



FIMBANK
GROUP

Annual Report & Financial Statements 2023

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This document is not the official version of the Annual Report and Financial Statements for 2023 of FIMBank Group. The Official Annual Report and Financial Statements for 2023 are in line with the ESEF requirements as published in the Company Announcement and may be accessed through the Bank’s website www.fimbank.com, by selecting the Inline Viewer as opposed to this document in pdf format. This document is identical to the Official Annual Report and Financial Statements as per ESEF requirements that is accessed through the Inline Viewer, however in the case of any inconsistencies the Official Annual Report and Financial Statements as per ESEF requirements should prevail.

Chairman's statement to the shareholders

Dear Shareholder,

As we close off another fiscal year, I take this opportunity to share my reflections on the Bank's journey throughout the past twelve months. Although the year brought about a number of challenges, we have once again demonstrated our resilience and commitment. The Bank's unwavering focus towards value creation for its clients and stakeholders enabled it to chart its path to offset the various obstacles faced during the year. The year 2023 unfolded within a global backdrop marked by elevated inflation levels, posing significant challenges for governments, central banks, individuals, and businesses alike. The persistent conflict in Ukraine and escalating tensions in the Middle East as the year progressed were also main contributors to global uncertainty.

For the period ending 31 December 2023, the FIMBank Group recorded a significant turnaround, registering a pre-tax profit of USD5.8 million, an important development in comparison to the pre-tax loss of USD24.7 million in the previous year. Post-tax, the Bank achieved a break-even performance, resulting in a profit of USD7,674. During 2023, the Group experienced considerable financial shifts, underscored by a 20% increase in operating income, reaching USD54.8 million, supported by a favourable interest rate environment, alongside a 42% increase in net operating results to USD11.4 million. In line with our efforts across the past years, the Group maintained a commitment to asset quality with a notable reduction in net impairment losses and a decrease in the Non-Performing Loan Ratio. The turnaround that has been registered is a result of the ongoing recovery efforts undertaken over the past years as the team worked relentlessly to improve the quality of our portfolio. The dedication of our Bank's Management should not be underestimated. The role that they play is of crucial importance as we collectively strive towards the realisation of our financial objectives.

While Group results mark a considerable improvement and demonstrate that a well-executed plan of action is starting to yield sustainable results, it is crucial to convey that as Chairman, merely achieving break-even does not represent the slightest of our ambitions. With a strong foundation, supported by an international network of offices in four continents and an expert team dedicated to excellence, we are uniquely positioned to capitalise on our transformational efforts and achieve our aspirational goals. Looking ahead, we anticipate a promising 2024 with accelerated performance improvements.

FIMBank also deems investor relations to be of utmost importance. Our actions in this respect are characterised by transparency and honesty. Throughout the year, we have steadfastly upheld our commitment to actively engage with all our stakeholders. Central to our philosophy is the principle of forthrightness, ensuring that both positive developments and challenges are communicated in a realistic manner, in keeping with the professional standards expected of us.

It is with a sense of profound gratitude that I acknowledge the trust and loyalty our shareholders have shown us. I must extend special appreciation to our majority shareholder, the KIPCO Group, for their resolute and continued support over the years. Their consistent backing has been instrumental in helping us to navigate through the complexities of an ever-evolving landscape, providing encouragement as we continue to drive towards our strategic ambitions.

I wish to take this opportunity to express my gratitude and appreciation to former CEO Mr. Adrian Gostuski for his commitment to strengthening the foundation of the Bank, his dedication, and hard work during the last four years. His contribution will be remembered for years to come and serves as a lasting testament to his leadership. I take this occasion to congratulate and welcome Mr. Mohammed Louhab, following his recent appointment as Group Chief Executive Officer. I am confident that under the guidance of our new GCEO, the Bank will continue to build upon its solid foundations and progress further in achieving sustainable results and complete its turnaround.

In closing, I wish to express my gratitude and appreciation to the Directors, Management, and employees of the FIMBank Group. We remain grateful for their invaluable contribution and tireless efforts in executing our strategic objectives. Together, we have navigated another challenging year, and I am confident in our collective ability to embrace and capitalise on the opportunities that lie ahead.

Signed by John C. Grech (Chairman) on 24 April 2024

FIMBank Group performance 2023

CEO's message

As we review the financial year ending 31 December 2023, it is with a sense of grounded optimism that I share our Group's performance details with you. The financial year has been one of substantial improvement for FIMBank Group, marking a significant turnaround, posting a pre-tax profit of USD5.8 million. This reflects a remarkable improvement from the previous year, where we reported a pre-tax loss of USD24.7 million. The financial results of 2023 are the culmination of the efforts undertaken over the past years and serve as a strong indicator that the transformation that the Group has undertaken is starting to yield results.

Midway through the year, our interim results indicated an encouraging upward trend in performance, suggesting the potential for an even more favourable outcome by the end of the year. This was overshadowed by an increase in corporate tax, with the year-end results showing a modest post-tax profit of USD7,674, effectively break-even. Notwithstanding, this remains a noteworthy recovery from the previous financial years.

I am pleased to report that for the fourth year running there are no new material non-performing loans. Banks with strong risk management, diversified portfolios, and effective recovery processes are always better positioned to maintain lower non-performing ratios, and our objective is to continue building on these positive recovery results in the years ahead. We are confident that our focus on robust risk management practices, diversified portfolios, and efficient recovery processes will continue to enhance these ratios.

Since my appointment as Group Chief Executive Officer of the Bank on 30 November 2023, I have witnessed firsthand the resilience and determination with which our team continues to overcome our existing challenges. As we look ahead, we see a stable business model that is poised to capitalise on growth opportunities and business potential within the international and local markets. Our commitment to marching towards sustainable growth, driven by our collective efforts, is aimed at forging a prosperous future that maximises shareholder value.

Overview of financial results

During this financial period, net interest income increased by 26% year on year, reaching USD55.2 million. This increase is primarily attributed to the favourable interest rate environment, which allowed the Group to expand its interest margins. Moreover, the net fees and commission expense saw a marked improvement, reducing to USD0.7 million, a decrease of USD1.2 million from the previous year. Operating results from the non-trading portfolio increased by USD9.1 million to USD54.8 million, reflecting a growth of 20% over the previous year. The increase in operating results from the non-trading portfolio reflects the successful execution of our diversified business strategy.

Turning our focus to trading performance, although we recorded a net trading loss of USD3.2 million for the year, this represents a significant recovery from the previous year's USD6.9 million loss. The Group's trading operations encountered challenges stemming from the pervasive impact of geopolitical unrest and fluctuations in economic policies within the primary markets we operate in. This situation was further exacerbated by the default of an asset in our LFC subsidiary's trading book. Even in the face of these challenges, our strategic actions have been geared towards minimizing impacts and ensuring financial stability. Through diligent planning and proactive measures, we remain steadfast in our commitment to mitigating adverse effects and strengthening our financial resilience.

As of 31 December 2023, the Group's total consolidated assets increased by 1.60% to USD1.58 billion, reflecting a prudent yet strategic approach to steadily managing our asset size and capital positions. The Group's consolidated liabilities increased slightly to USD1.40 billion, following the shift of focus towards broadening the Bank's deposit base through an enhanced emphasis on diversifying funding sources. During the period, customer deposits increased by 6.7% to USD935 million. This was complemented by a strategic stance that actively promotes franchise deposits, targeting stable, lower-cost deposits generated through our established reputation and strong customer relationships.

The Group's Common Equity Tier 1 Ratio and TCR ratios stood at 18.3%, well above the overall capital requirements and supervisory pillar two guidance.

Achieving a 6.46% reduction in the Non-Performing Loan ("NPL") Ratio demonstrates our commitment to maintaining a healthy and resilient portfolio. This result is a testament to our rigorous management of assets and our successful efforts in reducing net impairment losses.

Our financial performance has demonstrated remarkable improvement that encourages us to build on these results. Our strategic initiatives are setting the stage for sustainability. As we progress further in our journey, our focus remains on optimizing our operational efficiency, solidifying our risk management framework, and expanding our revenue generation capabilities, delivering superior value to our customers and shareholders. The diverse business units within the bank are actively demonstrating their strong capabilities in originating new business, with a robust pipeline of transactions consistently being converted, showcasing a dynamic and healthy business origination environment.

Business unit performance

Trade Finance

The Bank continues to prioritise Trade Finance as one of its core businesses. During the year, the Trade Finance team successfully maintained a steady client base while also integrating a select group of new clients. This diligent approach culminated in a notable uptick in trade finance volumes. A significant effort was devoted to enhancing operational efficiency throughout 2023, including updated risk frameworks, streamlined processes, upgrading of technology, and revised policies. These strategic improvements were aimed at optimizing service delivery. FIMBank is renowned for its expertise in maritime finance, offering tailored banking and finance services for the shipping industry from a base in Dubai. In response to emerging market dynamics, the Bank renewed its focus on re-entering trade finance operations within a select number of African countries. Following the strategic decision taken the previous year, the Greek portfolio was transferred to Malta, and during 2023 continued to be managed by a dedicated team of factoring specialists. The portfolio size remains stable, and this realignment has led to notable performance improvements.

Corporate Finance

Beyond trade finance, the local lending activity began with the establishment of the Real Estate Finance unit in 2016, offering project financing for residential and commercial projects in Malta. Over the past eight years, the Real Estate portfolio has consistently delivered positive results, maintaining portfolio stability at the desired levels. After achieving success in this sector and securing a substantial market share, the Bank took a significant step forward in 2023 with the launch of its Corporate Finance proposition. This initiative spearheaded the development of a comprehensive suite of financial solutions tailored specifically for corporate clients. The corporate offering includes business loans, overdrafts, general banking facilities, and revolving loans, aimed at meeting the diverse needs of businesses operating in Malta. This initiative has resulted in stable growth and heightened visibility in the home market, positioning the Bank to capitalise on potential opportunities for increased business and diversification. Corporate Finance is well-positioned to grow in a sustainable manner while reinforcing the Bank's presence and visibility in its home country.

London Forfaiting Company Ltd (“LFC”)

The year 2023 was a very successful one for LFC, which returned a net profit after tax of USD8.64 million (2022: USD0.73 million) to its shareholder. LFC also embarked on a strategy of diversifying its portfolio last year. LFC takes a proactive approach to managing its non-performing assets, and whilst there was one new non-payment in 2023, this was fully provided for during the year. LFC experienced a general increase in underlying interest rates following the tightening of monetary policy in many of the developed and developing economies. This trend was particularly relevant in countries where LFC operates, significantly contributing to an enhancement in the company's profitability in 2023. Significantly, LFC celebrates its 40th anniversary in 2024, and its ability to adapt to constant economic and operational changes in the environment where it operates stands as a testament to its longevity, robustness, and resilient business model.

India Factoring and Finance Solutions Private Ltd (“India Factoring”)

During the year in review, India Factoring registered a profit of USD0.30 million, compared to a loss of USD0.70 million registered in 2022. India Factoring retained its leadership position in the provision of factoring services in India for the sixth consecutive year. The company continues to support small and medium enterprises with tailor-made working capital solutions. Clients benefit from access to immediate liquidity, to smooth out cash requirements, improve financial planning, and more importantly, optimise their financials. In 2023, India Factoring maintained its portfolio at a similar level to that of the previous year in spite of various challenges such as geopolitical tensions, inflationary trends, rising interest rates, etc. Despite strong outperformance in terms of operational profit, the subsidiary experienced an increase in provisions and deferred tax asset charge, which impacted the overall performance. The increase in provisions was on account of one legacy domestic relationship. The company's performance of its export book has been strong, and its current portfolio status remains excellent.

The Egyptian Company for Factoring S.A.E. (“Egypt Factors”)

Egypt Factors registered a profit of USD1.9 million and an increase in its factoring portfolio during 2023. The subsidiary was the first licensed Egyptian company specializing in factoring services, it is considered a pioneer in the financial services sector in Egypt and maintained its leading market position measured by market share. It has consistently maintained its premier market position, as evidenced by its substantial market share. Egypt Factors has built a strong reputation for its responsiveness to client needs, primarily through providing high-quality accounts receivable management. This approach supports suppliers in fulfilling buyer expectations.

Investment in technology

Digital and technology serve as indispensable catalysts for modern banking, and FIMBank has wholeheartedly embraced this ethos through continuous investment over the years. In 2023, we achieved several significant milestones in our digital transformation voyage. Among our top priorities was the enhancement of our digital banking platform, FIMBank Direct, for which most of the work was concluded in 2023. Our primary focus remains on enriching our customers' digital experiences and broadening the platform's functional capabilities, thereby empowering them to seamlessly manage their banking needs with heightened security. Throughout 2023, we have made substantial progress in replacing the legacy Group factoring operating system with a successful migration to a new platform for our India business. The Bank also embarked on a new payments project hub which is set to be launched in 2024. This initiative falls in line with the Bank's commitment to modernise its payments framework and support industry changes. These enhancements further solidify our dedication to innovation and excellence in banking services.

