34 **Income tax expense** *(continued)*

Bank	**2023**			2022		
	Before tax	**Tax credit /(charge)**	**Net of tax**	Before tax	Tax credit /(charge)	Net of tax
	€ 000	**€ 000**	**€ 000**	€ 000	€ 000	€ 000
Fair valuation of financial assets measured at FVOCI:						
- Net changes in fair value	**(1,120)**	**392**	**(728)**	(27,200)	9,536	(17,664)
- Reclassification adjustments to profit or loss upon disposal	**376**	**(132)**	**244**	-	-	-
- Net movement attributable to change in credit risk	**(55)**	**19**	**(36)**	62	(22)	40
	(799)	**279**	**(520)**	(27,138)	9,514	(17,624)

35 **Earnings per share**

Earnings per share is based on the net profit for the year divided by the weighted average number of ordinary shares in issue during the year.

	Group	
	2023	2022 Restated
Net profit attributable to equity holders of the Bank (€ 000)	**9,064**	17,530
Weighted average number of ordinary shares in issue	**100,366,602**	92,743,931
Earnings per share	**€0.09**	€0.19

The comparative information has been restated to reflect the bonus issue effected during the current financial year, and the related impact on the number of shares in issue, referred to in Note 18, retrospectively. The weighted average number of ordinary shares in issue during the year for 2023 is based on the number of shares determined above of 92,743,931 adjusted for the issuance of 61,828,332 ordinary shares on 16 November 2023 under the rights issue, giving rise to a weighted average of 100,366,602 ordinary shares in issue during 2023.

The Bank has no instruments or arrangements which give rise to dilutive potential ordinary shares, and accordingly diluted earnings per share is equivalent to basic earnings per share.

36 **Dividends**

	2023	2022
Dividends paid by the Bank (€ 000)	**-**	873
€ per share – net	**-**	0.02

The dividends per share reflected in the table above has been calculated on the basis of the number of ordinary shares in issue of 45,363,867 as at 26 May 2022, being the date of approval of the dividends by the shareholders of the Annual General Meeting.

In respect of the financial year ended 31 December 2023, a gross dividend of 1.63 cent per nominal €0.125 share (net dividend of 1.06 cent for a total amount of €1,638,000) is being proposed for approval by the shareholders to be distributed. A resolution to this effect will be proposed at the Annual General Meeting.

37 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	Group		Bank	
	2023	2022	**2023**	2022
	€ 000	€ 000	**€ 000**	€ 000
Balances with Central Bank of Malta (note 5)	**117,882**	51,288	**117,882**	51,288
Malta Government treasury bills (note 5)	**8,920**	22,911	**8,920**	22,911
Cash in hand (note 5)	**8,886**	7,115	**8,151**	6,274
Loans and advances to banks (note 7)	**36,139**	25,016	**33,605**	20,937
Amounts owed to banks (note 20)	**(122)**	(512)	**(122)**	(512)
Cash and cash equivalents	**171,705**	105,818	**168,436**	100,898

38 Related parties

38.1 Identity of related parties

The Bank considers that it has a related party relationship with the National Development and Social Fund, subsidiary and associated companies, the Bank's Directors and Chief Officers (collectively deemed to be key management personnel), which latter category comprises Chief Executive Officer, Deputy Chief Executive Officers, Chief Financial Officer, Chief Information Officer, Chief Risk Officer, Chief Legal Officer, Chief Officer – Group Corporate Services) and other related parties, principally entities controlled by key management personnel.

The Government of Malta is also considered to be a related party, through its control over the National Development and Social Fund (NDSF). Nevertheless, in its Company Announcement dated 10 August 2018, the Bank reported that the NDSF had reaffirmed that:

Quote

- it does not intend to increase its holdings in the Bank;
- it shall not act in concert with any other shareholders;
- it will seek to reduce its shareholding in the Bank in an orderly manner, at the right market conditions and by agreement with the regulatory authorities;
- it has no intention of exerting any influence on the operations of the Bank; and
- this acquisition will not result in a change in control of the Bank.

Unquote

The Group's exposure to the Government of Malta arises through its investment in Government treasury bills and debt securities which are disclosed in notes 5 and 6, respectively, and other balances disclosed in note 22.

Other related party transactions with government owned/controlled entities were carried out on an arm's length basis and on normal commercial terms. The transaction amounts in this respect are not considered material for disclosure purposes, as they do not materially impact the Group's financial results and financial position.

38 **Related parties** *(continued)*

38.2 Principal transaction arrangements and agreements involving key management personnel and entities controlled by key management personnel.

	2023	2022
	€ 000	€ 000
Income statement		
Interest expense	**5**	4
Interest receivable and similar income	**30**	35
Other operating costs	**1,298**	1,005

	2023	2022
	€ 000	€ 000
Statement of financial position		
Loans and advances to customers	**2,380**	1,518
Amounts owed to customers	**1,698**	2,024
Contingent liabilities and commitments	**464**	1,048

	Loans and advances 2023	**Commitments 2023**	Loans and advances 2022	Commitments 2022
	€ 000	**€ 000**	€ 000	€ 000
At 1 January	**1,518**	**(1,047)**	11,123	(1,521)
Additions	**1,273**	**(376)**	86	(950)
Reductions/ repayments	**(564)**	**950**	(9,691)	1,424
Other movements	**153**	**11**	-	-
At 31 December	**2,380**	**(462)**	1,518	(1,047)

The above banking facilities are part of long-term commercial relationships and were made in the ordinary course of business on substantially the same terms, including rates and security, as for comparable transactions with persons of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features.

38.3 Compensation to key management personnel

Directors' remuneration and salaries to chief officers amount to €1,236,000 (2022: €933,000).

38 **Related parties** *(continued)*

38.4 Transactions with other related parties

38.4.1 Subsidiaries

Information relating to principal transactions undertaken by the Bank with its subsidiary companies during the year:

	2023	2022
	€ 000	€ 000
Income statement		
Fee and commission income	**3**	2
Interest expense	**2**	1
Other operating income	**70**	81
Other operating costs	**336**	294
Statement of financial position		
Loans and advances to customers	**-**	1
Trade and other receivables	**4**	70
Accrued income and other assets	**7**	3
Amounts owed to customers	**2,180**	1,669
Accruals and deferred income	**49**	43
Contingent liabilities	**300**	369
Commitments	**1,110**	1,109

During the year, Redbox Limited received gross dividends from MaltaPost p.l.c. amounting to €1,657,000 (2022: €1,657,000). The Bank injected further capital into certain subsidiaries as disclosed in Note 9.

During the year ended 31 December 2023, other operating costs included an amount of €92,000 relating to financial support given to Lombard Select SICAV p.l.c. in the form of expenses incurred on its behalf without seeking reimbursement, to support its working capital in the initial phase of its operations. As at 31 December 2023, the entity had not yet started operating.

As at 31 December 2023, lease liabilities payable to the Bank by MaltaPost p.l.c. amounted to €144,042 in respect of properties which are being leased to MaltaPost p.l.c.

38.4.2 Associates

Information relating to principal transactions undertaken by the Bank with its associates during the year:

	2023	2022
	€ 000	€ 000
Income statement		
Interest receivable and similar income	**-**	15
Fee and commission income	**36**	29
Other operating costs	**60**	61
Statement of financial position		
Loans and advances to customers/Accrued income and other assets	**2,379**	2,379
Investments in associates	**1,645**	1,645
Amounts owed to customers	**9**	7

39 **Investor compensation scheme**

In accordance with the requirements of the Investor Compensation Scheme Regulations, 2003 issued under the Investment Services Act, 1994 (Chapter 370 of the Laws of Malta) licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively licence holders can elect to pay the amount of variable contribution directly to the Scheme. Lombard Bank Malta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

40 **Statutory information**

Lombard Bank Malta p.l.c. is a public limited liability company domiciled and incorporated in Malta.

1 Risk management

1.1 Overview of risk disclosures

The Additional Regulatory Disclosures seek to increase public disclosure with respect to a bank's capital structure and adequacy as well as its risk management policies and practices. These disclosures have been prepared by the Bank in accordance with the Pillar III quantitative and qualitative disclosure requirements as governed by Banking Rule BR/07: Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, 1994, issued by the Malta Financial Services Authority. These disclosures are published by the Bank on an annual basis as part of the Annual Report. The rule follows the disclosure requirements of Directive 2013/36/EU (Capital Requirements Directive) and EU Regulation No. 575/2013 (Capital Requirements Regulation) of the European Parliament and of the Council of 26 June 2013.

Consistent with the requirements of banking regulations, these disclosures are not subject to an external audit, except to the extent that any disclosures are equivalent to those made in the Financial Statements which have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted by the EU. The Bank is satisfied that internal verification procedures ensure that these Additional Regulatory Disclosures are presented fairly.

1.2 Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

To enhance its risk oversight efforts, the Board of Directors established an Audit & Risk Committee with a mandate to supervise and monitor inter alia, the Bank's compliance with its risk management policies and procedures, review any financial information, statements and disclosures to be issued and the adequacy of the Bank's risk management framework, including its risk appetite statement and strategy.

The Bank has also established the Assets & Liabilities Committee ('ALCO') and the Credit Committee that are responsible for developing the Bank's risk management policies in their specific areas.

The Bank also has an independent Risk Management function as the Bank's second line of defence and independent of operations which also reports directly to the ARC and is represented during meetings of the above-mentioned committees. It is responsible for ensuring that the Bank's Risk Management Policy, Risk Appetite Statement and any other guidelines support the Bank's objectives. It is also responsible for further identifying any unmitigated risks and for formulating suitable action plans for their treatment. The function monitors the high-level principles that guide staff in its day-to-day management of risk through oversight of policies, limits, procedures, processes and systems as well as by using methods and tools for risk measuring, monitoring, controlling and reporting.

The Bank considers risk management a core competency that helps produce consistently high returns for its various stakeholders. The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank aims to manage all major types of risk by applying methods that meet best practice. The Bank considers it important to have a clear distribution of responsibilities within risk management. One of the main tasks of the Bank's executive management is to set the framework for this area. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy and thus in its ambition to be a strong financial institution. The Bank's internal risk management processes support this objective.

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

The Bank has adopted the Standardised Approach and the Basic Method with respect to the calculation of capital requirements and management of credit and foreign exchange risk respectively, as well as the Basic Indicator Approach with respect to operational risk.

1 **Risk management** *(continued)*

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board deems the risk management framework adopted by the Bank to be adequate and gives assurance to the Bank's stakeholders that the risk management systems are appropriate in relation to the Bank's risk profile and strategy.

The Bank's different operational functions, on an entity-wide basis, are primarily responsible for risk management procedures and activities in their respective areas. All the operational functions have a primary role in risk management at Bank-wide level. The Risk Management Function provides oversight, independently from operations. The Bank's risk management is implemented and handled properly by the operational functions. The Bank's Internal Audit Function, through verification, ensures that effective risk management procedures and activities are adequately designed and operating as prescribed.

1.3 Board appointed Committees

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

- setting business objectives, goals and the general strategic direction for Management with a view to maximise value;
- selecting and appointing the Chief Executive Officer who is entrusted with the day-to-day operations of the Bank;
- management of the Bank's operations, as well as appointment of members of Management;
- ensuring that significant business risks are identified and appropriately managed; and
- setting the highest business standards and code for ethical behaviour, and monitoring performance in this respect.

In deciding how best to discharge its responsibilities, the Board upholds a policy of clear demarcation between its role and responsibilities and those of Management. It has defined the level of authority that it retains over strategy formulation and policy determination, and delegated authority and vested accountability for the Bank's day-to-day business in the Assets & Liabilities Committee and Credit Committee and, for the Bank's day-to-day operations, in an Executive Team comprising the Chief Executive Officer and Chief Officers. The Audit & Risk Committee reviews the processes and procedures to ensure the effectiveness of the Bank's system of internal control, as well as the implementation of the Board's risk strategy by Management. The Audit & Risk Committee is supported by the Internal Audit, Risk Management and Compliance functions.

The ALCO monitors the Bank's financial performance, considers investment policy and overseas counterparty limits. Membership of this Committee is made up of a number of Chief Officers and Senior Managers including managers from Finance and Treasury Departments. The Chief Executive Officer is Chairman of ALCO and retains primary responsibility for asset and liability management. The ALCO oversees risk management practices in relation to asset and liability management.

The Credit Committee considers the development of general lending principles and oversees risk management practices in lending operations. The Credit Committee is chaired by the Chief Executive Officer and is composed of other Chief Officers as well as other Senior Officers.

The Audit & Risk Committee assists the Board in fulfilling its supervisory and monitoring responsibility by reviewing the financial statements and disclosures, the system of internal control established by management as well as the external and internal audit processes. The Audit & Risk Committee is also responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The Bank's independent Internal Audit Department reviews the adequacy and proper operation of internal controls in individual areas of operation and reports its findings to the Audit & Risk Committee. The Internal Audit Function carries out both regular and ad-hoc reviews of risk management controls and procedures, in both cases reporting its findings.

The Bank has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Bank's objectives.

1 **Risk management** *(continued)*

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

The Bank is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Bank policies and procedures are in place for the reporting and resolution of fraudulent activities.

1.4 Key risk components

The Bank's Board of Directors is empowered to set out the overall risk policies and limits for all material risk types. The Board also decides on the general principles for managing and monitoring risks.

To ensure coherence between the Bank's strategic considerations regarding risk-taking and day-to-day decisions, from time to time, the Bank establishes its risk appetite as a strategic tool. Risk appetite is the maximum risk that the Bank is willing to assume to meet business targets. The Bank's risk appetite is set in a process based on a thorough analysis of its current risk profile. The Bank identifies a number of key risk components and for each determines a target that represents the Bank's views on the component in question.

In terms of the CRR, an 'exposure' is the amount at risk arising from the reporting credit institution's assets and off-balance sheet instruments. Consistent with this, an exposure would include the amount at risk arising from the Bank's:

- claims on a customer including actual and potential claims which would arise from the drawing down in full of undrawn advised facilities, which the Bank has committed itself to provide;
- contingent liabilities arising in the normal course of business, and those contingent liabilities which would arise from the drawing down in full of undrawn advised facilities which the Bank has committed itself to provide; and
- other on and off-balance sheet financial assets and commitments.

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

The main categories of risk are:

- *Credit risk*: Credit risk stems from the possible non-prompt repayment or non-payment of existing and contingent obligations by the Bank's counterparties, resulting in the loss of equity and profit. It comprises the risk that deterioration in the financial condition of a borrower will cause the asset value to decrease or be extinguished. Country risk and Settlement risk are included in this category. Country risk refers to the risk of losses arising from economic or political changes that affect the country from which the asset originates. Settlement risk refers to the risk of losses through failure of the counterparty to settle outstanding dues on the settlement date owing to bankruptcy or other causes.
- *Market risk:* Risk of losses arising from unfavourable changes in the level and volatility of interest rates, foreign exchange rates or investment prices.
- *Liquidity risk:* Liquidity risk may be divided into two sub-categories:
  - Market (product) liquidity risk: Risk of losses arising from difficulty in accessing a product or market at the required time, price and volume.
  - Funding liquidity risk: Risk of losses arising from a timing mismatch between investing, placements and fund raising activities resulting in obligations missing the settlement date or satisfied at higher than normal rates.
- *Operational risk:* Risk of loss resulting from the lack of skilful management or good governance within the Bank and the inadequacy of internal control, which might involve internal operations, staff, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks.

1.5 Risk statement by the Board of Directors

The Bank's business model throughout the years has been that of retaining a stable deposit base and granting credit principally to the commercial real estate sector, particularly because the Board strongly believes that despite the increased capital requirements

1 **Risk management** *(continued)*

introduced by the CRR, an active commercial real estate market is a fundamental source of employment and economic growth in Malta. Nonetheless, the Bank is conscious of the risks involved in commercial real estate lending, and thus ensures it prices loans by reference to underlying risks. In this respect, the Bank's return on assets, expressed as a percentage of profit after tax to average total assets, for the reporting period ended 31 December 2023 amounts to 0.7%.

In this respect, the loan loss coverage ratio, calculated as provisions for impairment on non-performing exposures to total non-performing exposures, which as at 31 December 2023, amounted to 27.3% differs from that experienced within the sector, which generally tends to fluctuate between 50% to 55%. This clearly illustrates the robustness of the Bank's risk management practices particularly in respect of credit risk.

2 Credit risk

2.1 Introduction to Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

Credit risk constitutes the Bank's largest risk in view of its significant lending and securities portfolios, which are monitored in several ways. The Bank is fully aware of such risk and places great importance on its effective management.

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

2.2 Credit risk management

The Board of Directors has delegated the responsibility for the monitoring of management of credit risk to the Credit Committee. The granting of a credit facility is based on the Bank's insight into the customer's financial position, which is reviewed regularly to assess whether the basis for the granting of credit has changed. Furthermore, the customer must be able to demonstrate a reasonable ability to repay the debt. Approval limits are graded starting from authorised staff members and leading up to the Credit Committee and the Board of Directors depending on the size and the particular risk attached to the loan. Facilities are generally adequately secured either by property and/or guarantees and are reviewed periodically by Management both in terms of the exposure to the Bank and to ensure that security is still valid.

The Bank's Credit Department is responsible for undertaking and managing credit risk in relation to the entity's lending activities; covering all the stages in the lending cycle comprising credit proposal, loan approval, effecting advances, credit and collateral monitoring, processing repayments and credit recovery procedures. The Bank manages, limits and controls concentrations of credit risk arising from loans and advances wherever they are identified – in particular, to individual customers and groups, and to industry sectors. Such risks are monitored on a revolving basis and subject to frequent review, as considered necessary. The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored at end of day on a daily basis and on a real-time basis too. As highlighted previously, the Bank's reporting framework with respect to lending credit risk is comprehensive with regular reporting by the Credit Department to the Board, Credit Committee and Executive Team on adherence to limits, activity levels, performance measures and specific credit risk events.

In order to minimise the credit risk undertaken, counterparty credit limits may be defined, which consider a counterparty's creditworthiness, the value of collateral and guarantees which can reduce the overall credit risk exposure, as well as the type and the duration of the credit facility. In order to examine a counterparty's creditworthiness, the following are considered: country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates. The Bank has set limits of authority and has segregated duties so as to maintain impartiality and independence during the approval process and control for new and existing credit facilities.

2 **Credit risk** *(continued)*

The Bank's maximum exposure amount to credit risk before taking account of any collateral held or other credit enhancements can be classified in the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, Malta Government treasury bills, cheques in course of collection, financial assets measured at FVOCI and amortised cost as well as loans and advances to banks and customers. The maximum exposure of these financial assets to credit risk equals their carrying amount.
- Guarantee obligations incurred on behalf of third parties. The maximum exposure to credit risk is the full amount that the Bank would have to pay if the guarantees are called upon.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities.

The Bank's credit risk exposure amounts reflect the maximum exposure to credit risk before collateral held or other credit enhancements in accordance with the regulatory information submitted to the MFSA and are as follows:

	2023 Average value € 000	2023 Year end Exposure value € 000
Central governments or central banks	**309,416**	**317,638**
Public sector industries	**536**	**529**
Multilateral development banks	**7,712**	**7,304**
Institutions	**57,543**	**59,829**
Corporates	**72,522**	**77,653**
Retail	**23,712**	**32,748**
Secured by mortgages on immovable property	**533,734**	**550,942**
Exposures in default	**15,337**	**14,952**
Exposures associated with particularly high risk	**123,402**	**116,114**
Equity	**24,176**	**24,994**
Other items	**60,844**	**61,571**
	1,228,934	**1,264,274**

The exposures set out in the table above are based on the sum of on-balance sheet exposures and off-balance sheet exposures adjusted for the credit conversion factors stipulated in Article 166(10) of the CRR.

The following is an analysis of the Bank's exposure to credit risk split by on-balance sheet assets and off-balance sheet instruments:

	2023 € 000
On-balance sheet assets	**1,236,321**
Other adjustments	**513**
Off-balance sheet instruments	**27,440**
	1,264,274

2 **Credit risk** *(continued)*

As set out in the Financial Statements under 'Accounting estimates and judgements', the measurement of the Expected Credit Loss allowance for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income ('FVOCI') is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. As previously explained, the level of economic uncertainty remained elevated during the financial year ended 31 December 2023, primarily driven by the geopolitical developments mentioned above, as well as widespread supply chain disruptions, which triggered inflationary pressures across the world. In order to curb the spiralling effect of inflationary pressures, the European Central Bank ('ECB') and other national central banks applied monetary policy tools at their disposal by increasing interest rates to manage demand.

At the reporting date the asset quality of the Bank's financial assets remains sound and there is no evidence of an increase in credit risk. The Bank will continue to closely monitor its exposures in the light of developments so as to align the Expected Credit Loss accordingly.

2.3 Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether the category relates to geographical location, industry sector or counterparty type.

As at 31 December 2023, no loans and advances to customers were deemed to be prohibited large exposures, prior to any eligible exemptions, in accordance with the requirements of Part Four of the CRR, Large Exposures. A limited number of customers account for a certain percentage of the Bank's loans and advances.