Corporate Social Responsibility

At FIMBank we believe that our actions have a direct impact upon the community in which we operate. During the period of 2023, the Bank has sought to embark on a number of initiatives to support organisations making valid contributions to society. The Bank, along with its employees, collectively contributed to Puttinu Cares through an internal initiative that supplemented the Bank's own charitable donation. FIMBank supported Pink October and Movember initiatives aimed at raising awareness for men's and women's health. Bank employees were encouraged to wear pink or blue at the workplace to show solidarity towards the cause and enjoyed some sweet baked treats, all while collecting donations for Hospice Malta.

Earlier in the year, the Bank backed the Valletta Concours event as part of its CSR program, celebrating automotive heritage and cultural preservation. This sponsorship fosters historical appreciation through the showcasing of vintage and classic automobiles, educational platforms for enthusiasts of all ages, while also bolstering tourism. Such engagement reflects a dedication to CSR by investing in initiatives that enrich lives and promote sustainable cultural practices and community involvement.

Environmental, Social and Corporate Governance principles (ESG)

The FIMBank Group acknowledges the growing importance of Environmental, Social, and Governance ("ESG") standards and our responsibility in advancing sustainable practices. As an organisation operating in various continents across the globe, we have a direct influence on the well-being of individuals across numerous countries, evident through our role as an employer, the nature of our products and services, and our broader impact on the environment and local communities.

At FIMBank, we pledge to embed ESG considerations into our business strategy, facilitating the integration of sustainability principles into our decision-making processes. We are steadfast in our belief that by championing sustainable practices, we contribute to forging a more resilient future for all stakeholders, including customers, shareholders, employees, and broader society. As we continue to embed ESG into our operational framework, we strive to effect positive change and uphold our duty as a responsible corporate entity.

We have engaged external consultants to aid in implementing an ESG framework within our organisation. This framework serves to align our efforts with the European Union's ESG objectives and proactively manage environmental risks affecting the Group, our clientele, and society at large.

Concluding remarks

Whilst recent results have shown that recent efforts spearheaded over the years are now starting to bear fruit, our business approach remains grounded and cautious, as we acknowledge that we must undertake more work. The priorities for 2024 have been clearly defined: the maximisation of revenues through high-quality, good-yielding assets across various verticals while emphasizing a heightened awareness toward our cost base. Furthermore, assessing capital consumption is instrumental in achieving higher returns and strategically balancing our portfolios to ensure optimal performance. I am confident that with an approach focusing on collective collaboration, we will achieve our objectives.

I extend my gratitude to our dedicated team, our Board of Directors, and our stakeholders for their unwavering support and commitment to our vision. Together, we are poised for success in the years to come.

Signed by Mohammed Louhab (Chief Executive Officer) on 24 April 2024

Directors' report

For the year ended 31 December 2023

The Directors present their report together with the Financial Statements of FIMBank p.l.c. (the "Bank"), and FIMBank Group of Companies (the "Group") for the year ended 31 December 2023. This report is prepared in accordance with Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta) ("the Companies Act"), including the further provisions as set out in the Sixth Schedule of the Companies Act.

Results for the year

The Group and the Bank reported a profit after tax of USD7,674 and USD2,490,148 respectively, for the year under review.

Further information about the results are provided in the Statements of Profit or Loss and the Statements of Other Comprehensive Income on pages 42 and 43 and in the Review of Performance section within this report.

Group structure and principal activities

The Group comprises the Bank and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), The Egyptian Company for Factoring S.A.E. ("Egypt Factors"), and FIMFactors B.V. ("FIMFactors"). LFC and FIMFactors are themselves parents of a number of subsidiaries as set out in Note 27 to the Financial Statements. The Group is supervised on a consolidated basis by the Malta Financial Services Authority ("MFSA"), whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

A brief description of the activities in the Group follows (% shareholding follows after the name):

- The Bank is a public limited company registered under the laws of Malta and listed on the Malta Stock Exchange. It is licensed as a credit institution under the Banking Act, 1994. The Bank is principally active in providing international trade finance and to act as an intermediary to other financial institutions for international settlements, real estate financing, factoring and loan syndications.

The Bank has a branch registered with the Dubai International Finance Centre, United Arab Emirates, which is regulated by the Regulator in the United Arab Emirates.

- LFC (100%) is registered in the United Kingdom as a private limited liability company. It was founded in 1984 and provides international trade finance services, with particular focus on forfaiting business, through an international network of offices. Some of these offices have distinct corporate status in the various jurisdictions where they are providing the service. LFC's activities include the trading of bills of exchange, promissory notes, loans, deferred payment letters of credit and the provision of other financial facilities to companies and banks.
- FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group.

Please refer to Note 47 to the Financial Statements for information about the subsequent events of this entity.

- FPI (100%), registered in Malta, owns and manages FIMBank's Head Office and other properties leased from third parties. FPI is responsible for facility management activities and the leasing of commercial and office space within Mercury Tower to related parties and third-party tenants.
- Egypt Factors (100%), registered in Egypt, is active in providing factoring services to Egyptian companies.
- FIMFactors (100%), registered in the Netherlands, is the corporate vehicle for the Bank's holdings in factoring subsidiaries and associated companies. These are:
 - a. India Factoring and Finance Solutions (Private) Limited (88.16%), incorporated in Mumbai, India, is to carry out the business of factoring in India. India Factoring is regulated by the Reserve Bank of India: and
 - b. BrasilFactors S.A. (50%), is an equity-accounted investee incorporated in São Paulo, Brazil, with its core business focused on factoring services, targeting small and medium-sized companies. The other shareholder in this company is China Construction Bank (50%).

Review of performance

The financial period ending on 31 December 2023 marked a significant turnaround in both operating and financial performance for the Group. There was a substantial shift from a pre-tax loss of USD24.7 million in the preceding financial period ending on 31 December 2022 to a pre-tax profit of USD5.8 million in the current period. Furthermore, the Group achieved break-even post-tax, with a profit of USD7,674 for the financial period ending on 31 December 2023, a remarkable improvement compared to the loss of USD26.7 million reported in the previous year.

The economic landscape in 2023 presented a myriad of simultaneous developments, making it quite complex to capture comprehensively. Amidst the ongoing global recovery from the lingering effects of the COVID-19 pandemic, tensions continued to escalate in Eastern Europe, intensifying the persisting cost-of-living crisis. Simultaneously, tensions heightened in the Middle East due to the Israel-Hamas conflict, leading to recent attacks on shipping in the Red Sea that disrupted supply chains and sharply increased shipping costs.

Despite experiencing a faster-than-expected decline in inflation, it remained stubbornly high, prompting central banks to persist in raising interest rates. This, in turn, increased borrowing costs and posed significant challenges for private individuals, corporations, and industries sensitive to interest rates, such as manufacturing and business investment. Economic growth exhibited variability, with some economies surpassing expectations while others remained subdued due to weak consumer sentiment and the lingering effects of high energy prices and inflationary pressures. Nonetheless, there were discernible signs of supply-side expansion, including a broad-based increase in labour force participation, resolution of pandemic-era supply chain disruptions, and decreasing delivery times.

The persistently high interest rate environment presents both advantages and drawbacks for the Group. On the positive side, it has contributed to boosting the net interest margin, which reached USD55.2 million, as the rise in interest income surpassed the increase in interest expenses. Despite the general negative impact of increasing interest rates on the fair valuation of trading assets, this effect was mitigated by a prudent risk focused approach applied in managing the trading book. The average tenor of the trading book was kept short (under one year), and the majority of the assets were linked to a floating rate, which helped mitigate any adverse effects from high interest rates.

The Group has persistently pursued the recovery of its legacy portfolio, yielding tangible results with a recovery exceeding USD16 million from various non-performing clients. The ongoing de-risking efforts over the past few years have proven fruitful, with no material exposures classified as non-performing for the third consecutive year. Furthermore, the Group conducted a thorough review of non-performing exposures, resulting in the write-off of several fully provided exposures where remote recovery prospects were identified. This strategic action not only improved the Group's asset quality and regulatory metrics, but also freed up Management's resources to focus on other recovery initiatives while safeguarding and improving the performing portfolio.

During the financial year ended 31 December 2023, Management has reconsidered its position on the reclassification of its long-term debt securities. In 2022, the Group reclassified this portfolio from 'Financial investments at fair value through other comprehensive income' to 'Financial investments at amortised cost'. In 2023, the Group reclassified this portfolio back to 'Financial investments at fair value through other comprehensive income'. This decision followed various developments in the market surrounding interpretations of IFRS 9 requirements, in relation to reclassifications of financial instruments between different classification and measurement categories. Please refer to Note 25.2 for further information on this reclassification.

In the review period, the Group continued its medium-term strategy of refining its structure. Notably, efforts were directed towards finalising a merger by acquisition between the Bank and FIM Business Solutions Limited, a process expected to conclude in 2024. This strategic initiative aims to streamline the Group's business model and reduce operating expenses, aligning with its long-term objectives.

Notwithstanding the unpredictable operating environment due to ongoing conflicts in Eastern Europe and the Middle East, as well as monetary and fiscal policies in its markets, LFC had an excellent year, closing with a USD11.3 million profit before tax compared to USD1.5 million in the previous year. As a result of these strong financial results, LFC has fully utilized all of its deferred tax assets. Additionally, LFC closed the year with a trading portfolio 16% lower than the previous year, reflecting the entity's selective approach to emerging market exposures. LFC adopted a cautious approach in managing its trading portfolio through sound credit assessment, insurance capacity, and enhanced oversight.

India Factoring maintained its factoring portfolio at a level similar to the previous year, while surpassing the previous year's operating profits by USD0.7 million. The entity increased its provision for a specific legacy group of connected clients due to delays in the recovery process while recorded some recoveries and released some expected credit losses. As a result, the entity closed the year with a profit before tax of USD1.6 million, compared to a loss of USD0.7 million incurred in the previous year. The entity strategically diversified its portfolio across various industries, with the majority of the portfolio covered through import factor and credit insurance, effectively mitigating industry-specific risks. Furthermore, the successful implementation of front-end software has significantly enhanced operational capabilities, including digital functionalities.

Throughout the year, India Factoring received numerous awards in India, recognizing excellence across various aspects of its business operations.

Egypt Factors has observed a consistent invoice turnover in value terms, alongside a notable expansion in its factoring portfolio. Leveraging the implementation of several government initiatives affecting trade, imports, and foreign currency in Egypt, the company capitalised on these opportunities, resulting in a remarkable 50% increase in interest income. As a consequence, by the conclusion of 2023, Egypt Factors achieved a substantial pre- and post-tax profit of USD1.9 million, marking a significant rise from the USD0.4 million reported in 2022.

The Group maintained a robust capital position throughout the year, with a Total Capital Ratio (“TCR”) of 18.3%, well exceeding the minimum requirement of 16.1%. This surplus in capital provides the Group with an opportunity to pursue additional asset origination aligned with its risk appetite, thereby generating incremental revenue streams. Anticipating further regulatory review, particularly the Supervisory Review and Evaluation Process (“SREP”) by the MFSA, the Group expects a reduction in its Pillar 2 Requirement (“P2R”), which stood at 4.5% at year-end. Moreover, the Group upheld a strong liquidity position, evidenced by an average Liquidity Coverage Ratio (“LCR”) of 288% and an average Net Stable Funding Ratio (“NSFR”) of 141%. Both liquidity metrics comfortably surpassed regulatory minimums and the Group's internal risk appetite level, underscoring its resilience and readiness to meet liquidity demands. Overall, these indicators affirm the Group's financial strength and adherence to regulatory standards.

Statements of profit or loss

The Group registered a pre-tax profit of USD5.8 million for the financial period ending on 31 December 2023, compared to a pre-tax loss of USD24.7 million in the financial period ending on 31 December 2022. Post-tax, the Group reached break-even, with a marginal profit of USD7,674 for the financial period ending on 31 December 2023. In the financial period ending on 31 December 2022, the Group suffered a loss of USD26.7 million.

Group earnings per share were negative at US cents 0.01 (2022: negative US cents 5.09). The results for the year under review are summarised in the table below, which should be read in conjunction with the explanatory commentary that follows:

	2023 USD	Group 2022 USD	Movement USD
Net interest income	55,249,865	43,770,500	11,479,365
Net fee and commission expense	(739,577)	(2,004,678)	1,265,101
Dividend income	40,228	3,821,545	(3,781,317)
Fair Value Loss on Investment Property	(1,398,978)	-	(1,398,978)
Other operating income	1,665,027	163,542	1,501,485
Operating results from non-trading portfolio	54,816,565	45,750,909	9,065,656
Operating expenses	(43,840,601)	(38,262,423)	(5,578,178)
Income before net impairment and net trading results	10,975,964	7,488,486	3,487,478
Net trading results	(3,220,869)	(6,924,935)	3,704,066
Net impairment losses	(1,960,888)	(25,277,991)	23,317,103
Profit/(Loss) before taxation	5,794,207	(24,714,440)	30,508,647
Taxation	(5,786,533)	(1,957,610)	(3,828,923)
Profit/(Loss) for the year	7,674	(26,672,050)	26,679,724

The Group returned ‘Operating results from non-trading portfolio’ of USD54.8 million, exceeding last year’s results by USD9.1 million (20%). ‘Net interest income’ rose by USD11.5 million (26%) year on year, to USD55.2 million, primarily due to higher interest rates allowing the Group to widen its interest margins. ‘Net fees and commission expense’ at USD0.7 million improved from prior year by USD1.2 million.