Credit risk attributable to concentration of investments is not considered by the Directors to be significant in view of the credit standing of the issuers.

The following tables analyse the concentration of credit risk by geographical region, industry sector and residual maturity at the end of the reporting period.

2.3.1 Credit risk exposures analysed by geographical region

The Bank monitors concentration of credit risk by geographical region. The following table summarises the country of risk by exposure class:

At 31 December 2023	Total € 000	Malta € 000	Eurozone € 000	Other European countries € 000	Other € 000
Central governments or central banks	**317,638**	**311,633**	**2,641**	**2,023**	**1,341**
Public Sector entities	**529**	**-**	**529**	**-**	**-**
Multilateral Development Banks	**7,304**	**-**	**5,172**	**-**	**2,132**
International Organisations	**-**	**-**	**-**	**-**	**-**
Institutions	**59,829**	**12,866**	**36,997**	**4,968**	**4,998**
Corporates	**77,653**	**76,307**	**803**	**543**	**-**
Retail	**32,748**	**32,748**	**-**	**-**	**-**
Secured by mortgages on immovable property	**550,942**	**550,942**	**-**	**-**	**-**
Exposures in default	**14,952**	**14,952**	**-**	**-**	**-**
Items associated with particularly high risk	**116,114**	**116,114**	**-**	**-**	**-**
Equity	**24,994**	**24,095**	**-**	**-**	**899**
Other items	**61,571**	**61,571**	**-**	**-**	**-**
	1,264,274	**1,201,228**	**46,142**	**7,534**	**9,370**

2 **Credit risk** *(continued)*

2.3.2 Credit risk exposures analysed by industry sector

The following are the exposure amounts split by exposure class according to the respective industry concentration:

At 31 December 2023	Total € 000	Manufacturing € 000	Tourism € 000	Trade € 000	Property and construction € 000	Personal, professional and home loans € 000	Financial institutions € 000	Other sectors € 000
Central governments or central banks	317,638	-	-	-	-	-	317,638	-
Public Sector entities	529	-	-	-	-	-	529	-
Multilateral Development Banks	7,304	-	-	-	-	-	7,304	-
International Organisations	-	-	-	-	-	-	-	-
Institutions	59,829	-	-	-	-	-	59,829	-
Corporates	77,653	8,523	4,588	27,472	7,659	3,819	19,975	5,617
of which: SME	14,379	3,472	1,003	7,291	1,456	-	997	160
Retail	32,748	35	634	210	272	29,225	11	2,361
of which: SME	1,891	25	601	86	54	1,016	11	98
Secured by mortgages on immovable property	550,942	2,016	49,235	24,827	136,437	211,819	101,200	25,408
of which: SME	59,404	48	1,189	4,927	31,895	2,160	17,944	1,241
Exposures in default	14,952	292	975	353	9,070	1,146	375	2,741
of which: SME	6,422	152	-	184	6,045	-	-	41
Items associated with particularly high risk	116,114	-	-	1,328	99,747	2,217	12,649	173
of which: SME	17,621	-	-	-	17,621	-	-	-
Equity	24,994	230	1,645	-	-	-	4,343	18,776
Other items	61,571	-	2,379	-	41,461	-	10,687	7,044
	1,264,274	11,096	59,456	54,190	294,646	248,226	534,540	62,120

2 **Credit risk** *(continued)*

2.3.3 Credit risk exposures analysed by residual maturity

The residual maturity breakdown by exposure class at the end of the reporting period was as follows:

At 31 December 2023	Total € 000	Less than 1 year € 000	Over 1 but less than 5 years € 000	Over 5 years € 000
Central Government or central banks	**317,638**	**171,428**	**92,634**	**53,576**
Public sector entities	**529**	**529**	**-**	**-**
Multilateral Development Banks	**7,304**	**3,541**	**3,763**	**-**
International Organisations	**-**	**-**	**-**	**-**
Institutions	**59,829**	**36,988**	**5,210**	**17,631**
Corporates	**77,653**	**34,011**	**15,991**	**27,651**
Retail	**32,748**	**5,800**	**4,515**	**22,433**
Secured by mortgages on immovable property	**550,942**	**107,661**	**68,638**	**374,643**
Exposures in default	**14,952**	**6,571**	**252**	**8,129**
Exposures associated with particularly high risk	**116,114**	**61,891**	**53,408**	**815**
Equity exposures	**24,994**	**24,994**	**-**	**-**
Other items	**61,571**	**61,571**	**-**	**-**
	1,264,274	**514,985**	**244,411**	**504,878**

2.3.4 Counterparty banks' risk

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks.

Within its daily operations, the Bank transacts with banks and other financial institutions. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The Bank primarily places short-term funds with pre-approved banks subject to the limits in place and subject to the respective institutions' credit rating being within controlled parameters. The positions are checked against the limits in real time and at end of day on a daily basis.

2.3.5 Country risk

The Bank runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country credit risk exposures are monitored and reviewed periodically. The Bank's assets are predominantly in Malta. The Bank's exposures to other countries are mainly limited to bank balances and money market placements with a total carrying amount of €33,597,000 (2022: €20,926,000) at the end of the reporting period.

2.4 Use of External Credit Assessment Institutions

In calculating its risk-weighted exposure amounts, the Bank uses an External Credit Assessment Institution ('ECAI') for Central governments, Institutions, Corporates and Items associated with particularly high risk for which a credit assessment is available. The credit quality of such exposures is determined by reference to external credit ratings applicable to issuers or counterparties. The Bank maps the external ratings to the credit quality steps prescribed in the CRR as required by CEBS publication '*Standardised Approach: Mapping of ECAIs' credit assessments to credit quality steps*'.

2 **Credit risk** *(continued)*

The following are the exposure values for which an ECAI is used:

At 31 December 2023	Credit quality step	Central governments or central banks € 000	Public sector entities € 000	Multilateral development banks € 000	International organisations € 000	Institutions € 000	Total € 000
AAA to AA-	1	2,853	529	7,304	-	7,559	18,245
A+ to A-	2	311,633	-	-	-	31,719	343,352
BBB+ to BBB-	3	3,152	-	-	-	15,507	18,659
BB+ to BB-	4	-	-	-	-	-	-
B+ to B-	5	-	-	-	-	-	-
CCC+ and below	6	-	-	-	-	5,044	5,044
		317,638	529	7,304	-	59,829	385,300

2.5 Credit quality of the Bank's lending portfolio

The Bank manages the credit quality of its loans and advances to customers by using internal risk grades, which provide a progressively increasing risk profile ranging from 'P1' (best quality, less risky) to 'NP'. These risk grades are an essential tool for the Bank to identify both non-performing exposures and better-performing customers. The internal risk grades used by the Bank are as follows:

- Performing: Internal grade 'P1'
- Under performing: Internal grades 'P2', 'P3' and 'PF'; and
- Non-performing: Internal grade 'NP'.

P1

The Bank's loans and advances to customers which are categorised as 'P1' are principally debts in respect of which the payment of interest and/or capital is not overdue by 30 days and with no recent history of customer default. Management does not expect any losses from non-performance by these customers.

P2

Loans and advances which attract a 'P2' grading are those which are receiving the close attention of the Bank's Management and are being reviewed periodically in order to determine whether such advances should be reclassified to either 'P1' or 'P3' classification. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 30 days and over but not exceeding 60 days.

P3

Loans and advances which attract a 'P3' grading are those having the weaknesses inherent in those loans and advances classified as 'P2' with the added characteristics that repayment is inadequately protected by the current sound worth and paying capacity of the borrower. Loans and advances so graded have a well-defined weakness or weaknesses that could jeopardise the repayment of the debt. They are characterised by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by 60 days and over but not exceeding 90 days.

PF

Loans and advances which attract a 'PF' grading are those facilities (other than Non-Performing Exposures) in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments (financial difficulties).

2 **Credit risk** *(continued)*

A concession is deemed to have taken place when any of the following two actions are taken;

(a) a modification of the previous terms and conditions of a contract, as the debtor is considered unable to comply therewith, due to its financial difficulties ('troubled debt') to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties; and/or
(b) a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

NP

Loans and advances which attract a 'NP' grading are those facilities where the Bank deems the recoverability of principal to be remote as a result of worsening conditions of loans and advances classified as 'P3'. Credit facilities that attract this category include those where the payment of interest and/or capital becomes overdue by more than 90 days. These loans and advances are generally past due by more than 90 days and comprise those exposures which are deemed by the Bank as credit-impaired (see definition in note 2.3.10).

The following table provides a detailed analysis of the credit quality of the Bank's lending portfolio.

	2023
	€ 000
Gross loans and advances to customers	
Performing ('*Stage 1' assets*)	**611,313**
Under-performing ('*Stage 2' assets*)	**129,224**
Non-performing ('*Stage 3' assets*)	**29,218**
	769,755

2.5.1 Credit-impaired loans and advances to customers

Credit-impaired loans and advances are advances which are either more than 90 days past due, or for which the Bank determines as probable that it will be unable to collect all principal and interest due according to the contractual terms of the loans and advances agreement(s). The Bank's credit-impaired loans and advances mainly relate to a number of independent customers which are not meeting repayment obligations or deemed by the Bank as unlikely to pay their obligations to the Bank without recourse by the Bank to realising the collateral.

2.5.2 Past due but not credit-impaired loans

Past due but not credit-impaired loans include loans and advances where contractual interest or principal payments are past due. Credit losses that may arise are covered through the Bank's assessment of Expected Credit Loss allowances.

Loans and advances to customers are analysed into credit-impaired, past due and other exposures as follows:

	2023
	€ 000
Gross loans and advances to customers	
Credit-impaired	**29,218**
Past due but not credit-impaired	**12,402**
Neither past due nor credit-impaired	**728,135**
	769,755

2 **Credit risk** *(continued)*

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

At 31 December 2023	**Impaired € 000**	**Past due but not impaired € 000**
Manufacturing	**423**	**54**
Tourism	**2,494**	**51**
Trade	**550**	**5,191**
Property and construction	**20,801**	**4,833**
Personal, professional and home loans	**1,383**	**1,800**
Financial institutions	**564**	**1**
Other sectors	**3,003**	**472**
	29,218	**12,402**

The majority of the impaired and past due but not impaired loans and advances to customers were concentrated within Malta.

2.5.3 Collateral

The Bank holds collateral against exposures in the form of hypothecs over property, other registered securities over assets and guarantees. The nature and level of collateral required depends on a number of factors, including, but not limited to, the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or Probability of Default involved. Collateral is an important mitigant of credit risk. Nevertheless, it is the Bank's policy to establish that facilities are within the customer's capacity to repay rather than to over rely on security. In certain cases, depending on the customer's standing and the type of product, facilities may be unsecured. The Bank applies various measures to reduce the risk on individual transactions, including collateral in the form of physical assets and guarantees.

The principal collateral types used as credit risk mitigants are mortgages on residential properties and commercial real estate. For regulatory purposes, none of the Bank's collateral in the form of commercial real estate qualifies as eligible collateral, as these properties fail to meet the conditions of Article 126(2) of the CRR.

Out of the €757.9 million exposures arising from the Bank's lending, €532.7 million are secured by mortgages on immovable property, while €112.8 million are classified within the high-risk exposures since these are associated with speculative immovable property financing. From the €532.7 million exposures secured by mortgages on immovable property, €230.8 million qualify as fully and completely secured by mortgages on residential immovable property, and accordingly attract a risk-weight of 35%.

2 **Credit risk** *(continued)*

2.5.4 Loss allowances

The Bank assesses on a forward-looking basis the expected credit losses associated with its loans and advances portfolio. The Bank recognises a loss allowance for such losses at each reporting date.

Expected Credit Losses	**Total € 000**	**Manufacturing € 000**	**Tourism € 000**	**Trade € 000**	**Property and construction € 000**	**Personal, professional and home loans € 000**	**Financial institutions € 000**	**Other sectors € 000**
At 1 January 2023	**9,949**	**350**	**1,651**	**827**	**4,835**	**909**	**1,274**	**103**
Additions	**4,392**	**116**	**78**	**197**	**2,661**	**1,033**	**255**	**52**
Reversals	**(2,890)**	**(143)**	**(132)**	**(292)**	**(1,027)**	**(488)**	**(774)**	**(34)**
At 31 December 2023	**11,451**	**323**	**1,597**	**732**	**6,469**	**1,454**	**755**	**121**

2.5.5 Write-off policy

The Bank writes off loan or advance balances (and any related allowances for impairment losses) when it determines that these are uncollectible. This decision is reached after considering information such as the occurrence of significant changes in the borrower's financial position, such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

3 **Market risk**

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Accordingly, 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; and
- Equity price risk, which is the risk of losses because of changes in investment prices.

3.1 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 reprice 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 on repricing dates on assets and liabilities as much as it is practicable. The Bank monitors on a continuous basis the level of mismatch of interest rate repricing taking cognisance of the terms of the Bank's principal assets, comprising loans and advances to customers, that are repriceable at the Bank's discretion. Accordingly, the Bank is in a position to manage the interest rate terms of its financial assets and simultaneously modify the interest terms of its liabilities. The Bank seeks to manage its net interest spread, taking cognisance of the cost of capital, by investing funds in a portfolio of loans and advances and securities with a longer tenure than the funding liabilities (therefore normally giving rise to a negative maturity gap position) through the effective management of shorter term deposit liabilities with a view to securing steady base deposits with differing terms over the medium to longer term.

Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands which are set by ALCO. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury through its day-to-day operational activities. The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to interest rate movements.

3 **Market risk** *(continued)*

Accordingly, the Bank's ALCO is primarily responsible for the interest rate risk management process and for monitoring actively the interest rate risk measures utilised by the Bank. Reporting of interest rate risk measures exposures vis-à-vis limits flows to the ALCO and Board on a regular systematic basis. The Bank's independent Risk Management Function provides oversight in respect of the interest rate risk management process ensuring that it is designed in an appropriate manner and is functioning properly.

The Bank's repricing gaps at 31 December 2023 are disclosed in the tables within note 2.4.1 to the financial statements. The measures applied for the monitoring of the fair value sensitivity of the fixed rate instruments and the cash flow sensitivity for variable rate instruments are disclosed within notes 2.4.3 and 2.4.4 to the financial statements.

3.2 Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

The Bank manages this risk principally by ensuring that its foreign currency denominated liabilities are matched with corresponding assets in the same currency.

Accordingly, foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. This mechanism is reflected in the figures reported in the table below which presents this matching process.

The Bank's foreign exchange risks are managed actively and monitored by the Treasury Function, which process ensures that the Bank maintains its exposure to foreign currencies within prescribed limits set by the Bank's ALCO. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions which are monitored on a real-time basis. Reporting of exposures vis-à-vis limits flows to the ALCO and Board on a regular systematic basis. The Bank's independent Risk Management Function is responsible for assuring that the foreign exchange risk management process is designed in an appropriate manner and is functioning effectively.

The Bank enters into forward foreign currency exchange contracts with customers in the normal course of its business. Generally, it is the Bank's policy to cover these contracts by other forward positions. As a result, the Bank is not open to any significant exchange risk in respect of derivative contracts. The Bank also takes a deposit margin of the nominal value from the customer thereby reducing its credit risk should the client default. The Bank had no open forward foreign currency contracts at the end of the reporting period.

The following table summarises the Bank's net exchange position by currency taking into account the Bank's financial assets and liabilities as well as off-balance sheet instruments exposing the Bank to foreign exchange risk.

3 **Market risk** *(continued)*

Bank **At 31 December 2023**	**Total** **€ 000**	**EUR** **€ 000**	**GBP** **€ 000**	**USD** **€ 000**	**Other** **€ 000**
Financial assets					
Balances with Central Bank of Malta, treasury bills and cash	**146,308**	**124,136**	**220**	**21,932**	**20**
Financial investments measured at FVOCI	**206,220**	**192,214**	**4,915**	**9,091**	**-**
Financial investments measured at amortised cost	**8,285**	**8,285**	**-**	**-**	**-**
Loans and advances to banks	**33,605**	**6,563**	**4,099**	**20,136**	**2,807**
Loans and advances to customers	**758,304**	**749,956**	**7,201**	**1,143**	**4**
Other assets	**7,906**	**7,509**	**91**	**305**	**1**
Total financial assets	**1,160,628**	**1,088,663**	**16,526**	**52,607**	**2,832**
Financial liabilities					
Amounts owed to banks	**145**	**145**	**-**	**-**	**-**
Amounts owed to customers	**1,021,254**	**949,930**	**16,400**	**52,128**	**2,796**
Other liabilities	**25,749**	**25,509**	**142**	**87**	**11**
Total financial liabilities	**1,047,148**	**975,584**	**16,542**	**52,215**	**2,807**
Net currency exposure in financial assets/liabilities		**113,079**	**(16)**	**392**	**25**
Commitments and contingent liabilities	**272,734**	**271,027**	**1,164**	**543**	**-**

3.3 Equity price risk

The exposure of the Bank to this risk is not significant given the low holdings of equity instruments by the Bank, which are not deemed material in the context of the Bank's statement of financial position. Such holdings are limited to locally quoted equity instruments issued by local well-known corporate issuers. Frequent management reviews are carried out to obtain comfort on the high quality of the portfolio.

4 **Liquidity risk**

4.1 Management of liquidity risk

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

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

Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Bank is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns and guarantees.

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

4 **Liquidity risk** *(continued)*

The Bank manages this risk by ensuring that its assets and liabilities are matched in terms of maturities as much as is practicable. However, the Bank ought to manage its net interest spread by investing funds in a portfolio of assets with a longer term than the liabilities funding them. To mitigate exposures arising in this respect, the Bank holds significant liquid assets in the form of Malta Government treasury bills, money market placements and other short-term instruments for managing liquidity risk to support payment obligations and contingent funding in a stressed market environment.

The Bank maintains internal liquidity buffers established by ALCO made up of cash and financial assets which are also eligible for collateral against borrowing from the European Central Bank. In order to ensure that maturing funds are always available to meet unexpected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched in line with the stance referred to previously. Unmatched positions potentially enhance profitability, but also increase risks. The Bank's ALCO focuses on the entity's management process with respect to market and funding liquidity risks. ALCO maintains ongoing oversight of forecast and actual cash flows, by monitoring the availability of funds to meet commitments associated with financial instruments. ALCO is supported by the Bank's Executive Team and Treasury Function in this respect, at operational level. ALCO monitors the Bank's Liquidity Gap analysis on a monthly basis. The Bank's liquidity management process comprises management of day-to-day funding, by monitoring future cash flows to ensure that requirements can be met and that funds are replenished as they mature or are borrowed by customers. This implies a structured ongoing analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. The Bank's liquidity management focuses on maintaining a portfolio of highly marketable assets, subject to pre-established limits, that can easily be liquidated in case of any unforeseen interruption to cash flow; and monitoring the liquidity ratios of the Bank against internal and regulatory requirements. In this respect, the Bank's advances-to-deposit ratio of 74.3% at the end of the reporting period reflects management's prudent stance in the context of liquidity management. Also, the Liquidity Coverage ratio at 31 December 2023 is 301.8%, which is significantly higher than the prudential parameters set by Regulation.

Reporting of measures of liquidity risk and liquidity ratios vis-à-vis internal limits flows to the ALCO and Board on a regular basis. The Bank's Risk Management Function provides oversight in respect of the liquidity risk management process ensuring that it is functioning effectively.

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

As at 31 December 2023, the Bank had outstanding guarantees on behalf of third parties amounting to €11,286,000 (2022: €10,886,000), which are cancellable upon the request of the third parties. The Bank's liquidity exposures arising from these commitments and contingencies are expected to expire principally within a period of twelve months from the end of the reporting period.

4.2 Asset Encumbrance

The disclosure on asset encumbrance is a requirement introduced in Banking Rule BR/07 transposing the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03).

The objective of this disclosure is to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if it has been pledged as collateral against an existing liability, and as a result is no longer available to the Bank to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

The disclosure is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

4 **Liquidity risk** *(continued)*

In accordance with the EBA 'Guidelines on Disclosure of Encumbered and Unencumbered Assets', the amounts disclosed in the table below represent median values, being the rolling quarterly amounts over the previous 12 months.

	Carrying amount of encumbered assets € 000	Fair value of encumbered assets € 000	Carrying amount of unencumbered assets € 000	Fair value of unencumbered assets € 000
At 31 December 2023				
Assets of the reporting institution	**10,120**	**10,120**	**1,182,425**	**1,182,425**
Loans on demand	**1,100**	**1,100**	**142,111**	**142,111**
Equity instruments	**-**	**-**	**7,681**	**7,681**
Debt securities	**7,782**	**7,782**	**211,324**	**211,324**
Loans and advances	**438**	**438**	**734,743**	**734,743**
Other assets	**800**	**800**	**86,566**	**86,566**

The Bank does not encumber any of the collateral received. Moreover, as at 31 December 2023, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank undertakes encumbrance by pledging debt securities against the provision of credit lines by the Central Bank of Malta and in favour of the Depositor Compensation Scheme.