During the year under review, the Group received a negligible amount of dividend from one of its investments, whereas in the previous year, the Group had received USD3.8 million in dividends from its investment in unlisted sub-funds. However, ‘Other operating income’ includes a fair value gain of USD0.8 million recognized on these investments in unlisted sub-funds, which are held at fair value through profit or loss, compared to a fair value loss of USD0.3 million incurred in the previous year. Other elements of other operating income remained fairly stable.

The Group's investment property was subject to an external valuation, leading to a fair value loss of USD1.4 million. In December 2022, the same property also underwent an external valuation, maintaining a stable value compared to the previous year.

'Operating expenses' for the year under review totalled USD43.8 million, marking a USD5.6 million (15%) increase from the previous financial year, 2022. In the prior year, the Group benefited from the depreciation of the Euro and the Pound Sterling against the US Dollar, as most expenses are incurred in these currencies while the Group's functional currency is the US Dollar. During that year, this depreciation led to lower operating expenses when converted back to USD. However, during 2023, both the Euro and the Pound Sterling appreciated against the US Dollar, reversing the benefit observed in the previous year. Consequently, operating expenses incurred in these foreign currencies translated to higher expenses when converted to the functional currency. Additionally, the Group faced higher costs in the transacted currencies due to inflationary pressures, further contributing to the increase in operating expenses. Moreover, in 2023, the Bank recorded expenses related to the strategic transformation project carried out by a highly reputable advisory firm as announced in previous publications.

'Net trading results' amounted to a loss of USD3.2 million, an improvement from the USD6.9 million loss in the prior year. The trading book, held at the Group's subsidiary LFC, was impacted by the default of an asset throughout 2023, which was partly recovered from an insurance cover. Additionally, the unpredictable operating environment resulting from the contagion effects of ongoing conflicts in Ukraine and Israel, as well as monetary and fiscal policies from major markets, further affected net trading results.

Net impairment losses have normalized to USD2.0 million, a significant improvement from the USD25.2 million suffered in the previous year. The Group reversed USD56.2 million of Stage 3 provisions, compared to USD13.4 million in 2022. Of this, USD60.3 million (2022: USD32.5 million) were reversed due to write-offs or recoveries of non-performing exposures, while USD3.9 million (2022: USD19.5 million) was an increase in coverage for legacy non-performing exposures and legal fees incurred during the recovery process.

Additionally, the Group recovered USD0.6 million in previously written-off debt, compared to USD1.6 million in 2022. The Group wrote off USD59.7 million of non-performing exposures in 2023, up from USD32.7 million in 2022. These write-offs were fully provided for in previous years, though the Group still holds the option to enforce, sell, or transfer the credit to another entity.

These adjustments, along with other measures, led to a reduction of the NPL Ratio by approximately 6.5% within the review year to below 5%. Management has made significant efforts over the past three years to decrease the NPL Ratio from 20% in 2020.

The Group also released USD0.7 million of Stage 1 and Stage 2 provisions for performing clients, in contrast to the USD1.9 million increase in provisions seen in 2022. Additionally, the Group set aside USD0.4 million for liabilities and charges, compared to USD0.5 million in the previous year.

Notably, in 2022, the Group wrote off goodwill of USD5.2 million on Egypt Factors and India Factoring entirely. Consequently, no impairment assessment of goodwill was necessary in 2023.

In 2023, provisions for tax for all Group entities amounted to USD5.8 million, compared to USD2.0 million in 2022. With the increased profitability of the Group entities, some of the deferred taxation has been utilized. These entities have conducted assessments to ensure the recoverability of the remaining recognized deferred tax assets before their finite expiry, where applicable.

Financial position

As of December 31, 2023, total consolidated assets amounted to USD1.58 billion, representing a USD25 million increase or 2% growth compared to the end of 2022. However, the average total consolidated assets for the year were 12% lower than the previous year's average.

In comparison to the previous year, the Group closed the year with higher balances in treasury assets, including high-quality liquid assets (up by USD96 million) and loans to banks (up by USD54 million). Conversely, there were lower balances in trading assets (down by USD70 million), factoring assets (down by USD33 million), and trade finance (down by USD19 million).

Average loans to banks increased by USD27 million, reflecting the Group's strategic approach to managing risk. Despite the Group's ongoing efforts to reduce exposure to higher-risk clients, the Financial Institutions portfolio has been cautiously managed in line with our prudent risk framework. Nevertheless, there has been a concerted effort to attract business from jurisdictions and financial institutions that align with the Group's risk and compliance standards, while focusing on the portfolios' risk adjusted returns.

The Group experienced a decline in average balances. Notably, factoring decreased by USD53 million, trading assets by USD29 million, and trade and corporate finance by USD21 million. This reduction is primarily attributed to a cautious approach towards regulatory requirements, particularly the Total Capital Ratio. Furthermore, the Group's ongoing strategic deployment of assets, marked by prudence in certain business activities, jurisdictions, and customer segments, has further contributed to these declines. Additionally, market conditions affected by inflationary pressures and geopolitical conflicts, such as those in Ukraine and the Middle East, have impacted demand and trade flows.

The average balances for treasury assets decreased by USD100 million. These assets comprise high-quality liquid assets and are primarily managed to meet the Group's liquidity needs and regulatory liquidity ratios.

The Group conducted an assessment on deferred tax assets and investments across its subsidiaries, affirming the adequacy of their carrying amounts. During these assessments, Management considered various factors significantly influencing the global economy and the specific activities of these assets.

An external valuation of the head office premises in St. Julians, which is partially recognized under 'Property, plant, and equipment' and partially under 'Investment property,' indicated that the fair value of the 'Property, plant, and equipment' increased by USD0.8 million, while the fair value of the 'Investment property' decreased by USD1.4 million.

As of December 31, 2023, the Group's consolidated liabilities totalled USD1.40 billion, reflecting an increase of USD16 million from the previous year. However, average balances for 2023 were lower than the previous year by USD165 million. Particularly, average balances for bank wholesale funding decreased by USD133 million.

Total equity increased by USD8.8 million to USD179.3 million, attributed to a USD1.2 million net fair value gain on 'Property, plant, and equipment' and an USD8.1 million fair value gain on 'Financial investments at fair value through other comprehensive income'. As of 31 December 2023, the Group's CET1 and TCR ratios stood at 18.3% (compared to 17.8% in 2022).

Total consolidated commitments amounted to USD147.8 million (compared to USD100.0 million in 2022), primarily comprising confirmed letters of credit, documentary credits, commitments to purchase forfeiting assets, and undrawn credit facilities. Total consolidated contingent liabilities, primarily composed of outstanding guarantee obligations, reached USD31.3 million (compared to USD14.7 million in 2022).

Principal risks and uncertainties

FIMBank is a banking group offering a suite of trade finance products across the different geographies it operates in, mainly emerging markets. The risks associated with this business model are multiple and varied. Exposure to credit risk, liquidity risk, interest rate risk and foreign exchange risk arises in the normal course of the Group's business. As the Group is mainly engaged in cross-border trade finance transactions, the business performance is also impacted by the overall performance of the world economy, in particular to the level of cross-border trade between countries at varying stages of their economic development and which may not yet have achieved the level of stability of developed countries. This exposes the Group to risks of political and economic changes including volatilities to commodity prices, exchange control regulation and difficulties in preserving own legal rights.

Both FIMBank and its main Group entities are exposed to such risks in different degrees based on their size and complexity. FIMBank, as the parent company, ensures that all Group entities adhere to the Group's risk, governance and compliance frameworks as updated from time to time.

Further disclosures on the Group's principal risks and uncertainties are provided in Note 5 of this Annual Report and the 2023 Pillar 3 Disclosures Report published on the Bank's website.

Outlook for 2024

Global economic growth is forecasted to remain modest, initially slowing in the first half of the year before gaining momentum in the latter half. The majority of economies are expected to grapple with the enduring effects of tightened monetary policies, compounded by weak trade dynamics and subdued consumer and investor confidence. Despite regional variations, a gradual easing of inflation towards central bank targets is anticipated across most economies. This deceleration in inflation is poised to bolster real incomes for households, thereby mitigating the extent of economic downturns. Consequently, lower inflation rates should pave the way for central banks to contemplate reducing interest rates at some points throughout the year.

The ongoing conflict in Ukraine shows no signs of diminishing in the near future. Tensions in the Middle East have the potential to escalate across the broader region, a critical hub for oil and gas production. Furthermore, persistent attacks in the Red Sea, a key artery for global trade, are compounding the challenges. These developments are fuelling fresh supply shocks to the global recovery, resulting in spikes in food, energy, and transportation costs.

Taking these factors into account, the Group will proactively seek out business opportunities with a focus on achieving risk-adjusted returns, all while maintaining alignment with its risk appetite and regulatory capital requirements. Following the cleanup efforts, the Group's balance sheet has become more resilient, thanks to diminished legacy exposures and fortified, sustainable revenue streams.

Anticipated portfolio growth will likely be modest within our customer-centric approach. Our strategic priorities persist in emphasizing business lines and geographical regions that present superior returns and lower risks, thereby ensuring consistent value generation for the Group. As we progressively eliminate complex structures and streamline business lines, our presence in Malta continues to evolve and mature.

The Group remains focused on improving its strategy to pursue our long-term objective of expanding and future-proofing our shareholders' value. We are progressing in this initiative with a highly reputable advisory firm, employing a holistic approach covering business lines, markets, products, and building competitive advantage. Certain recommendations from this initiative are set to be implemented as soon as 2024. Furthermore, significant importance is placed on the Group's cost structure, IT and data architecture design and integration, as well as the resources and capabilities of the Group.

Another MFSA Supervisory Review and Evaluation Process (SREP), concluded in the early months of 2024, resulted in a 0.8% reduction of the Group's Pillar 2 requirement (P2R), a change welcomed by the Group. The MFSA acknowledged the Group's improvements in profitability and its broadly stable funding and liquidity profile. The Authority noted the constant efforts by Management to decrease the non-performing loan portfolio below regulatory thresholds, and the Board has satisfactorily addressed the qualitative requirements and recommendations stemming from the SREP performed in 2021.

Dividends and reserves

As none of the reserves are available for distribution, the Board of Directors will not be recommending the payment of a dividend to the Annual General Meeting of Shareholders (2022: Nil).

Standard licence conditions and regulatory sanctions

During the year under review, no breaches of licence requirements occurred. Moreover, no regulatory sanctions were taken against the Bank.

Approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 4 May 2023 and all statutory Ordinary Resolutions were approved.

Shareholder register information pursuant to Capital Markets Rule 5.64

The Directors refer to the following disclosures in terms of the Capital Markets Rule 5.64:

- a. details of the structure of the share capital, the class of shares and the rights and obligations attached to it and the percentage of total share capital that it represents are, unless otherwise stated in this report, disclosed in the Notes to the Financial Statements;
- b. except as provided for by Article 41 of the Articles of Association of the Bank, or where the consent of the Supervisory Authority may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding. Shareholders holding 5% or more of the share capital as at 31 December 2023 are as follows:

	No of shares	% holding
United Gulf Holding Company B.S.C	420,019,110	80.40%
Burgan Bank K.P.S.C.	44,394,499	8.50%

- c. there is no share scheme in place which gives employees the rights to any form of control;
- d. the Bank's Articles of Association do not contain more stringent provisions than the ones contained in the Companies Act governing the changes or variations in the rights attached to shares;
- e. in terms of Article 12 of the Bank's Articles of Association, the rights attached to any class of shares may be varied either with the consent in writing of the holders of not less than 80% of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class. The Banking Act requires the Bank to obtain the consent of the Supervisory Authority (MFSA) to effect any material change in voting rights;
- f. the rules and procedures governing the appointment and replacement of Board Members are provided by the Articles of Association and are referred to in the Statement of Compliance with the Principles of Good Corporate Governance. Any amendments to the Articles shall be by means of an extraordinary resolution in accordance with the provisions of Articles 90 and 91;
- g. unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof; and

- h. there are no agreements between the Bank and its Board Members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

At as 31 December 2023, the Bank had no securities with special control rights in accordance with the Capital Markets Rule 5.64.4.

Events after the financial reporting date

Merger

On 25 January 2024, the Bank issued a Company Announcement, announcing that as part of a streamlining initiative and corporate restructuring exercise, the Bank's Board of Directors has resolved to approve a merger by acquisition between the Bank, as the acquiring company, and FIM Business Solutions as the company being acquired (the "Merger").

Please refer to Note 47 to the Financial Statements for more information.

Dividends Received

In March 2024, the Bank received a cash dividend of USD2.0 million from its wholly owned subsidiary London Forfaiting Company Limited.