5 **Operational risk**

Operational risk is the risk of loss resulting from the lack of skilful management or good governance within the Bank and the inadequacy of internal control, which might involve internal operations, staff, systems or external occurrences that in turn affect the income and capital funds of financial institutions. The Bank has adopted an operational risk management framework and procedures, which provide for the identification, assessment, management, monitoring and reporting of the Bank's operational risks. Operational risk is also addressed through proper insurance cover.

Operational risk management relies on a framework of policies and procedures implemented by the different operational functions within the Bank through transaction processing and business execution. Regular reporting of operational risk events to the Board of Directors is carried out as required. The implementation of such policies and procedures by the Bank's operational functions is overseen by the Risk Management Function.

The Bank currently uses the Basic Indicator Approach to assess the operational risk capital requirements and accordingly allocates 15% of average gross income for a three year period in accordance with regulatory requirements. The operational risk capital regulatory requirement as at 31 December 2023 amounted to €4,464,000.

6 **Capital risk management**

The Bank is a licensed credit institution and must therefore comply with the capital requirements under the relevant capital requirements within laws and regulations. Maltese law and regulations on capital adequacy are naturally based on EU capital requirements.

The prudent and efficient management of capital remains one of the Bank's top priorities. The Bank must have sufficient capital to comply with regulatory capital requirements. The purpose of the Bank's capital management is to ensure an efficient use of capital in relation to risk appetite as well as business development. Capital management is managed primarily through the capital planning process that determines the optimal amount and mix of capital that should be held by the Bank, subject to regulatory limits.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, European Union Regulations and Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital management is based on the regulatory requirements established within the CRR and by local regulations which are modelled on the requisites of the CRD rules.

6 **Capital risk management** *(continued)*

The Bank's Executive Team and ALCO are predominately responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of Own funds are reported on a regular basis to the Board and the ALCO by the Finance Function.

6.1 Own funds

Own funds represent the Bank's available capital and reserves for the purposes of capital adequacy. Capital adequacy is a measure of the financial strength of a bank, expressed as a ratio of its capital to its assets. The Bank adopts processes to ensure that the minimum regulatory requirements are met at all times, through the assessment of its capital resources and requirements given current financial projections. During the year ended 31 December 2023, the Bank's OCR continued to be met at all times. The Bank's P2G was also met at all times with the exception of short periods during the fourth quarter of financial year 2023 resulting from a decline in the fair-value of fixed-income securities. Following the Rights Issue, the P2G was also met at year end.

In July 2013, the European Banking Authority (EBA) issued its final draft Implementing Technical Standards (ITS) on Own funds disclosures. The disclosure requirements of these technical standards have been integrated within the Bank's disclosures set out below.

The Bank's capital base comprises Common Equity Tier 1 (CET1) capital, which includes the following items:

- ordinary share capital;
- share premium;
- retained earnings;
- revaluation and other reserves; and
- other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes including deductions relating to amounts pledged in favour of the Depositor Compensation Scheme.

(a) Share capital

The Bank's share capital as at 31 December 2023 is analysed as follows:

	2023	
	No. of shares 000s	**€ 000**
Authorised		
Ordinary shares of €0.125 each	**300,000**	**37,500**
Issued		
Ordinary shares of €0.125 each	**154,572**	**19,322**

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

6 **Capital risk management** *(continued)*

The following table describes the terms and conditions of the ordinary share capital issued by the Bank.

Capital Instruments	**Ordinary share capital and share premium**
Unique Identifier	MT0000040106
Governing law(s) of the instrument	Maltese Law
Regulatory treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo
Amount recognised in regulatory capital	€19,321,533
Nominal amount of instrument	€19,321,533
Nominal amount of each share	€0.125
Accounting classification	Share capital
Issuer call subject to prior supervisory approval	No
Position in subordination hierarchy in liquidation	Subordinated to creditors and depositors
Non-compliant transitioned features	No

(b) Share premium

The share premium represents the amounts at which ordinary shares were issued in excess of their nominal value, normally arising as a result of rights issues approved by the shareholders during the Annual General Meetings. The amount is not distributable by way of dividend to shareholders.

(c) Retained earnings

The retained earnings represent earnings not paid out as dividends.

Retained earnings form part of Own funds only if those profits have been verified by the Bank's independent external auditor. The Bank has demonstrated to the satisfaction of the competent authority that any foreseeable charge or dividend has been deducted from the amount of those profits.

(d) Property revaluation reserve

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

(e) Investment revaluation reserve

This represents the cumulative net change in fair values of assets measured at FVOCI held by the Bank, net of related deferred tax effects.

6 **Capital risk management** *(continued)*

The Bank's Own funds and capital ratio calculations are set out below:

At 31 December 2023	**€ 000**
Common Equity Tier 1 (CET1) capital	
Common Equity Tier 1 (CET1) capital: instruments and reserves	
Capital instruments and the related share premium accounts	**75,856**
Retained earnings	**109,805**
Accumulated other comprehensive income (and other reserves)	**(3,177)**
CET1 capital before regulatory adjustments	**182,484**
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Intangible assets	**(19)**
Other regulatory adjustments	**(366)**
Total regulatory adjustments to CET1	**(385)**
CET1 capital	**182,099**
Total risk-weighted assets	**868,827**
Capital ratios	
CET1 capital	**20.96%**
Tier 1 capital	**20.96%**
Total capital	**20.96%**
Institution specific buffer requirement	**7.11%**
of which: capital conservation buffer requirement	**2.50%**
of which: countercyclical buffer requirement	**0.01%**
of which: sectorial systemic risk buffer requirement	**0.10%**
CET1 available to meet buffers in excess of the CRR 4.5% minimum requirement	**16.46%**
CET1 available to meet buffers	**13.85%**
	€ 000
Items not deducted from own funds in accordance with Article 48 of CRR	**11,381**

6.2 Capital requirements

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, though in some cases the regulatory requirements do not reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

6 **Capital risk management** *(continued)*

The Pillar I minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank continued to use the Standardised Approach for credit risk, the Basic Method for foreign exchange risk and the Basic Indicator Approach for operational risk in order to calculate the Pillar I minimum capital requirements. For credit risk, under the Standardised Approach, risk weights are determined according to the asset class, credit risk mitigation and external credit ratings - or by using the applicable regulatory risk weights for unrated exposures. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income of the preceding three years.

The Total Capital Ratio is calculated using the definition of regulatory capital and risk-weighted assets. As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%. The Capital Requirements Ratio expresses Own funds as a proportion of risk-weighted assets and off-balance sheet instruments for credit risk purposes, together with notional risk-weighted assets in respect of operational risk and market risk. Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by 12.5 (i.e. the reciprocal of the minimum capital ratio of 8%) and adding the resulting figures to the sum of risk-weighted assets for credit risk.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank fully implemented the CRD V capital requirements with effect from January 2020. During 2023, the Central Bank of Malta introduced an additional Sectoral Systemic Risk Buffer (sSyRB) of 1% of risk-weighted assets (to rise to 1.5% as of March 2024) of exposures to residential real estate. As the end of December 2023, this Buffer was also met.

Additionally, the Bank is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk-weighted exposures of the Bank as at 31 December 2023.

6 **Capital risk management** *(continued)*

At 31 December 2023	Exposure value € 000	Risk-weighted assets € 000	Capital required € 000
Central governments or central banks	**317,638**	**30,028**	**2,402**
Public Sector Entities	**529**	**106**	**8**
Multilateral Development Banks	**7,304**	**145**	**12**
Institutions	**59,829**	**17,911**	**1,433**
Corporates	**77,653**	**77,238**	**6,179**
Retail	**32,748**	**24,561**	**1,965**
Secured by mortgage on immovable property	**550,942**	**389,092**	**31,127**
Exposures in default	**14,952**	**22,428**	**1,794**
Items associated with particularly high risk	**116,114**	**174,172**	**13,934**
Equity	**24,994**	**26,340**	**2,107**
Other items	**61,571**	**50,957**	**4,077**
Credit risk	**1,264,274**	**812,978**	**65,038**
Foreign exchange risk		**51**	**4**
Operational risk		**55,798**	**4,464**
Total capital required		**868,827**	**69,506**
Own funds			
Common Equity Tier 1 capital			**182,099**
Total own funds			**182,099**
Total capital ratio			**20.96%**

6 **Capital risk management** *(continued)*

The following is an analysis of the Bank's Capital Base in accordance with the CRD's requirements:

	2023
	€ 000
Common Equity Tier 1 (CET1) capital	
Share capital	**19,322**
Share premium	**56,534**
Revaluation and other reserves	**(1,296)**
Retained earnings	**111,443**
	186,003
Adjustments:	
Final dividend (note 36)	**(1,638)**
Depositor Compensation Scheme	**(1,881)**
Intangible assets	**(19)**
Other regulatory adjustments	**(366)**
Total CET1 capital	**182,099**
Total own funds	**182,099**

6.3 Other disclosures on own funds

The Bank has opted for the transitional arrangements laid down in Regulation (EU) 575/2013 Article 473a to mitigate the impact of IFRS 9 on own funds. Under Regulation (EU) 2017/2395, during the transitional period ending 31 December 2023, the Bank would have had the option to add back a proportion of:

- the Day 1 impact as a result of the introduction of IFRS 9, being the difference between IFRS 9 expected credit losses ('ECLs') on 1 January 2018 and IAS 39 provisions determined at 31 December 2017; and
- on difference in the IFRS 9 ECLs determined at reporting date and the ECLs determined on 'day 1' of the introduction of IFRS 9 (being 1 January 2018 for the Bank) for 'Stage 1' (12-months ECLs) and 'Stage 2' (lifetime ECLs) assets.

The factors used to adjust the above ECLs declines across the transitional period starting at 100% during the financial year ended 31 December 2020 to 25% in the final transitional financial year ended 21 December 2024. The above treatment is in accordance with the requirements laid down in paragraph 2 and paragraph 4 of Regulation (EU) 2017/2395.