There were no other material events or transactions which took place after the financial reporting date which would require disclosure in or adjustment to this Annual Report and Financial Statements.

Going concern

As required by the Capital Markets Rule 5.62, upon due consideration of the Bank's performance, financial position, capital adequacy and solvency, the Directors confirm that, at the time of approving these Financial Statements, the Bank is capable of continuing to operate as a going concern for the foreseeable future.

Directors

The Directors who served during the financial year (inclusive of any changes to the date of this report) were:

John C. Grech (Chairman)	CGC, BCC, BRIC	
Masaud M.J. Hayat (Vice Chairman)	NRC	
Abdel Karim A.S. Kabariti	CGC, NRC	Retired on 4 May 2023
Claire Imam Thompson	CGC, BAC, BRC	Resigned on 10 November 2023
Edmond Brincat	BAC, NRC, BESG	
Erich Schumacher	BRC	
Hussain Abdul Aziz Lalani	BAC, BRC, BRIC, BESG	
Majed Essa Ahmed Al-Ajeel	CGC, NRC	Retired on 4 May 2023
Mohamed Fekih Ahmed	BCC	Retired on 4 May 2023
Mohammed Louhab	BCC, BESG	
Rabih Soukarieh	BCC	
Rogers David LeBaron	CGC, NRC	Retired on 4 May 2023
Sunny Bhatia	CGC, NRC	

Denotes membership of:

- Board Audit Committee ("BAC")
- Board Credit Committee ("BCC")
- Board Review and Implementation Committee ("BRIC")
- Board Risk Committee ("BRC")
- Corporate Governance Committee (CGC)
- Nomination and Remuneration Committee ("NRC")
- Board Environmental, Social and Governance Committee ("BESG")

Statement of responsibility

This Statement of responsibility is required in terms of the Capital Markets Rule 5.55.2 and set out in the form required by the Capital Markets Rules 5.67 to 5.69.

The Companies Act, 1995 (Chapter 386, Laws of Malta) requires the Directors of the Bank to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank and the Group as at the end of the financial year and of the profit or loss of the Bank and the Group for that period in accordance with the requirements of International Financial Reporting Standards as adopted by the EU.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and the Group and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) and the Banking Act, 1994 (Chapter 371, Laws of Malta). The Directors also ensure that the financial statements of the Group are prepared in accordance with Article 4 of the IAS Regulation.

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

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

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's and the Group's objective of preparing financial statements as required by the Companies Act, 1995 (Chapter 386, Laws of Malta) and managing risks that may give rise to material misstatements in those financial statements.

In determining which controls to implement to prevent and detect fraud, Management considers the risks that the financial statements may be materially misstated as a result of fraud.

Independent auditors

During 2023, Ernst & Young Limited Malta were appointed as statutory auditors of the Group and Bank at the Annual General Meeting which was held on 4 May 2023. Following such appointment, EY Malta and the Group/Bank mutually agreed to terminate their existing relationship and EY Malta resigned from the engagement as statutory auditors of the Group and Bank. Accordingly, in January 2024, the Board of Directors of FIMBank appointed PricewaterhouseCoopers ("PwC") as the Group's statutory auditors for the financial year ended 31 December 2023. The appointment of PwC as the Group's statutory auditors for the financial year ending 31 December 2024 will be proposed at the forthcoming Annual General Meeting. Subject to the approval of the Shareholders, PwC will perform the statutory audit of the Group and Bank for the financial year ending 31 December 2024.

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 24 April 2024 as per Director's Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Registered Address

Mercury Tower
The Exchange Financial and Business Centre
Elia Zammit Street
St. Julian's STJ 3155
Malta

Statement of compliance with the principles of good corporate governance

For the year ended 31 December 2023

Introduction

Pursuant to the requirements of Capital Markets Rules 5.94 et seq of the Malta Financial Services Authority (the “MFSA”), the Board of Directors (the “Board” or “Directors”) of FIMBank p.l.c. hereby details the extent to which the Code of Principles of Good Corporate Governance (the “Principles”), published as Appendix 5.1 to Chapter 5 of the Capital Markets Rules, have been adopted together with the effective measures taken to ensure compliance with such Principles.

In relation to the requirement to state how the Bank has applied the main principles emanating from the Code of Principles of Good Corporate Governance, the Bank has done so by complying with and taking cognisance of the associated provisions (that is, the supporting principles and Code provisions), unless otherwise stated within this Statement of compliance with the principles of good corporate governance.

Part 1: Compliance with the principles

The Board firmly believes that strong corporate governance permits the Bank and the Group to benefit from greater transparency in its activities, as well as in its relations with the market, thereby enhancing integrity and confidence. Although the Principles are not mandatory, the MFSA has recommended that listed companies endeavour to adopt such Principles. The Board has considered this to be in the best interest of the Shareholders because they commit the Directors, Management and employees of the Bank to internationally recognised standards of corporate governance.

Ultimate responsibility for good corporate governance remains with the Directors who have therefore resolved to adopt the Principles and endorse them accordingly, except for those instances where particular circumstances exist that warrant non-adherence thereto, or at least postponement for the time being.

The Board is committed to improve further its corporate governance standards which is an ongoing process.

Principle 1: Roles and responsibilities of the board

The Bank is headed by an effective board which leads and controls the company. The Board of Directors’ terms of reference are included in the relevant charter and can be summarised as follows:

The Board is responsible for the overall long-term direction of the Group, for setting its strategy and policies and ensuring that they are pursued through good management practices. The Board carries out its responsibilities by:

- a. exercising prudent and effective controls and ensuring that such controls are appropriately reviewed for effectiveness and monitored for compliance on a regular basis;
- b. determining the strategic aims and the organisational structure;
- c. regularly reviewing Management performance and ensuring that the Group has the appropriate mix of financial and human resources to run its business;
- d. being conversant with relevant statutory and regulatory requirements;
- e. ensuring that all Directors regularly attend meetings of the Board, agree on business objectives, financial plans and general parameters within which the Board, the Board Committees and Management are to function;
- f. ensuring that systems and controls are in place to mitigate significant business risks and that exposures are identified and properly managed;
- g. setting appropriate business standards, codes of corporate governance and ethical behaviour for all Directors and employees, as well as monitoring their performance;
- h. appointing the Group Chief Executive Officer (“GCEO”) who is entrusted with day-to-day management of the Group and its operations, together with members of Management; and
- i. appointing Senior Management through the Nomination and Remuneration Committee.

Over the years, the Board has created a framework through which it effectively performs its functions and discharges its liabilities. The Board has also established terms of reference and charters for the various Board Committees and the conduct of their meetings.

The Members of the Board of Directors of the Bank bring to their office a mix of backgrounds and capabilities, ranging from business to financial services. This ensures a good blend of expertise and experience. Moreover, the suitability of any individual to become a Director of the Bank is, in the first place assessed by the Nomination and Remuneration Committee. As part of its work, this Committee is tasked with performing an annual evaluation of the Board's overall performance in addition to an evaluation on the performance of each individual Member. This includes an evaluation of the knowledge and experience of each Member while also assessing their authorities and leadership skills. As a result, this Committee screens individuals for the position of Director against the Bank's requirements at the time. Subsequently, the proposal for an individual to become a Director is assessed by the MFSA which reviews, inter alia, the individual's competence to serve as Director against established 'fit and proper' criteria. In this connection, the individual is required to provide all information, including detailed personal and career information, as the competent authorities may deem necessary. Upon appointment, new Directors receive general information about the Bank, its business and affairs, and queries in this regard are in the first instance handled by the Company Secretary and/or the GCEO.

Principle 2: Roles and responsibilities of the chairman and of the chief executive officer

The roles of the Chairman and of the GCEO are completely separate from one another to ensure clear division of responsibilities at the head of the Bank.

The Chairman is a non-executive officer who is selected from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, encouraging their active engagement in meetings and issues brought before the Board and ensuring effective communication with Shareholders. The Chairman also facilitates the effective contribution of non-executive directors in particular and ensures constructive relations between executive and non-executive directors. As the non-executive directors are not involved in the day-to-day running of the business, they can bring fresh perspectives and contribute more objectively in supporting as well as constructively challenging and monitoring the Management team.

Whilst recognising that most shareholder contact is with the Chief Executive Officer and finance Director, the Chairman maintains sufficient contact with major shareholders to understand their issues and concerns.

The GCEO is the most Senior Executive of the Group and is appointed by the Board of Directors. He is responsible for leading the Management in the execution of the Bank's strategy and running the day-to-day activities of the Group.

Principle 3: Board composition and appointment of directors

The Bank ensures that the Board is not so large as to be unwieldy. In this respect, the Board is of sufficient size that the balance of skills and experience is appropriate for the requirements of the business and that changes to the Board's composition can be managed without undue disruption. The Board is composed of executive and non-executive Directors, including independent non-executives. The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of the Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the day of the consecutive Annual General Meeting, at which they become eligible for re-election. The Articles also provide that the Chairman and Vice Chairman are to be appointed by the Directors from amongst their number and shall hold office for a period of one year, unless otherwise decided by a simple majority of the Board. Any Member may nominate an individual in the manner prescribed by the Articles, provided that such nomination is seconded by a Member or Members who in aggregate hold at least twenty thousand shares between them.

As at the date of this Statement, the Directors and their respective first date of appointment to the Board, including identification as required by Code Provision 3.2 for those Directors deemed independent as per the Capital Markets Rules, are as follows:

Year when first appointed

John C. Grech (Chairman)	2004	
Rogers David LeBaron	2006	Retired on 4 May 2023
Majed Essa Ahmed Al-Ajeel	2013	Retired on 4 May 2023
Masaud M.J. Hayat (Vice Chairman)	2013	
Mohamed Fekih Ahmed	2013	Retired on 4 May 2023
Rabih Soukarieh	2013	
Edmond Brincat (Independent Director)	2017	
Hussain Abdul Aziz Lalani	2017	
Abdel Karim A.S. Kabariti	2020	Retired on 4 May 2023
Claire Imam Thompson (Independent Director)	2020	Resigned on 10 November 2023
Erich Schumacher	2022	
Sunny Bhatia *	2023	Appointed on 4 May 2023
Mohammed Louhab **	2023	Appointed on 4 May 2023

* * Sunny Bhatia was appointed by the Shareholders on 4 May 2023 and regulatory approval was obtained on 23 August 2023.

** * Mohammed Louhab was appointed by the Shareholders on 4 May 2023 and regulatory approval was obtained on 30 November 2023.

Other than for their involvement in Board Committees as described below, all Directors hold office in a non-executive capacity with the exception of Mohammed Louhab who is an Executive Director and the GCEO of the Bank.

The Board considered and resolved that all Directors meet the requisites for them to be deemed independent in view of the fact that all Directors signed a written declaration of independence prior to the publication on this Annual Report. This decision was based on the representations given by the individual Directors, including those with a shareholding in the Bank or associated with entities having a shareholding in the Bank or who have served on the Board for more than twelve consecutive years, which does not in any way impair these Directors' ability to consider appropriately the issues which are brought before the Board. In terms of Principle 3.4, each Director has confirmed in writing to the Board that he/she undertook:

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

Another written declaration of independence shall be signed by all the Directors in March 2024. In addition to the declaration provided, the Board considers such Directors to bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent. The Bank monitors that each Director limits the number of any directorships held in other companies. The Bank considers that the Directors have sufficient time to perform their duties and responsibilities in terms of law. The management body of the Group is deemed to be the Board of Directors, which is appointed in accordance with the Bank's Articles of Association.

As at 31 December 2023, the Board of Directors consisted of:

Number of directorships held
(including FIMBank p.l.c. and its subsidiaries)

John C. Grech (Chairman)	4
Masaud M. J. Hayat (Vice Chairman)	1
Edmond Brincat	8
Hussain Abdul Aziz Lalani	1
Rabih Soukarieh	1
Erich Schumacher	1
Sunny Bhatia	1
Mohammed Louhab	2

Directorships having an executive or non-executive role held within the same group have been counted as a single directorship.

Principles 4 and 5: Duties and proceedings of directors

The Board ensures that its level of power is known by all Directors and the Senior Management of the Bank. The Board also ensures that any delegation of responsibilities and functions are clear and unequivocal. Independently of any powers and functions that the Directors may from time to time validly delegate to Management, it remains a fundamental responsibility of Directors to monitor effectively the implementation of strategy and policy by Management.

The Board of the Bank carries out its duties through a structure that starts with the strategy and policy formulated at meetings and subsequently delegated to committees and Management for implementation and execution at various levels, both functional and operational.

In the first instance, the proceedings of Directors are regulated by the Bank's Articles of Association. Meetings of the Board for any calendar year are normally set at the last meeting of the preceding year, so that advance preparation and daily planning for the meetings can be made. Meetings are held at least quarterly and are formally notified by the Company Secretary at least seven days before the meeting with the issuance of the agenda for the forthcoming meeting. Occasionally, meetings are also called at short notice or on an ad hoc basis, in which case the Directors may decide to waive the statutory period of notice. The agenda is accompanied by such papers and documents as are necessary to inform Directors of issues relating to their roles and responsibilities, and in particular of the decisions they are expected to take. During the year, all Directors were duly notified of every meeting and given the statutory notice period. With notices of meetings, the Directors are also served with Alternate Director Appointment Forms which, in case of non-attendance, they are invited to complete and send to the Company Secretary prior to the meeting.

The Board held six meetings in 2023. All Members of the Board were present for all six meetings except for Abdel Karim A.S. Kabariti, who was excused in May, Sunny Bhatia was excused in June and Edmond Brincat was excused in July. Sunny Bhatia attended three meetings, one meeting as an invitee and two meetings as an approved Member of the Board. Mohammed Louhab attended five meetings, four meetings as an invitee and one meeting as an approved Member of the Board. Meetings include presentations by Management, whilst other information and documentation is made available for perusal by the Directors at their request. Members of Senior Management attend Board Meetings by invitation depending on the agenda content and relevance.

The Board also might request that the Meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a Meeting, draft minutes are circulated amongst the Members for their information. Minutes are then read and approved at the following Meeting. Directors are provided with Board documents and can also be provided with all past minutes of Board and Committee Meetings upon request.

Board Meetings also serve as an opportunity to report on the progress and decisions of the Committees, covered under Principle 8. All Board Committees are either a mix of Directors and Management (Board Review and Implementation Committee) or include the participation of Management (Board Audit Committee, Nomination and Remuneration Committee, Corporate Governance Committee, Board Credit Committee and Board Risk Committee). Committees report to the Board on their activities through their respective Chairman at each Board Meeting. Management reporting is also done directly to the Board at each Meeting, either by means of an update presentation from the GCEO or usually through the Board Review and Implementation Committee. In any case, each Board Meeting receives an update on the performance of the Bank and the Group, on known risk cases, litigation and potential problems, about key strategic developments, including the progress of investees such as subsidiaries and joint ventures and key financial indicators that enable performance to be measured against internal budgets, industry peers and prior financial periods.

All Directors have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that board procedures are complied with.

Principle 6: Information and professional development

Upon first appointment, all Directors are offered an introduction to the Bank and Group which includes a tailored induction and familiarisation by the GCEO and the Company Secretary. This usually covers legal and statutory responsibilities as well as a good overview of the Group's business and activities. Access to the services of the Company Secretary and resources of the Bank, including where necessary, independent professional advice at the Bank's expense, are also available.

Training sessions have been held in 2023 in order for Directors to have the necessary knowledge on their duties and responsibilities.

Moreover, the Board ensures that the GCEO maintains systems and procedures for the development and training of Management and employees generally, in order to retain the best quality employees, optimise on Management and employee morale and to continue developing the succession plan for Senior Management. The GCEO is responsible for the recruitment and appointment of Senior Management following the approval of the Nomination and Remuneration Committee.

Principle 7: Evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive 'fit and proper' tests by the MFSA before they are formally cleared for appointment to the Board. The Board undertakes an annual evaluation of its own performance and that of its Committees. The evaluation forms are then evaluated by the Nomination and Remuneration Committee ("NRC") as the Committee entrusted to perform this function. The NRC then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and its Committees and to report this to the Board itself and, where appropriate, to report at the Annual General Meeting. This exercise began in 2013 and has been repeated annually ever since.

In addition to the self-evaluation of the Board and its Committees, the Bank also conducts a suitability assessment using the Skills Matrix Template to Assess the Collective Suitability of the Members of the Management Body. The latest assessment as completed in April 2023 did not indicate that any changes were required. The only change in the membership composition was due to a direct replacement of a Director who resigned. Details regarding the changes to Committee composition have been disclosed under Principle 8: Changes to committee memberships during 2023.

The last evaluations from Directors were requested in the last quarter of 2023 and were presented to the NRC in March 2024.

Principle 8: Board committees

The Bank's Articles of Association establish that the Directors may delegate certain powers, authorities and discretions to any person and/or Committee appointed by them. The composition of such Committees, as well as the participation of Directors in them, is decided upon by the Board.

Accordingly, the Board has established the following Committees:

- Board Review and Implementation Committee
- Board Audit Committee
- Board Risk Committee
- Assets Liabilities Committee
- Board Credit Committee
- Nomination and Remuneration Committee (further information can be found in the Remuneration Report on page 24)
- Corporate Governance Committee
- Board Environmental, Social and Governance Committee

Board review and implementation committee

The Board Review and Implementation Committee ("BRIC") acts as the delegated authority by the Board in overseeing the activities and management of the Group. The Board Review and Implementation Committee terms of reference are included in the Board Review and Implementation Committee Charter.

The Members of the Board Review and Implementation Committee as at 31 December 2023 are the following:

John C. Grech (Chairman)
 Hussain Abdul Aziz Lalani (Vice Chairman)
 Adrian A. Gostuski (Non-Voting Member)

The Board Review and Implementation Committee met on seven occasions during 2023.

Board audit committee

The Board Audit Committee ("BAC") assists the Board of Directors in fulfilling its supervisory and monitoring responsibilities, according to detailed terms of reference included in the Board Audit Committee Charter and which reflect the requirements of the Capital Markets Rules, as well as current best practices and recommendations of good corporate governance. The terms of reference of the Board Audit Committee, as detailed in the Board Audit Committee Charter include:

- the monitoring of the financial reporting process, including the audit of the annual and consolidated accounts;
- the monitoring of the effectiveness of the Group's internal control, internal audit, compliance and risk management systems;
- the maintenance of communication on such matters between the Board, Management, External Auditors, and the Internal Audit and Compliance functions;
- the monitoring and reviewing of the External Auditor's independence, and in particular, the provision of additional services to the Bank;
- the monitoring and reviewing of proposed transactions by the Group with related parties; and
- the performance of the Group's Internal Audit and Compliance functions.

It is the responsibility of the Board Audit Committee to recommend the appointment of the Statutory Auditor in line with the Capital Markets Rules 5.127.6 and in accordance with Article 16 of the Statutory Audit Regulation. The Board Audit Committee also considers the nature of related party transactions, vets and approves them. Both the Board Audit Committee's and the Head of Internal Audit's terms of reference clearly stipulate their independence from other Board Committees and Management, and such independence is also acknowledged by external regulatory verification. The Head of Internal Audit has direct access to the Board Audit Committee Chairman at all times and attends all meetings. The Group Chief Compliance Officer also has direct access to the Board Audit Committee Chairman and attends all meetings. In addition, the composition of the Members of the Board Audit Committee includes one individual who is also a Member of the Board Risk Committee.

The Members of the Board Audit Committee as at 31 December 2023 are the following:

Edmond Brincat (Chairman – Independent Director)
 Hussain Abdul Aziz Lalani (Vice Chairman)

In line with Capital Markets Rule 5.117.4, the Chairman of the Board Audit Committee is appointed by the Board of Directors. With reference to Capital Markets Rule 5.117.3, which states that "at least one member of the audit committee shall be competent in accounting and/or auditing", the Bank notes that all Members of the Board Audit Committee are designated as competent in auditing and/or accounting as per the qualifications listed hereunder.

Edmond Brincat joined the GO Group in 1999, part of the team entrusted to set up and launch Go Mobile, Malta's second mobile operator and in 2006 he was appointed as the Group's Chief Financial Officer, a position he held until 31 January 2018. In February 2018, Edmond Brincat joined SmartCity (Malta), a subsidiary of Dubai Holding LLC, and currently acts as the company's Chief Executive Officer. Edmond Brincat obtained a Bachelor of Arts degree in accounts from the University of Malta in 1991 and is a Certified Public Accountant and a Fellow of the Malta Institute of Accountants.

Hussain Abdul Aziz Lalani is the Chief Executive Officer of United Gulf Bank ("UGB"), Bahrain and has worked extensively with the Board of Directors on advisory transactions in his previous capacity as UGB's Chief Financial Officer. Hussain Abdul Aziz Lalani is a Chartered Accountant and a Certified Information Systems Auditor and holds a Bachelor of Commerce degree from the University of Karachi, Pakistan.

The Bank considers that the Committee Members as a whole have the relevant competence as required by the Capital Markets Rule 5.118, having evaluated the balance of knowledge, skills, diversity and experience of the members of the Committee, thereby ensuring that they have the requisite experience, personal abilities and integrity and that they adhere to sound professional practices.

All Members of the Board Audit Committee have signed a written declaration of independence. In effect, the Board of Directors of the Bank consider these Members to be independent. Furthermore, the Committee Members as a whole, have the competence relevant to the sector in which the Bank is operating.

The Board Audit Committee normally requests members of Management to attend its Meetings for selective items of the respective agenda.

The Board Audit Committee held thirteen meetings during 2023 and all Members were present for all thirteen meetings. The Group Head of Internal Audit was also invited to attend and attended all thirteen meetings. The External Auditors were invited to seven Board Audit Committee Meetings and were only present for the agenda items which considered and discussed the 2023 Statutory External Audit (February 2023), 2022 Annual Report and Management Letter (March 2023), Parent Statutory Reporting Audit Update (May 2023), Interim Report for the period ended 30 June 2023 (July 2023 and two meetings in August 2023) and Statutory Audit for Financial Year ending 31 December 2023 (December 2023).

Board risk committee

The Board Risk Committee ("BRC") is responsible for overseeing the Group's risk management strategy, systems and policies, and for recommending appropriate risk appetite parameters for approval by the Board of Directors. The Board Risk Committee is also responsible for the oversight of operational, market, reputational and legal risk matters.

The Board Risk Committee Members as at 31 December 2023 are the following:

Hussain Abdul Aziz Lalani (Chairman)
Erich Schumacher (Member)

During 2023, the Board Risk Committee met on nine occasions.

Assets liabilities committee

The Assets Liabilities Committee ("ALCO") is a decision-making body responsible for allocating the Group's assets and liabilities to meet the Group's risk and profitability objectives.

The ALCO is composed of representatives of Senior Management, vested with the power to make decisions. As at 31st December 2023, the voting members of the ALCO were the following:

Mohammed Louhab (Chairman)
Zbigniew Makula (Vice-Chairman)
Adrian A. Gostuski (Member)
Simon Lay (Member)
Ronald Haverkorn (Member)
Juraj Beno (Member)
Modesto Luengo (Member)

Jason Zammit (Head of Corporate Finance Malta, Marketing & Administration), Chris Trapani (Head of Cash Management & Central Customer Services), Tiziri Hamidouche (Deputy Head of Treasury), Corinne Lanfranco (Head of Financial Institutions & Deposits), Simon Vickery (Head of Non-Credit Risk Management) and Clinton Bonnici (ALCO Secretary) are non-voting, permanent invitees of the ALCO.

During 2023, the Assets Liabilities Committee met on six occasions.

Board credit committee

The Board Credit Committee (“BCC”) is a Committee appointed by the Board of Directors of FIMBank. The Board Credit Committee is directly responsible and accountable to the Board. The Board may delegate any of its authorities and powers in relation to the BCC to the Board Risk Committee. The Board Credit Committee main powers and duties are to:

- review credit applications and approve credit limits and specific transactions, up to the legal lending limit of the Bank and within the guidelines specified in the Group’s Credit Policy Procedures; and
- review and consider for approval country limit applications, within the guidelines specified in the Group’s Credit Policy Procedures.

The Board Credit Committee Members as at 31 December 2023 are the following:

John C. Grech (Chairman)
Rabih Soukarieh (Vice Chairman)
Mohammed Louhab (Member)

Adrian A. Gostuski (former GCEO) and Modesto Luengo (GCRO) are non-voting, permanent invitees of the BCC.

During 2023, the Board Credit Committee met on three occasions.

Nomination and remuneration committee

The Nomination and Remuneration Committee (“NRC”) is currently composed of three members, one of whom is an independent director. The NRC is governed by the NRC’s Charter as may be amended by the Board of Directors (“Board”) in line with the relevant laws and regulations. The Charter establishes the authority and responsibilities conferred by the Board to the NRC in line with Appendix 5.1 (8) (A) & (B) of the Code of Principles of Good Corporate Governance. The responsibilities of the NRC include having oversight, informing, updating and deciding and/or making recommendations to the Board on all matters regarding nomination and remuneration. These include:

- presenting recommendations to the Board regarding nomination to the Board’s membership in accordance with approved policies, standards, and nomination regulations for the Board’s membership;
- performing an annual review of the needs required with regard to suitable skills for Board membership and performing an annual review of the Board of Directors’ structure and presenting recommendations on the changes which can be performed in accordance with the Bank’s strategy;
- performing an annual evaluation of the Board’s overall performance and the performance of each Member and the Board Committees;
- conducting as and when required, including on an annual basis, suitability assessments of prospective/appointed Directors, officers holding a Senior Management position and key function holders;
- preparing/reviewing the Group Remuneration Policy and the Remuneration Policy Supplement in line with applicable regulations and legislation and the principles of good corporate governance;
- overseeing the implementation and compliance with the Group Remuneration Policy and Supplement;
- assessing the mechanisms adopted to ensure that the remuneration process properly takes into account all types of risks, liquidity and capital levels and that it promotes sound and effective risk management and is in line with the business strategy, objectives, corporate culture and values, risk culture and long-term interest of the institution;
- monitoring the level and structure of Directors’ Remuneration by reviewing and updating when necessary, the individual remuneration to be attributed to Directors, ensuring that they are consistent with the Remuneration Policy Supplement as approved by the Annual General Meeting;
- devising appropriate and annually reviewing remuneration packages which are: fair; equitable, gender neutral and in line with industry benchmarks and the long-term interests of the Bank as needed to attract, retain and motivate Directors, the GCEO and Executives that hold the knowledge, skills and abilities to lead the FIMBank Group;
- approving on an annual basis, the Group’s individual distribution of salary increases, promotions and bonuses, as may be recommended by the GCEO;
- preparing a Remuneration Report for inclusion in the Annual Report; and
- reviewing and assessing at least annually the adequacy of the NRC Charter and confirming that all the responsibilities set out in the Charter have been duly executed.