In line with Section 2 of the EBA 'Guidelines on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds', the Bank is required to disclose a comparison of the institutions' own funds, Common Equity Tier 1 capital, Tier 1 capital, risk-weighted assets, Common Equity Tier 1 capital ratio, Tier 1 capital ratio, total capital ratio and leverage ratio with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

6 **Capital risk management** *(continued)*

The comparison of Bank's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs, and with and without the application of the temporary treatment in accordance with Article 473a of the CRR is presented below:

At 31 December 2023	**€ 000**
Available capital	
CET1 capital	**182,099**
CET1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**182,099**
Tier 1 capital	**182,099**
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**182,099**
Total capital	**182,099**
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**182,099**
Risk-weighted assets	
Total risk-weighted assets	**868,827**
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**868,827**
Capital Ratios	
CET1 (as a percentage of risk exposure amount)	**20.96%**
CET1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**20.96%**
Tier 1 (as a percentage of risk exposure amount)	**20.96%**
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**20.96%**
Total capital (as a percentage of risk exposure amount)	**20.96%**
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**20.96%**
Leverage ratio	
Leverage ratio total exposure measure	**1,285,729**
Leverage ratio	**14.16%**
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.16%**

6.4 Internal Capital Adequacy Assessment Process (ICAAP)

The Bank considers the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II as a tool that ensures the proper measurement of material risks and capital and allows for better capital management and improvements in risk management. Therefore, it facilitates a better alignment between material risks and regulatory capital in order to have better capital deployment and improvements in the risk management and mitigation techniques adopted by the Bank. The ICAAP as required by the MFSA Banking Rule BR/12: The Supervisory Review Process of Credit Institutions authorised under the Banking Act, 1994, is performed on an annual basis.

Therefore, ICAAP is a process that the Bank utilises to ensure that:

- there is adequate identification, measurement, aggregation and monitoring of the Bank's risks;
- adequate internal capital is held by the institution in relation to its risk profile; and
- the Bank uses sound risk management systems and there is the intention to develop them further.

6 **Capital risk management** *(continued)*

The Board and the Bank's Senior Management take overall responsibility for the conceptual design and technical details of the ICAAP document. Apart from the responsibility for the conceptual design, the Board discussed, approved, endorsed and delivered the yearly ICAAP submission. The Bank's independent Risk Management Function is involved in the ICAAP with a view to ensuring that the process reflects and takes cognisance of the Bank's risk management activities and processes.

The ICAAP is an ongoing process which starts with defining risk strategy followed by identifying, quantifying and aggregating risks, determining risk-bearing ability, allocating capital, establishing limits and ongoing risk monitoring. The individual elements of the process are performed with varying regularity. All the activities described are examined at least once a year to ensure that they are up to date, adequate and also adjusted to current underlying conditions when necessary.

The process involves a quantitative assessment of individual types of risk and an assessment of the existing methods and systems for monitoring and managing risk (qualitative assessment). The risk assessment concept is based on a scoring procedure, thus providing a comprehensive overview of the risk situation of the Bank.

The basis for the quantitative implementation of the ICAAP is the risk-bearing capacity calculation which demonstrates that adequate capital is in place at all times to provide sufficient cover for risks that have been entered into and which also ensures such cover is available for the future. The Bank's ICAAP is based upon a 'Pillar I Plus' approach whereby the Pillar I capital requirement for credit, market and operational requirements are supplemented by the capital allocation for other material risks not fully addressed within Pillar I. The risks considered for ICAAP include concentration, liquidity, reputational and strategic risks, interest rate risk in the banking book, and risks arising from the macro-economic environment.

The Bank's ICAAP 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 Bank's plan and the associated risks.

The Bank also covers Pillar II capital requirements through stress testing processes to forecast the Bank's projected capital requirements and resources in a range of stress scenarios. This enables the Bank to guarantee that it can meet its total SREP capital requirements in a stressed environment. The results of the ICAAP once again show that the Bank maintains a comfortable level of excess capital and substantial liquidity that ensured the flexibility and resources needed to achieve the long-term strategic objectives of the Bank, even in situations of market stress.

7 **Leverage**

The leverage ratio is a regulatory and supervisory tool intended to provide a transparent and non-risk based measurement of an institution to supplement the risk-based capital requirements.

The leverage ratio is calculated on the end of year capital position as a proportion of total exposures. Capital is defined as Tier 1 capital in line with Article 25 of the CRR, while total exposure relates to the total on- and off-balance sheet exposures less the deductions applied to Tier 1 capital.

During 2016, the European Commission published a Proposal to amend Regulation 575/2013 (CRR), which included the introduction of a 3% leverage ratio as a binding Pillar I requirement by 2018. The Bank complies with a 3% leverage ratio based on fully-transitioned Basel III standards.

7 **Leverage** *(continued)*

The following table represents the Bank's estimated leverage ratio determined in accordance with the requirements stipulated by Implementing Regulation EU 2016/200.

	Tier 1 Capital € 000
At 31 December 2023	
Tier 1 capital	**182,099**
Leverage ratio total exposure measure	**1,285,729**
Leverage ratio	**14.16%**

The table shown hereunder represents the amounts making up the leverage ratio exposures.

At 31 December 2023	Tier 1 Capital € 000
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives and SFTs, but including collateral)	**1,237,218**
Asset amounts deducted in determining Tier 1 capital	**(385)**
On-balance sheet exposures (excluding derivatives and SFTs)	**1,236,833**
Off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	**272,763**
Adjustments for conversion to credit equivalent amounts	**(223,867)**
Off-balance sheet exposures	**48,896**

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

At 31 December 2023	Tier 1 Capital € 000
Total assets as per published financial statements	**1,236,320**
Adjustment for off-balance sheet items	**48,896**
Other adjustments	**513**
Leverage ratio total exposure measure	**1,285,729**

7 **Leverage** *(continued)*

The table below shows the different on-balance sheet exposures in relation to the calculation of the leverage ratio.

	Tier 1 Capital € 000
At 31 December 2023	
Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	
Exposures treated as sovereigns	**317,638**
Multilateral Development Banks	**7,304**
Institutions	**59,563**
Secured by mortgages on immovable property	**532,703**
Retail	**29,655**
Corporates	**71,903**
Exposures in default	**14,952**
Other exposures	**203,115**
	1,236,833

The leverage ratio is a regulatory and supervisory instrument used by the Regulator to limit the build-up of excessive leverage. The leverage ratio at 31 December 2023 stood at 14.16%.

At this level, the Bank is currently not at risk in curtailing excessive leverage and is expected to remain well above the mandatory requirement. Board limits to the leverage ratio are set and reviewed annually and the ratio is monitored at every Audit & Risk Committee to ensure that it remains above the tolerance limit set by the Board of Directors. This limit supports the Bank's attitude towards finding a suitable balance between risk and returns provided to shareholders.

8 **Remuneration policy**

Information on the Bank's remuneration policy and practices is disclosed in the Remuneration Report within the Annual Report located on page 38.

9 **Other Directorships**

In terms of Article 91 of Directive 2013/36/EU (CRD V), directors of an institution that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

(a) one executive directorship with two non-executive directorships;
(b) four non-executive directorships.

According to the 'Guide to banking supervision' issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

Lombard Bank Malta p.l.c. does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of Article 91 of CRD V.

9 **Other Directorships** *(continued)*

The Bank is not disclosing the number of directorships held by the members of the Bank's Board of Directors on the basis of materiality in terms of Article 432 of the CRR.

10 **Recruitment and Diversity policy**

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective staff members within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments at all levels are based on each individual's knowledge, skills, expertise and merit, as required by laws, rules, regulations, etc. and in line with policy.

The Bank undertakes a rigorous selection process for all prospective staff members bearing in mind the key activities, tasks and skills required. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competence are evaluated.

The Bank continues to promote diversity with no discrimination as to gender, race, family, disability, sexual orientation, identity or preference, etc.

Bearing its objectives in mind, the Bank, particularly by virtue of the Board appointed Suitabilities & Evaluations Committee, endeavours to have a Board of Directors composed of members possessing diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank as well as risks that are intrinsic to banking business are appropriately managed and mitigated within the Bank's risk appetite.

Five Year Summary
Statements of Financial Position
As at 31 December

Group

	2023	2022	2021	2020	2019
	€ 000	€ 000	€ 000	€ 000	€ 000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	**147,043**	139,234	126,279	169,687	182,348
Cheques in course of collection	**1,880**	1,053	530	666	1,214
Financial investments	**216,770**	220,815	227,135	161,424	111,731
Loans and advances to banks	**38,139**	27,615	78,279	96,985	121,060
Loans and advances to customers	**758,304**	711,612	642,893	621,129	552,043
Investment in associates	**3,292**	2,607	3,006	1,932	1,684
Intangible assets	**2,192**	2,121	2,145	2,050	2,000
Property, plant and equipment	**66,511**	66,375	65,346	50,928	43,348
Assets classified as held for sale	**703**	703	661	134	134
Current tax assets	**643**	575	2,691	1,156	193
Deferred tax assets	**11,694**	10,889	7,034	10,117	9,801
Inventories	**1,391**	1,271	1,324	1,274	1,468
Trade and other receivables	**11,369**	13,243	10,787	9,136	5,625
Accrued income and other assets	**5,203**	5,302	4,536	4,337	9,648
Total assets	**1,265,134**	1,203,415	1,172,646	1,130,955	1,042,297
Equity and liabilities					
Equity					
Share capital	**19,322**	11,341	11,192	11,044	11,044
Share premium	**56,534**	18,530	18,530	18,530	18,530
Property revaluation reserve	**13,109**	13,087	13,040	6,383	6,384
Investment revaluation reserve	**(13,349)**	(12,733)	5,180	7,181	7,978
Reserve for General Banking Risks	**-**	2,903	2,903	2,903	2,903
Other reserves	**1,660**	1,382	2,545	2,510	2,567
Retained earnings	**113,107**	101,700	83,910	77,470	69,722
Equity attributable to equity holders of the Bank	**190,383**	136,210	137,300	126,021	119,128
Non-controlling interests	**8,409**	8,090	8,470	7,741	7,674
Total equity	**198,792**	144,300	145,770	133,762	126,802
Liabilities					
Amounts owed to banks	**145**	535	1,224	5,602	5,871
Amounts owed to customers	**1,019,075**	1,008,431	977,143	941,110	864,993
Provisions for liabilities and other charges	**1,403**	1,688	2,113	2,632	3,236
Current tax liabilities	**1,556**	-	809	844	1,128
Deferred tax liabilities	**4,099**	4,099	4,099	6,448	6,832
Other liabilities	**28,762**	33,347	30,649	29,665	21,949
Accruals and deferred income	**11,302**	11,015	10,839	10,892	11,486
Total liabilities	**1,066,342**	1,059,115	1,026,876	997,193	915,495
Total equity and liabilities	**1,265,134**	1,203,415	1,172,646	1,130,955	1,042,297
Memorandum items					
Contingent liabilities	**14,315**	13,611	13,195	10,851	11,671
Commitments	**257,415**	202,396	195,848	200,870	225,826