Details regarding the Remuneration Policy and remuneration related matters have been disclosed under the Remuneration Policy and Remuneration Report.

The Nomination and Remuneration Committee Members as at 31 December 2023 are the following:

Masaud M.J. Hayat (Chairman)
Edmond Brincat (Vice Chairman)
Sunny Bhatia

John C. Grech (FIMBank Chairman) and Mohammed Louhab (GCEO) and Adrian Gostuski, former GCEO are non-voting, permanent invitees of the NRC.

During 2023, the Nomination and Remuneration Committee met on 5 occasions.

Attendance for the meetings was regular except for two instances, one involving an exiting Director in May at the time when the AGM was reappointing a new Board and the other instance was at the June meeting when a newly appointed Director was still pending regulatory approval.

Corporate governance committee

The purpose of the Corporate Governance Committee ("CGC") is to review the Bank's internal delegations, policies and procedures to ensure compliance with legislative and regulatory requirements and alignment to industry's best practice.

The Corporate Governance Committee Members as at 31 December 2023 are the following:

John C. Grech (Chairman)
Sunny Bhatia (Member)

During 2023, the Corporate Governance Committee met on five occasions.

Board Environmental, Social and Governance Committee

The Board Environmental, Social and Governance Committee ("BESG") is responsible for assisting the Board in setting the Bank's Environmental Social and Governance ("ESG") policies, strategy and following-up on its execution and periodic review to ensure its effectiveness as well as to enhance the effectiveness of the Board's supervision over any matters relating to ESGC. The Board Environmental, Social and Governance Committee terms of reference are included in the Board Environmental, Social and Governance Committee Charter.

The Members of the Board Environmental, Social and Governance Committee as at 31 December 2023 are the following:

Edmond Brincat (Chairman)
Hussain Abdul Aziz Lalani (Member)
Mohammed Louhab (Member)

The Board Environmental, Social and Governance Committee met on one occasion during 2023.

Changes to committee membership during 2023

During 2023, Rogers David LeBaron retired resulting in him no longer being a member of the Nomination & Remuneration Committee and the Corporate Governance Committee.

Claire Imam Thompson resigned resulting in her no longer being a member of the Board Audit Committee, the Corporate Governance Committee, and the Board Risk Committee.

Majed Essa Al-Ajeel retired resulting in him no longer being a member of the Nomination & Remuneration Committee and the Corporate Governance Committee.

Abdel Karim Kabariti retired resulting in him no longer being a member of the Nomination & Remuneration Committee and the Corporate Governance Committee.

Mohamed Fekih Ahmed resigned resulting in him no longer being a member of the Board Credit Committee.

Sunny Bhatia was thereafter appointed member of the Nomination & Remuneration Committee and the Corporate Governance Committee.

Mohammed Louhab was thereafter appointed member of the Board Credit Committee.

Principles 9 and 10: Commitment to institutional shareholders, an informed market and transparency in dealings by directors, management and staff

The Chairman arranges for all Directors including the Chairmen of all the Committees to be available to answer questions at the Annual General Meeting. All eligible Shareholders are served with a notice to attend the Annual General Meeting, which is held normally during the first half of the year. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to Shareholders at least fourteen clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board Meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to Shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events. Procedures are in place to resolve conflicts between minority shareholders and controlling shareholders.

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place, formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and employees in that regard. Regular contact with Shareholders and the general market is maintained through Company Announcements, which are issued in conformity with the obligations arising from the Capital Markets Rules. During 2023 the Bank issued sixteen announcements.

The Board also complies with the provisions of the Bank's Articles of Association insofar as minority rights are concerned. In accordance with article 65 of the Bank's Articles of Association, minority Shareholders may convene an Extraordinary General Meeting, in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors.

The Bank also maintains a presence on the web through www.fimbank.com which, includes an informative and comprehensive Investor Relations section that contains, amongst other things, all Company Announcements, Annual General Meeting information and regulated information.

The FIMBank Financial Instruments Internal Code of Dealing which has been drawn up in accordance with the requirements of the Capital Markets Rules contains dealings restriction guidelines and reporting procedures to be observed by Directors, Management and employees when dealing, or prospecting to deal, in the Bank's equity securities. Directors and employees are also notified by the Company Secretary of their obligations to observe the restricted 'time-windows' accompanying the publication of half yearly and annual financial results during which no dealings in the Bank's equity securities are allowed.

Control by any Shareholder, whether direct or indirect, and any potential abuse thereof, is regulated by the Banking Act and Rules issued thereunder. The Act and such Rules provide mechanisms for, and obligations on, persons intending to acquire control, as well as on all Directors and Management, to notify and report to the supervisory authorities in such eventuality. There are additional obligations on Directors in terms of the Capital Markets Rules and there is good communication in place between the Management, the Company Secretariat and the Board to ensure that any issues are flagged and acted upon appropriately.

Principle 11: Conflicts of interest

Directors' primary responsibility is to act in the interest of the Bank and its shareholders as a whole irrespective of who appointed them to the Board. While the overall tone for instilling a strong culture about the proper management of conflicts of interest is set at the top, situations of potential conflicts of interest with Board Members are in the first instance specifically regulated by Clauses 119 and 120 of the Bank's Articles of Association. In terms of the Articles of Association, in the event of a conflict-of-interest situation, real or potential, arising in connection with any matter, the interest has to be declared. In particular, the Director concerned refrains from taking part in proceedings relating to the matter and his vote is excluded from the count of the decision. The minutes of Board Meetings, as well as those of Board Committees, invariably shall include a suitable record of such declaration and of the action taken by the individual Director concerned. In the event that such steps do not eliminate the grounds for conflict then the Director should consider resigning. Similar arrangements apply to Management in the course of the conduct of their duties at Board Committees. Besides, where Directors and Management have related party involvements, these are reported and it is an integral part of the Board Audit Committee's terms of reference to provide oversight on related party transactions.

The number of shares held in the Bank by Directors directly in their name as at 31 December 2023 is as follows:

John C. Grech (Chairman) *	1,760,000
Edmond Brincat	Nil
Erich Schumacher *	Nil
Hussain Abdul Aziz Lalani *	Nil
Masaud M.J. Hayat (Vice Chairman) *	Nil
Mohammed Louhab *	Nil
Rabih Soukarieh *	Nil
Sunny Bhatia *	Nil

* * * Aside from these direct interests in the shareholding of the Bank, these Directors are considered to be associated with companies that hold a beneficial interest in the Bank's shareholding. No Shareholder is entitled to any automatic right to nominate or appoint a Director on the Board.

Details of outstanding loans, guarantees or similar facilities made available to related parties or beneficial interests thereof, including Directors, are disclosed in the Notes to the Financial Statements.

Principle 12: Corporate social responsibility

We recognise that our social, environmental, and ethical conduct significantly impacts our reputation and the communities where we operate. Therefore, we take our Corporate Social Responsibilities ("CSR") seriously and consider them fundamental to FIMBank's corporate culture.

We are committed to advancing our policies and systems across the Group, ensuring that we comprehensively address and monitor all CSR aspects relevant to our business. The Bank's CSR strategy, centred around our core values, reflects our commitment to our clients, shareholders, employees, and the Maltese community, which has been home to FIMBank's head office since its inception in 1994.

Our CSR program aims to maximize and protect shareholder value while fostering socially responsible and ethically robust relationships with clients and partners. It also seeks to promote policies that maintain a work environment where our employees can excel professionally and achieve a healthy work-life balance. Additionally, the CSR program focuses on serving the communities in which we operate, especially in their social and environmental well-being.

Our commitment to CSR ensures that we operate under the highest standards of good governance and ethics. We strive to provide a constantly evolving range of services that meet the changing needs and expectations of our clients and business partners. Our CSR activities are designed to attract and retain employees who are not only technically skilled but also uphold strong ethical values. We expect our CSR initiatives to provide meaningful support to the local community, enhancing the social and environmental impacts of our business practices.

We achieve our CSR objectives through sound corporate governance, compliance practices, and increased transparency in reporting these activities. Maintaining ethical policies and providing training ensures that all employees uphold the highest standards of integrity and trust. This is supported by programs that manage the long-term development of our employees, fostering an environment for growth and excellence. Our CSR efforts focus on corporate philanthropy that enhances quality of life. The success of our CSR also depends on proper risk management and implementing data security and privacy programs to safeguard all stakeholders.

Further details about the CSR initiatives undertaken by the Group in 2023 are provided in the GCEO's Message in the Annual Report.

Part 2: Non-compliance with the principles

Principle 2.3: Chairman and chief executive

The existing Chairman of the Board of Directors is not an independent member in terms of the Capital Markets Rules. This notwithstanding, the Bank considers the non-compliance with this Principle not to be of concern in view of the fact that John C. Grech has signed a written declaration whereby he has declared that he undertakes to maintain in all circumstances his independence of analysis, decision and action, not to seek or accept any unreasonable advantages that could be considered as compromising his independence and to clearly express his opposition in the event that he finds that a decision of the Board may harm the Bank.

Principle 4: Succession policy for directors

Capital Markets Rule 4.2.7 calls on the Directors to develop a succession policy for the future composition of the Board, and ‘particularly the executive component thereof, for which the Chairman should hold key responsibility’. The NRC, during its August meeting, discussed Directors’ succession planning on the basis of an internet-based global market research which among others took into consideration factors like gender, and experience in financial services, IT and ESG including experience at international level. During the August meeting of 2023, the NRC discussed the annual employment market assessment related to Board succession planning as presented.

Principle 8: Nomination and remuneration committee

The manner in which the Directors are nominated for appointment follows the procedure set out in the Articles of Association, i.e. any nomination must be seconded by a Member or Members who in the aggregate holds at least 20,000 shares. This process is also rendered public with an announcement in the Maltese press, usually in the first quarter of the financial year and in good time before the Annual General Meeting, which allows at least ten business days for any nomination to be made to the Company Secretary.

The current Chairman of the Nomination and Remuneration Committee is not an independent member in terms of the Capital Markets Rules, as set out in terms of Principle 8.A.1 of the Code of Principles of Good Corporate Governance. This notwithstanding, the Bank considers the non-compliance with this Principle not to be of concern in view of the fact that the Chairman of the NRC has signed a written declaration whereby he has declared that he undertakes to maintain in all circumstances his independence of analysis, decision and action. Furthermore, the Vice Chairman of the NRC is deemed to be an Independent Director in terms of the Capital Market Rules.

Internal control

The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group, and for ensuring that proper systems of internal control are in place. The Board has delegated Management with the task of creating an effective control environment to the highest possible standards. The Internal Audit function performs periodic audits to specifically test compliance with policies, standards and procedures and the effectiveness of the internal control environment within the Group. To ensure the effectiveness of the internal systems of control the Head of Internal Audit reviews and tests such systems independently from Management, adopting a risk-based approach. The Internal Auditor reports to the Board Audit Committee, however, the Chairman of the Board of Directors is copied with all Internal Audit Reports issued.

The Board has identified key features within the Group’s environment of internal controls to ensure compliance with the Principles. The Management is responsible for the identification and evaluation of key risks applicable to the respective areas of business. The Board receives regular reports from Management giving detailed and comprehensive analysis of financial and operational performance, including variance analysis between budgeted and actual figures, activities and prospects.

Capital markets rule 5.97.5 and rule 5.97.8

Capital Markets Rule 5.97.5 and Rule 5.97.8 are not applicable. Whilst Capital Markets Rule 5.97.5 is not applicable, this information is found in the Directors’ Report.

It is also hereby declared that the contents of the Directors’ Report and of this Statement of Compliance with the Principles of Good Corporate Governance cover the requirements of the provisions of Capital Markets Rule 5.97.

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 24 April 2024 as per Director’s Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Remuneration report

For the year ended 31 December 2023

This Section incorporates the Statement of the Board Nomination and Remuneration Committee and the Directors' Remuneration Report as required by Chapters 5 and 12 of the Capital Markets Rules, respectively.

Statement of the board nomination and remuneration committee (as per section 8 of the principles)

Terms of reference and membership

The Board Nomination and Remuneration Committee ("NRC") is responsible for ensuring that the Directors and Executive Management of FIMBank have the appropriate mix of skills, qualifications and experience necessary to fulfil their supervisory and management responsibilities. The NRC also reviews the remuneration of the Board of Directors and that of Executive Management on an annual basis and ensures that it is in line with the EBA Guidelines on Sound Remuneration Policies EBA/GL/2022/04, Banking Rule 21 on Remuneration Policies and Practices and principles of good governance.

From 1st January up to the Annual General Meeting ("AGM") held on 4th May 2023 the NRC was composed of five members, Masaud M.J. Hayat (Chairperson), Edmond Brincat (Vice-Chairperson and Independent Member), and Directors Abdel Karim A.S. Kabariti, Majed Essa Ahmed Al-Ajeel, and Rogers David LeBaron who did not re-submit their candidacy to the May 2023 AGM. As at 31 December 2023, the NRC was composed of three members, Masaud M.J. Hayat (Chairperson), Edmond Brincat (Vice-Chairperson and Independent Member) and Sunny Bhatia, a newly appointed Director by the shareholders at the May 2023 AGM. John C. Grech and Mohammed Louhab, in their capacity as Chairperson of the Bank and Group Chief Executive Officer ("GCEO") respectively, attended the NRC's meetings as permanent invitees. Adrian A. Gostuski, who held the position of GCEO until 30 November 2023 and was thereafter appointed as advisor to the new GCEO, also attended the NRC meetings held in 2023. The Group Chief Human Resources Officer ("GCHRO") acted as Board Committee Secretary.

Meetings

The Committee met five times during the period under review, which meetings were attended as follows:

Members	Attended
Masaud M.J. Hayat (Chairperson)	5 out of 5
Edmond Brincat (Member) (Vice-Chairperson)	5 out of 5
Sunny Bhatia	2 out of 3 (excused in June)
Abdel Karim A.S. Kabariti	1 out of 2 (excused in May)
Majed Essa Ahmed Al-Ajeel	2 out of 2
Rogers David LeBaron	2 out of 2

The following matters were discussed and, or determined:

- a. Group appointed Directors;
- b. Chairperson's role and performance;
- c. Directors' remuneration;
- d. Board of Directors evaluation, Director's self-assessment and Board Committees self-assessment;
- e. Board Committees: new ESG Committee and memberships;
- f. NRC Charter: annual review and checklist;
- g. Report and recommendations by Internal Audit on the review of the Group Remuneration Policy;
- h. Group Remuneration Policy;
- i. Executive Management: recruitment, appointments, performance, promotions, succession and remuneration;
- j. Group salary review, bonus allocation and out of cycle increases/payments;
- k. Succession planning for all entities;
- l. Control functions: independence, recruitment, succession and performance;
- m. Performance review of GCEO and performance bonus award;
- n. HR Policies;
- o. Remuneration Policy Statement, Statement of the NRC, Directors' Remuneration Report for Annual Report and Pillar 3 Disclosures;
- p. Egypt Factors CEO's new definite contract;
- q. Suitability and Succession Policy and Skills Matrix Template;
- r. Suitability assessment and succession of the Board, the GCEO and the Key Function Holders;
- s. Sourcing of Independent non-executive Directors;
- t. LFC Directors' Remuneration;
- u. Compensation and talent retention challenges; and
- v. Review of the Recoveries function.

Remuneration statement

The NRC has the role of making recommendations to the Board of Directors on remuneration. Decisions taken by the NRC are presented by the NRC Chairperson to the Board for ratification or otherwise. The guiding principle, as outlined in the Remuneration Policy and the Remuneration Policy Supplement, is that the remuneration for the Directors shall be competitive to ensure that the Bank attracts and retains outstanding individuals of integrity, calibre, credibility and who have the necessary skills and experience to bring an independent judgement to bear on the issues of strategy, performance and resources for the success of the Bank.

Across FIMBank, remuneration is based on the below principles:

- Sound and effective risk management to discourage risk-taking that exceeds the Bank's risk appetite;
- Non-discriminatory practices, consistent with the acknowledged principles of diversity as listed in FIMBank's Diversity Policy. This includes the principle that remuneration is gender neutral and thus all employees, independently of their gender are equally remunerated for work of equal value. True merit determines all remuneration related decisions;
- Internal equity, with the application of fair distinction based on individual employee performance;
- External parity through an annual alignment exercise with local compensation data to ensure that the Bank's remuneration packages are competitive and in line with industry standards; and
- Affordability and sustainability, ensuring that the remuneration policy is in line with the Bank's business strategy, business objectives, values and long-term interests and incorporates measures to avoid conflicts of interest.

Remuneration policy

The Group Remuneration Policy is aligned with the principles emanating from the EU's Capital Requirements Directive ('CRD'), particularly in relation to the monitoring of identified staff. As a basis for the compilation of the list of identified staff, the Bank refers to:

- the Commission Delegated Regulation (EU) 2021/923 ("MRT Regulation");
- the EBA Guidelines on Sound Remuneration Policies (EBA/GL/2021/04) ("EBA Remuneration Guidelines") as transposed into Banking Rule 21 on Remuneration Policies and Practices (BR/21/2022) ("Banking Rule 21"); and
- Article 92(3) of Directive 2013/36/EU ("CRD IV"), as amended from time to time, including by Directive (EU) 2019/878 ("CRD V") and as transposed into Banking Rule 21.

Identified staff are employees who in their role and as part of their responsibilities are material risk takers (meaning that their professional activities have a material impact on the Bank's risk profile). The MRT Regulation establishes the qualitative and quantitative criteria to identify staff who are material risk takers.

The Bank's Identified Staff includes the Management Body in its management or supervisory function and/or senior managers. The Management Body in its management function includes the GCEO, the Deputy CEO and officers of the Bank who hold the grade Executive Vice President or higher at FIMBank p.l.c. (the "Executive Management"). The Management Body in its supervisory function comprises the Directors of the Bank's Board of Directors. In relation to majority owned subsidiaries of the Bank, only the respective Chief Executive Officers ("CEOs") are considered to be Identified Staff, as the only function reporting directly to the GCEO.

The GCEO is appointed on a definite term contract which may vary from a one-year definite term contract to a three-year definite term contract. The contract may be renewed for further definite term periods. The Deputy CEO is appointed pursuant to an indefinite term contract. The notice periods applicable for both the GCEO and the Deputy CEO are in accordance with the prevailing legislation by which the respective employment contract is governed in terms of jurisdiction. Members of the Executive Management of the Bank hold both definite and indefinite contracts with varying notice periods, all of which are in line with locally applicable legislation. Directors are appointed pursuant to appointment letters. Their appointment is for a period of one year renewed or otherwise at the subsequent Annual General Meeting of the Bank.

The contracts of Directors and Executive Management do not include provisions for termination payments and other payments linked to early termination, except for those required by law.

Remuneration structure for non-executive directors

The total package payable to Non-Executive Directors consists of a fixed fee which is supplemented by additional fees payable inter alia with respect to any memberships and/or chairpersonships of the different Board Committees. The fees also vary between Independent and Non-Independent Directors. Board directorship fees to remunerate the Independent Directors are higher than that of Non-Independent Directors. This is mainly for two reasons, the additional responsibility that Independent Directors have due to their required independence and because they do not receive any other remuneration for employment positions within the KIPCO Group. The fees are reviewed annually in line with market conditions and the maximum allocated budget requires the approval of the Annual General Meeting of the Bank.

Remuneration structure for executive directors and executive management

The remuneration structure of Executive Directors and Executive Management (together referred to as the "Executives") comprises both fixed and variable remuneration and is intended to attract, develop and retain a high-performing workforce while remaining aligned to FIMBank's long-term strategy, risk appetite, sustainable performance, good corporate governance, regulatory compliance, corporate values and long-term value creation for shareholders. All compensation structures including those of the branches and the subsidiaries of FIMBank located in third countries are aligned with the requirements emanating from the CRD unless local legislation in the respective jurisdiction mandates otherwise.

The NRC ensures that while its remuneration practices are compliant with existing EU/Maltese Directives and Regulations, including CRD and the Capital Requirements Regulation ("CRR"), the remuneration packages reflect industry benchmarks. This makes it possible for the Bank to attract and retain Executives with the right qualities and skills for the proper management of the Bank as well as the proper execution of the strategy as laid down by the Board of Directors. Unless the current economic scenario changes materially, no new significant changes to the Group Remuneration Policy are envisaged for the financial year ending 2024.

The remuneration components for Executives are:

- fixed remuneration (including fringe benefits); and
- variable remuneration

These components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade and professional activity. Executives are not entitled to discretionary supplementary pension or early retirement schemes. The tables below describe the element and purpose of Executives' compensation and how each element operates, as well as the maximum opportunity of each element and any applicable performance measures.

Fixed remuneration

Element and purpose of remuneration	Operation	Performance measures
<p>Base Salary To provide the basis of market-competitive overall remuneration package. It provides a fixed remuneration which is sufficient to recruit and retain individuals of the necessary calibre.</p>	<p>This is determined by:</p> <ol style="list-style-type: none"> the role and grade of the individual director; the base salary structure for other employees across FIMBank; and external factors such as economic conditions and market. <p>The base salary of Executives engaged on indefinite contracts is reviewed annually or when required to include any statutory payments.</p> <p>The fixed remuneration component of Executives engaged on definite or fixed-term contracts is as stipulated in the contract of employment and compensation therein is reviewed if and when the definite contract is renewed for a further term/s. The Executive is entitled to any newly introduced statutory payments or adjustments to existing ones.</p>	<p>The base salary does not vary according to performance of the individual and the Bank, according to the FIMBank pay structure approved annually by the NRC.</p>
<p>Fixed allowances and benefits To ensure business continuity and assist executives in carrying out their duties efficiently.</p>	<p>The benefits may include different cash allowances and/or non-cash benefits as detailed in the respective contract of employment and/or as may be applicable depending on the role of the individual and the employing entity.</p>	<p>N/A</p>

Variable remuneration

Element and purpose of remuneration	Operation	Performance measures
<p>Performance Bonus To motivate Executives in maximising individual, departmental and FIMBank's performance.</p>	<p>Executives may be entitled to a performance bonus. Employee performance is measured in the interim and annual performance appraisal detailed in the Bank's Performance Management Policy and Procedure.</p> <p>A performance bonus relates to the Executive's performance as defined in the multi-year assessment where applicable and the cash component is paid by April.</p>	<p>The individual rating is based on the Executive's overall performance which is centred on performance targets and core behaviours (leadership, people management, personal effectiveness, creativity, innovation, holistic approach, teamwork, communication and company values).</p>

Variable remuneration (*continued*)

Element and purpose of remuneration	Operation	Performance measures
<p>Employee Share Award Scheme To create alignment between the interests of Executives and shareholders through the delivery of rewards in the Company Shares</p>	<p>In addition to a performance bonus, subject to performance appraisal and a multi-year assessment where applicable, Executives may also be entitled to share awards as stipulated in the ESAS 2019-2023.</p> <p>Share awards are subject to malus and clawback provisions.</p>	N/A
<p>Exceptional Bonus To motivate Executives in maximising individual, departmental and FIMBank's performance.</p>	<p>Executives may be entitled to an Exceptional Bonus to reward remarkable performance in the individual's role which goes beyond the individual's call of duty.</p>	N/A
<p>Retention Bonus To ensure business continuity and assist executives in carrying out their duties efficiently.</p>	<p>Executives may be entitled to a Retention Bonus on condition that the employee remains in employment for a period of 12 months or more from the date of award.</p> <p>Retention bonuses may be paid only in exceptional circumstances such as in the case of a restructuring, wind-down, after a change in control or to ensure the completion of major projects.</p>	<p>Retention bonuses must be justified based on, amongst other things, the following factors:</p> <ol style="list-style-type: none"> concerns relating to the risk that certain Executives may choose to leave FIMBank; the reasons why the retention of that Executive is crucial for FIMBank; the consequences if the relevant Executive leaves FIMBank; and whether the awarded amount is necessary and proportionate to retain the targeted Executive.
<p>Severance Payments To close the employment relationship in case of redundancy, termination by the employer and/or of a potential legal dispute.</p>	<p>Severance payments may include redundancy payments, such as if the Bank terminates the employment contract due to the failure of the institution or following a material reduction of its activities or if the Bank and an Executive mutually agree on a settlement in case of a dispute.</p> <p>Unless stipulated by local regulation, the maximum severance payment awarded may be of a maximum of three (3) months' base salary.</p>	N/A

Variable remuneration (*continued*)

Element and purpose of remuneration	Operation	Performance measures
<p>Guaranteed/Sign-On Bonus To motivate Executives in maximising individual, departmental and FIMBank's performance.</p>	<p>FIMBank may pay out a Guaranteed Bonus in the first year of employment.</p> <p>The sign-on bonus is exceptional and can only be awarded once to the same single employee and cannot be awarded again if the same employee receives a new contract from the same Group entity or another entity with the scope of consolidation of the Group.</p>	N/A
<p>Buy-Out Compensation of Previous Employment Contract</p>	<p>FIMBank may, in exceptional circumstances (where the deferred variable remuneration of a new Executive was reduced or revoked by the previous employer because of the termination of the contract), pay a buy-out compensation to on-board a new Executive.</p>	N/A

NRC decisions are determined by the guidelines set by the Board of Directors when reviewing the Group budget. In line with Article 135-139 of Banking Rule 21 (BR21/2022) issued by the Malta Financial Services Authority, the Bank ensures that any variable remuneration awarded is not detrimental to its sound and strong capital base. In the unlikely event that the soundness of the capital base may be at risk, this will be escalated and presented to the NRC.