Five Year Summary
Income Statements
For the Year Ended 31 December

Group

	2023	2022	2021	2020	2019
	€ 000	€ 000	€ 000	€ 000	€ 000
Interest receivable and similar income	**33,698**	29,020	25,725	24,898	25,285
Interest expense	**(7,837)**	(6,744)	(6,169)	(6,026)	(5,605)
Net interest income	**25,861**	22,276	19,556	18,872	19,680
Other operating income	**44,820**	37,605	43,856	41,731	40,474
Other operating charges	**(54,578)**	(48,049)	(51,836)	(46,107)	(44,311)
Net movement in expected credit losses	**(1,261)**	16,243	1,464	(3,973)	(549)
Share of (loss)/profit of investment accounted for using equity method	**(315)**	(399)	(402)	(151)	-
Profit before taxation	**14,527**	27,676	12,638	10,372	15,294
Income tax expense	**(4,909)**	(10,050)	(4,759)	(3,230)	(5,424)
Profit for the year	**9,618**	17,626	7,879	7,142	9,870
Attributable to:					
Equity holders of the Bank	**9,064**	17,530	7,481	6,640	9,320
Non-controlling interests	**554**	96	398	502	550
Profit for the year	**9,618**	17,626	7,879	7,142	9,870

Five Year Summary
Statements of Cash Flows
For the Year Ended 31 December

Group

	2023	2022	2021	2020	2019
	€ 000	€ 000	€ 000	€ 000	€ 000
Net cash flows (used in)/generated from operating activities	**18,179**	(36,281)	31,632	14,475	53,125
Cash flows from investing activities					
Dividends received	**203**	141	81	105	211
Interest received from investments	**4,675**	3,485	3,012	2,198	2,325
Proceeds from maturity/disposal of investments	**9,903**	5,220	6,760	16,468	8,163
Purchase of investments	**(8,359)**	(27,518)	(75,270)	(67,862)	(15,905)
Purchase of property, plant and equipment	**(2,657)**	(3,709)	(7,601)	(8,942)	(3,345)
Investments in associates	**(1,000)**	-	-	-	-
Proceeds from disposal of property, plant and equipment	**-**	-	-	18	-
Purchase of investment in associate	**-**	-	(1,500)	(399)	-
Net cash inflow arising from acquisition of subsidiary	**-**	-	833	-	-
Net cash flows used in investing activities	**2,765**	(22,381)	(73,685)	(58,414)	(8,551)
Cash flows from financing activities					
Proceeds from rights issue of ordinary shares	**45,733**	-	-	-	-
Dividends paid to equity holders of the Bank	**-**	(873)	(862)	-	(1,436)
Dividends paid to non-controlling interests	**(299)**	(429)	(429)	(427)	(429)
Principal element of lease payments	**(491)**	(478)	(523)	(409)	-
Net cash flows used in financing activities	**44,943**	(1,780)	(1,814)	(836)	(1,865)

Independent auditor's report

To the Shareholders of Lombard Bank Malta p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and the Parent Company financial statements (the "financial statements") of Lombard Bank Malta p.l.c. ("the Bank") give a true and fair view of the Group and the Bank's financial position as at 31 December 2023, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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

What we have audited

Lombard Bank Malta p.l.c.'s financial statements comprise:

- the Consolidated and Parent Company statements of financial position as at 31 December 2023;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

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

Independence

We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank and its subsidiaries are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Bank and its subsidiaries, in the period from 1 January 2023 to 31 December 2023, are disclosed in note 33 to the financial statements.

Our audit approach

Overview

- Overall group materiality: €649,000, which represents approximately 5% of the past 3-years average consolidated profit before tax adjusted for non-recurring items.

- The audit procedures carried out covered all the components within the Group namely Lombard Bank Malta p.l.c. (the Parent Company) and its subsidiaries Redbox Limited, Lombard Capital Asset Management Limited and Lombard Select SICAV p.l.c.. The Group also includes Maltapost p.l.c. which is a subsidiary of Redbox Limited (which is fully owned by Lombard Bank Malta p.l.c.) and Tanseana Limited, Ciabro Limited formerly known as Ciantar Brothers Limited and PostaInsure Agency Limited, by virtue of Maltapost p.l.c.'s controlling shareholding in these three entities.

  The Parent Company and its subsidiaries are based in Malta.

- Credit loss allowances in respect of loans and advances to customers of Lombard Bank Malta p.l.c.

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

Materiality

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

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

Overall group materiality	€649,000
How we determined it	Approximately 5% of the last 3-years average consolidated profit before tax adjusted for non-recurring items
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose an average of the past 3 years, adjusted for non-recurring items, as it was determined more appropriate in view of the fluctuations in results. We chose 5% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit & Risk Committee that we would report to them misstatements identified during our audit above €65,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Credit loss allowances in respect of loans and advances to customers of Lombard Bank Malta p.l.c. Credit loss allowances in respect of loans and advances to customers represent management's best estimate of Expected Credit Losses ('ECLs') within the loan portfolios at the end of the reporting period. The development of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9 requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. The global macro-economic uncertainties driven by the conflict in Eastern Europe and the escalating tension in the Middle East, have resulted in supply chain disruptions and significant inflationary pressures. These conditions have exacerbated the level of uncertainty around the calculation of ECLs, giving rise to heightened subjectivity in the determination of model assumptions used to estimate key model risk parameters and hence necessitating a higher level of expert judgement.	During our audit of the financial statements for the year ended 31 December 2023, we continued to focus on the key drivers of the estimation of ECL. Apart from assessing the continuing appropriateness of management assumptions, updates to key parameters and model enhancements were evaluated and tested. Discussions with the Audit & Risk Committee and management were held on: • inputs, assumptions and adjustments to ECL, in particular changes to risk factors and other inputs within the Bank's models, in respect of which we provided updates on the results of our testing procedures; • the application of forward-looking economic scenarios, including the severity and magnitude of modelled downside scenarios, particularly in the context of the estimated impact of the macro-economic developments driven by the global inflationary pressures and the ensuing interest

Credit loss allowances relating to loans and advances in the Bank's Personal and Corporate and commercial portfolios are determined at an instrument level. In general, the Bank calculates ECLs by multiplying three main components: probability of default (PD), loss given default (LGD) and exposure at default (EAD):

i. Probability of default ("PD"): the likelihood of a borrower defaulting on its financial obligation either over the next 12 months or over the remaining lifetime of the obligation.

ii. Loss given default ("LGD"): the expected losses taking into account, among other attributes, the mitigating effect of collateral value (if any) at the time it is expected to be realised and the time value of money. The LGD modelling methodology utilises historical experience, which might result in limitations in its reliability to appropriately estimate ECLs especially during periods characterised by economic conditions such as those currently experienced as a result of supply chain disruptions and global inflationary pressures.

iii. Exposure at default ("EAD"): the expected exposure in the event of a default (including any expected drawdowns of committed facilities).

When applicable, the Bank also applies overlays based on expert judgement where management's view is that the calculated ECLs based on these key inputs do not fully capture the risks within the Bank's loan portfolios.

For non-defaulted (Stage 1 and 2) loans and a number of defaulted (Stage 3) loans which are not individually significant, the Bank uses internally developed statistical models. For non-defaulted (Stages 1 and 2) exposures, PDs are estimated using historical model development data based on the Bank's own experience as available at the reporting date. For exposures secured by immovable properties, LGDs are driven by the adjusted loan-to-value ratio of the individual facilities and takes into account other assumptions, including market value haircut (which includes costs to sell), time to sell and the impact of discounting the collateral from the date of realisation back to the date of default. The maximum period considered when measuring ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

For individually significant defaulted (Stage 3) exposures, discounted cash flow models are utilised in order to estimate ECLs.

Internal credit risk management practices are used to determine when a default has occurred, considering quantitative and qualitative factors where appropriate. Judgement is required to determine when a default has occurred and then to estimate the expected future cash flows related to the loan, which are dependent on parameters or assumptions such as the valuation of collateral (including forced sale discounts and assumed realisation period) or forecasted operating cash flows.

rate environment, together with geopolitical uncertainties attributable to the ongoing military conflict in Eastern Europe and the escalation of the Middle East conflict; and

- individually significant loan impairments.

With respect to the ECL models utilised by the Bank, the continued appropriateness of the modelling policies and methodologies used was independently assessed by reference to the requirements of IFRS 9.

ECL calculation for non-defaulted loan exposures and a number of defaulted loans which are not individually significant

We understood and critically assessed the models used for ECL estimation for the Bank's loan portfolio.

Since modelling assumptions and parameters are based on historic data, we assessed whether historic experience was representative of current circumstances and of the recent losses incurred within the portfolios. The appropriateness of management's judgements was also independently considered in respect of calculation methodologies, calibration of PDs and LGDs, segmentation and selection of macro-economic variables. Model calculations were also tested independently.

Substantive procedures were performed as follows:

- Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices and the macro-economic environment.

- Tested a sample of loans to independently review the borrower's financial performance and ability to meet loan repayments and assess the appropriateness of the credit rating assigned by management, taking into consideration the impact of the current macro-economic conditions on the repayment capabilities of the sampled borrowers.

- Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested a sample of assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.

- Tested the completeness and accuracy of the critical data extracted from the underlying systems, that is utilised within the models for the purposes of the year end ECL calculation.

- Risk based testing of models, including a review of the continuing appropriateness of model assumptions. We tested the assumptions, inputs and formulas used in ECL models on a sample basis. This included assessing the appropriateness of model design and formulas used, and

The Bank is required to assess multiple scenarios in this respect, which scenarios will have probabilities attached.

The current inflationary pressures and the interest rate environment experienced locally have increased the level of uncertainty around judgements made in determining the timing of defaults and in respect of staging. In this respect, these economic conditions might be reasonably expected to impact the affordability of repayments attributable to exposures within the personal portfolio in view of rising cost of living and the impact of changes in market interest rates. Moreover the current macro-economic scenario, could create additional pressures on the business of the Bank's borrowers in the corporate and commercial portfolio.

Under IFRS 9, the Bank is required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables and environments, into the ECL estimates. A number of macro-economic scenarios based on the selected macro-economic variables are considered to capture non-linearity across credit portfolios. The complexity attributable to this factor requires management to develop multiple macro-economic scenarios involving the use of significant judgements.

The current economic conditions and the macro-economic uncertainty induced by fluctuations in market interest rates, together with geopolitical uncertainties attributable to the ongoing conflicts within Eastern Europe and the Middle East have significantly impacted macro-economic variables, increasing the uncertainty around judgements made in determining the severity and likelihood of macro-economic forecasts across the different economic scenarios used in ECL models. Overly sensitive ECL modelled outcomes can be observed when current conditions fall outside the range of historical experience.

Data used in the impairment calculation is sourced from a number of systems, including systems that are not necessarily used for the preparation of accounting records. The ECL models are based on a general-purpose application which requires extensive manual handling of data. This increases risk around the accuracy and completeness of data used to determine assumptions and to operate the ECL models. In some cases, data is unavailable and reasonable alternatives have been applied to allow calculations to be performed.

Since the estimation of ECLs is subjective in nature and inherently judgmental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus, especially in the context of the unprecedented macro-economic conditions currently experienced, which have significantly increased the level of estimation uncertainty in respect of the calculation of credit loss allowances.

recalculating PDs, LGDs and EADs on a sample basis, through the involvement of subject matter experts.

- We assessed the reasonableness of modelled PDs through a comparison of historically predicted and observed default rates and the reasonableness of modelled LGDs taking cognisance of the potential impacts of the current macro-economic environment.

- We also assessed the reasonableness of market value haircuts and time to sell assumptions used as inputs in the light of the current economic climate.

- Tested the multiple macro-economic scenarios and variables to assess their reasonableness. We assessed the appropriateness of changes effected during the year to factor the impact of the current macro-economic environment. We assessed whether the severity of the forecasted macro-economic variables was appropriate in view of the elevated level of uncertainty related to the current economic conditions, which are characterised by significant inflationary pressures and higher levels of interest rates. We challenged the correlation between economic factors and ECL allowances and the impact of these macro-economic factors on the ECL.

Our testing of models and model assumptions did not highlight material differences.

Based on the evidence obtained, we found the model assumptions and data used within the models to be reasonable.

ECL calculation for defaulted individually significant loan exposures

For defaulted exposures within the loan portfolio, the appropriateness of the methodology and policy used to calculate ECLs was independently assessed. We understood and evaluated the processes for identifying default events within loan portfolios, as well as the impairment assessment process.

Substantive procedures were performed in respect of identification of defaults as follows:

- Assessed critically the criteria used by management for identifying borrowers whose financial performance is expected to be particularly susceptible to the potential impact of the economic pressures being experienced and for determining whether a UTP/default event had occurred by testing a sample of loans with characteristics that might imply a default event had occurred (for example a customer experiencing financial difficulty or material sector disruption) to challenge whether default events had actually occurred and to assess whether default events had been identified by management in a timely manner.

We focused on credit loss allowances due to the subjective nature of specific data inputs into the calculation of ECLs and the subjective judgements involved in both timing of recognition of impairment and the estimation of the size of any such impairment.

Accordingly, summarising the key areas relevant to the Bank's measurement of ECLs would include:

- Allocation of assets to stage 1, 2, or 3 using criteria in accordance with IFRS 9;
- Accounting interpretations and modelling assumptions used to build the models that calculate the ECL;
- Completeness and accuracy of data used to calculate the ECL;
- Inputs and assumptions used to estimate the impact of multiple macro-economic scenarios; and
- Measurement of individually assessed provisions including the assessment of multiple scenarios.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: note 1.7
- Credit risk management: note 2.2;
- Accounting estimates and judgements: note 3.2;
- Note on Loans and advances to customers: note 8; and
- Net movement in expected credit losses: note 32.

- Selected a sample of performing loans which had not been identified by management as potentially defaulted, to form our own judgement as to whether that was appropriate and to further challenge whether all relevant events had been identified by management.

Substantive procedures were performed on defaulted exposures in respect of the estimation of the amounts of the respective ECL provisions, as follows:

- Reviewed the credit files of a selected sample of loans to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements were appropriate taking cognisance of the current macro-economic environment.
- Challenged the severity of scenarios being applied for these exposures, together with their respective probability weights by forming an independent view of the recoverability of the selected loan exposures under different scenarios, assigning probabilities independently and comparing the outcomes to that of the Bank.
- Tested key inputs to and reperformed the impairment calculation used to derive expected cash flows under different scenarios.
- Assessed the appropriateness of a sample of property valuations securing impaired loans through the use of experts.

In the case of some impairment provisions, we formed a different view from that of management, but in our view the differences were within a reasonable range of outcomes.

How we tailored our group audit scope

The Group is composed of eight components. These include Lombard Bank Malta p.l.c. (the parent company), and its subsidiaries Redbox Limited, Lombard Select SICAV p.l.c. and Lombard Capital Asset Management Limited. The Group also includes Maltapost p.l.c. which is a subsidiary of Redbox Limited (which is fully owned by Lombard Bank Malta p.l.c.) and Tanseana Limited, Ciantar Brothers Limited and PostaInsure Agency Limited, by virtue of Maltapost p.l.c.'s controlling shareholding in these three entities.

MaltaPost p.l.c. has been determined to be a financially significant entity.

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

The Group audit team performed all of this work by applying the Group overall materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises all of the information in the Annual Report and Financial Statements 2023 (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 and will not express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements.*

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

If, based on the work we have, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, the directors are responsible for assessing the Group's and 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 Group or the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's or 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 Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Financial Report of Lombard Bank Malta p.l.c. 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 Annual Financial Report, including the consolidated 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 Annual Financial Report, including the consolidated financial statements and the relevant electronic tagging therein, complies in all material respects with the ESEF RTS based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

Our procedures included:

- Obtaining an understanding of the entity's financial reporting process, including the preparation of the Annual Financial Report, in accordance with the requirements of the ESEF RTS.
- Obtaining the Annual Financial Report and performing validations to determine whether the Annual Financial Report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.
- Examining the information in the Annual Financial Report to determine whether all the required taggings therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF RTS.

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 Financial Report for the year ended 31 December 2023 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

Other reporting requirements

The *Annual Report and Financial Statements 2023* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Financial Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the Annual Report and Financial Statements 2023 and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements. With respect to the information required by paragraphs 8 and 11 of the Sixth Schedule to the Act, our responsibility is limited to ensuring that such information has been provided.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Statement of Compliance with the Principles of Good Corporate Governance The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare and include in the Annual Financial Report a Statement of Compliance with the Code of Principles of Good Corporate Governance within Appendix 5.1 to Chapter 5 of the Capital Markets Rules. The Statement's required minimum contents are determined by reference to Capital Markets Rule 5.97. The Statement provides explanations as to how the Company has complied with the provisions of the Code, presenting the extent to which the Company has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.	We are required to report on the Statement of Compliance by expressing an opinion as to whether, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements. We are also required to assess whether the Statement of Compliance includes all the other information required to be presented as per Capital Markets Rule 5.97. We are not required to, and we do not, consider whether the Board's statements on internal control included in the Statement of Compliance cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.	In our opinion, the Statement of Compliance has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority. We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.
Remuneration report The Capital Markets Rules issued by the Malta Financial Services Authority require the directors to prepare a Remuneration report, including the contents listed in Appendix 12.1 to Chapter 12 of the Capital Markets Rules.	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 Remuneration report has been properly prepared in accordance with the requirements of the Capital Markets Rules issued by the Malta Financial Services Authority.

Other matters prescribed by the Maltese Banking Act (Cap. 371)

In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- the Bank's financial statements are in agreement with the books of account;
- in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.

In our opinion:

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- proper books of account have been kept by the bank, so far as appears from our examination of those books;
- the Bank's financial statements are in agreement with the books of account; and
- to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.

We also have responsibilities under the 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.

Other matter – use of this report

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

Appointment

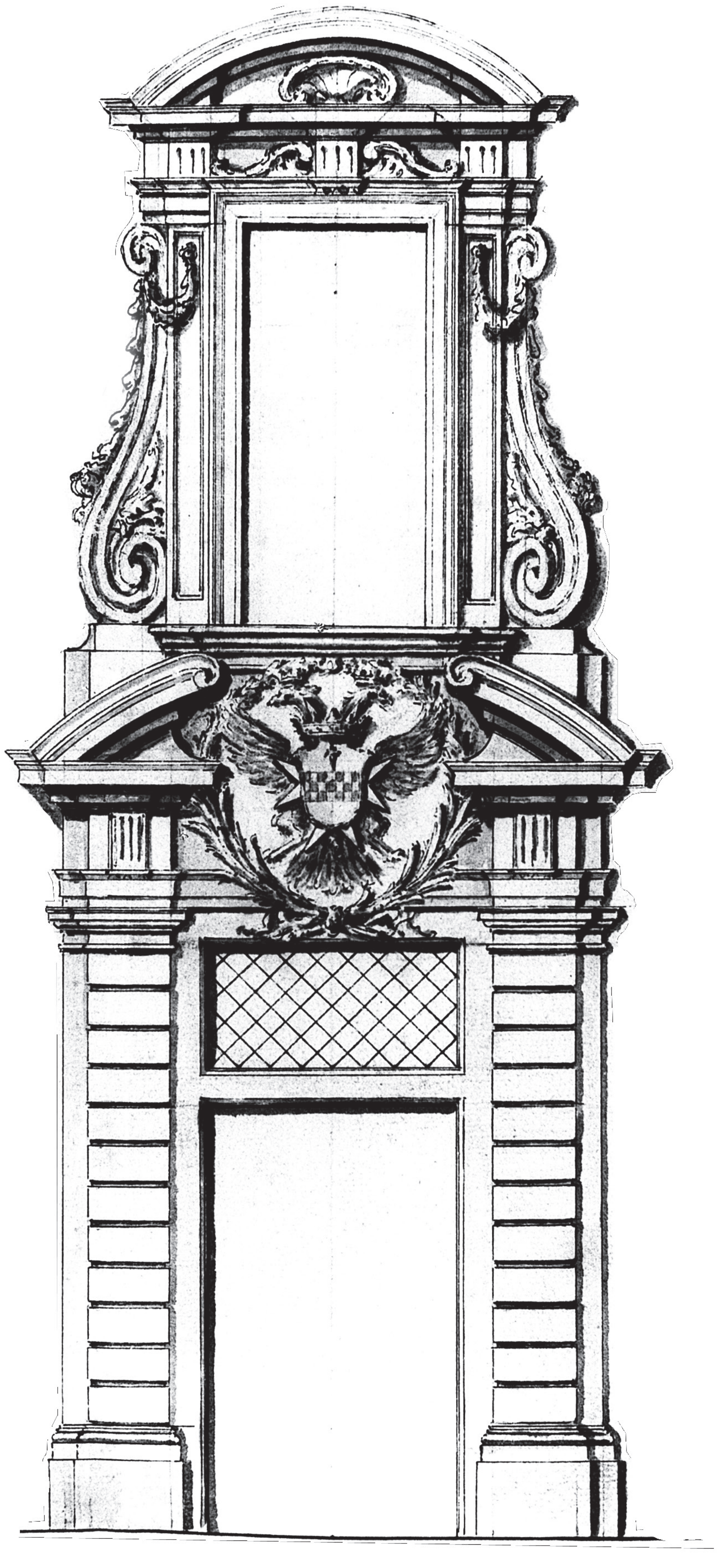
We were first appointed as auditors of the Bank on 10 April 2010. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 14 years.

F Axisa

Fabio Axisa
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

26 April 2024



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