Variable remuneration (*continued*)

The variable remuneration awarded to Executives is also subject to the below provisions emanating from the Remuneration Policy Supplement:

Clawback and Malus

Any variable remuneration is subject to clawback and malus. Malus will be capable of being applied in respect of deferred elements of variable remuneration at any time during the applicable deferral period. Clawback will apply during the period of four (4) years from the date of award or until the end of the applicable retention period, as applicable.

FIMBank reserves the right to apply clawback and malus on 100% of bonus paid and/or deferred, in the case of gross misconduct as defined in the Disciplinary Policy and in the event that conditions stipulated in the performance targets in the subsequent two years are not met.

Total Maximum Variable Remuneration

The total annual variable remuneration for Executives is capped at 100% of total fixed annual remuneration for each individual. This cap may be increased up to a maximum of 200% to total fixed annual remuneration provided that a) such an increase is approved by the shareholders and b) the regulator is duly informed of the recommendation and the underlying reasons for it.

Other requirements

By virtue of Paragraph 20 of Banking Rule 21, given that a) the Bank does not meet the definition of a large institution as defined in Article 4(1) of the CRR; and b) the value of the Bank's assets over the four-year period immediately preceding the current financial year is less than €5 billion, the following requirements emanating from Article 94 of CRD V are not applicable to the Bank, namely:

1. the principle that a minimum of 50% of any variable remuneration shall consist of shares; and
2. the principle that at least 40% of variable remuneration is deferred over a period of not less than 4 to 5 years.

Information on remuneration in terms of code provision 8.A.5 of the MFSA capital markets rules

The Annual General Meeting of Shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting held on 4 May 2023, the Shareholders approved the maximum aggregate emoluments of the Non-Executive Directors for the financial year ended 31 December 2023 at USD450,000 (2022: USD450,000). Executive Directors are only remunerated as employees and do not receive any Directors' fees. Directors, in their capacity as Directors of the Bank, are not entitled to profit sharing, share options or pension benefits. The total fees paid specifically for Board of Directors Meetings for the financial year ended 31 December 2023 amounted to USD180,276, which is included as part of the total payments received by Non-Executive Directors disclosed below.

For 2023, the total payments received by the Non-Executive Directors from the Bank were:

• fixed remuneration	USD388,106
• variable remuneration	Nil
• executive share options	Nil
• fringe benefits	USD391

The fixed annual remuneration is inclusive of remuneration with respect to Committee/s memberships. In this respect, the Directors' emoluments are within the limit approved by the Annual General Meeting of 4 May 2023.

For 2023, the total payments received by the GCEO, Deputy CEO and Executive Management from the Bank were:

• fixed remuneration	USD2,243,555
• variable remuneration *	USD461,788
• executive share options granted	Nil
• fringe benefits	USD594,573

* * Variable remuneration represents the amounts attributable to the GCEO, Deputy CEO and Executive Management in respect of performance year 2022, given that the variable remuneration in respect of the financial year ended 31 December 2023 will only be formally determined and approved by the NRC subsequent to the reporting date.

Additional disclosures on the governance process related to the variable portion of remuneration have been made under the Directors' Remuneration Report and under the Section discussing the Remuneration Policy of the 2023 Pillar 3 Disclosures Report published on the Bank's website.

None of the Directors received any fees for holding the office of Director by the Bank's parent entities or any other related undertakings in respect of services rendered to the FIMBank Group, except for Mohammed Louhab who, in the period during which he was a Non-Executive Director of the Bank, was awarded USD199,228 by United Gulf Holdings ("UGH") for the services he rendered to the FIMBank Group. In this respect, the Directors believe that the requirements emanating from paragraph (c) of Appendix 12.1 of the Capital Markets Rules, which requires the disclosure of "any remuneration from any undertaking belonging to the same group where the term group means parent undertaking and all its subsidiary undertakings" applies at the level of FIMBank p.l.c., the Bank's parent entity, and its subsidiary undertakings respectively, taking cognisance of their role as Directors of the Bank. Accordingly, no disclosure in respect of their remuneration for any services which they might be providing at parent entity level is being made within this report.

Directors' remuneration report (as per capital market rules 12.26K)

This Report is being included with the purpose of providing the level of transparency as required with effect from reporting year 2020, following the enactment of Directive EU2017/828 (often referred to as "SRDII") and the consequential changes to the Capital Markets Rules, more specifically Chapter 12 which deals with shareholders' rights. The amounts disclosed reflect the Remuneration Policy Supplement ("Policy") as approved by the Annual General Meeting held on 14 June 2022 and published on the Bank's website (refer to policy in full on <https://www.fimbank.com/en/remuneration-policy-supplement>). The result of the vote at the Annual General Meeting when the Policy was last approved was 428,017,041 votes in favour, 53,658,126 "as he prefers" votes, 2,864,522 votes against, votes 6,736,120 abstentions and 17,609 invalid votes implemented without making any derogations and/or deviations from the procedure for the implementation of the Remuneration Policy as defined in Chapter 12 of the Capital Markets Rules.

The Policy is effective for three years since the date of approval and will therefore be subject to another approval in the 2025 Annual General Meeting. Nevertheless, the Policy is reviewed annually to reflect any new regulatory requirements or changes in Policy. Any material amendments are approved by the NRC prior to being submitted to the General Meeting for its binding vote. No changes to the Policy were made in 2023. However, it is not excluded that an updated version of the Policy shall be proposed for approval in the upcoming Annual General Meeting should the NRC approve any amendments in the interim.

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules the following sub-sections of the Directors' Remuneration Report present the total remuneration paid to each Director in respect of the financial year ended 31 December 2023 (analysed further between fixed and variable remuneration), as well as the annual change of remuneration of the Executive Directors, of the Bank's performance, and of average remuneration on a full-time equivalent basis of the Bank's employees (other than directors) over the three most recent financial years.

Non-executive directors

The Bank's approach to remuneration is that of ensuring that the Bank is able to attract and retain talented and high performing Directors by recognising, valuing and fairly rewarding their contributions while remaining aligned to the Bank's long-term strategy, risk appetite, sustainable performance and corporate values.

The total remuneration of each individual director is detailed in tables below. Non-Executive Directors only receive fixed fees for their participation at Board and Committee level. Consequently, the percentage split between fixed and variable should be taken as 100% vs 0%.

For information about the general performance and events of material importance of the Bank refer to the Statements of Profit or Loss and the Statements of Other Comprehensive Income on pages 42 and 43 and in the Review of Performance section within the Director's Report. These did not impact the total remuneration of Non-Executive Directors.

The Non-Executive Directors did not receive any base salary, variable remuneration or compensation in respect of extraordinary items and pension contributions during the financial year ended 31 December 2023. In addition, Non-Executive Directors are not entitled to profit-sharing arrangements, share options, shares or pension benefits.

Directors' remuneration

Name of director	2023 USD	2022 USD	2021 USD	Difference 2023 vs 2022 %	Difference 2022 vs 2021 %	Difference 2021 vs 2020 %	Notes
John C. Grech	* 100,891	100,400	101,032	0.5	(0.6)	2.8	The change in fee structure reflects a marginal increase following the appointment as Chairperson of the Corporate Governance Committee as from May 2023.
Masaud M.J. Hayat	19,750	19,750	17,000	0.0	16.2	(17.1)	No change in fee structure in 2023.
Abdel Karim A.S. Kabariti	9,000	13,500	17,667	100	(23.6)	92.8	No change in fee structure. The fees for 2023 represent fees payable in respect of services rendered until April 2023. Excused for Board and Committees commitments up to AGM in May when he ceased to hold the position of director. In 2022, Mr. Kabariti attended 50% of Board and Committee meetings. Therefore, the annualisation of fees paid to Mr. Kabariti in 2023 (considering the cessation of directorship on 4 May 2023) would result in fees which are double the fees received in respect of services rendered in 2022 (taking into consideration the absenteeism at Board and Committee meetings).
Claire Imam Thompson	38,333	46,000	38,333	0.0	0.0	NA	No change in fee structure. Fees represent services rendered up to October 2023, in view of the cessation of directorship on 10 November 2023 when Ms. Imam Thompson resigned. The annualisation of fees paid to Ms. Imam Thompson in 2023 would result in fees which are in line with those paid in respect of 2022.
Edmond Brincat	51,356	46,000	47,333	11.6	(2.8)	1.6	Change in fee structure following change in committees' composition, inclusive of the creation of the Board ESG (BESG) Committee in August and Mr. Brincat's appointment as its Chairperson, resulting in an increase of 11.6% in remuneration compared to 2022.
Erich Schumacher	19,000	11,083	-	0.0	NA	NA	In 2022, Mr. Schumacher was only remunerated for part of the year, given that Mr. Schumacher was appointed as Director in June 2022. The annualisation of fees paid to Mr. Schumacher in 2022 would result in fees which are in line with those paid in respect of 2023.
Hussain Abdul Aziz Lalani	39,417	36,750	36,750	7.3	0.0	5.4	Change in fee structure following change in committees' composition in August. Mr. Lalani was appointed as a member of the BESG Committee, resulting in an increase of 7.3% in remuneration compared to 2022.
Majed Essa Ahmed Al-Ajeel	13,750	27,750	25,750	0.0	7.8	21.9	The fees for 2023 represent fees payable in respect of services rendered until April 2023, where Mr. Al-Ajeel attended all Board and Committee meetings until 4 May 2023, which is the date when Mr. Al-Ajeel ceased to hold the position of Director. These fees reflect Mr Al-Ajeel's contribution to the Board and the Committees for the period. For the purposes of the annual percentage change between 2023 and 2022, the annualisation of fees in 2023 considers the pro-rated services for Board and Committee meetings separately, where c. 50% of Board and Committee meetings where Mr. Al-Ajeel participates had been held by 4 May 2023. The annualisation of fees paid in 2023 would result in fees which are in line with those paid in respect of 2022.

* * The remuneration of Non-Executive Directors comprises fees only, except for the case of the Chairperson of the Board of Directors whose total emoluments for 2023 comprise USD100,500 in fees and USD391 in fringe benefits.

Directors' remuneration (*continued*)

Name of director	2023 USD	2022 USD	2021 USD	Difference 2023 vs 2022 %	Difference 2022 vs 2021 %	Difference 2021 vs 2020 %	Notes
Mohamed Fekih Ahmed	10,833	27,000	27,000	0.0	0.0	(4.7)	The fees for 2023 represent fees payable in respect of services rendered until April 2023, where the Director attended all Board and Committee meetings until 4 May 2023, which is the date when Mr. Fekih ceased to hold the position of Director. These fees reflect the Mr. Fekih's contribution to the Board and the Committees for the period. For the purposes of the annual percentage change between 2023 and 2022, the annualisation of fees in 2023 considers the pro-rated services for Board and Committee meetings separately, where 50% of Board meetings and 33% of Committee meetings where Mr. Fekih participates had been held by 4 May 2023. The annualisation of fees paid in 2023 would result in fees which are in line with those paid in respect of 2022.
Mohammed Louhab	17,750	NA	NA	NA	NA	NA	Fees represent services rendered by Mr. Louhab from his appointment on 4 May 2023 to 30 November 2023, on which date the Director was appointed as GCEO and, in this respect, Mr. Louhab's appointment changed from a Non-executive Director to Executive Director. As from September, following the creation of the BESG Committee in August, Mr. Louhab started receiving an additional fee accordingly. For a detailed analysis of Mr. Louhab's remuneration as an Executive Director, please refer to the 'Executive Directors and Deputy CEO' section.
Rabih Soukarieh	27,000	24,750	23,000	8.0	8.7	(11.87)	No change in fee structure. Mr. Soukarieh attended all meetings in 2023. In this respect, the increase in fees between 2022 and 2023 is due to the number of sittings attended in 2023.
Rogers David LeBaron	30,167	63,000	63,000	0.0	0.0	(0.1)	The fees for 2023 represent fees payable in respect of services rendered until April 2023, where Mr. LeBaron attended all Board and Committee meetings until 4 May 2023, which is the date when Mr. LeBaron ceased to hold the position of Director. These fees reflect Mr. LeBaron's contribution to the Board and the Committees for the period. For the purposes of the annual percentage change between 2023 and 2022, the annualisation of fees in 2023 considers the pro-rated services for Board and Committee meetings separately, where c. 48% of Board and Committee meetings where Mr. LeBaron participates had been held by 4 May 2023. The annualisation of fees paid in 2023 would result in fees which are in line with those paid in respect of 2022.
Sunny Bhatia	11,250	NA	NA	NA	NA	NA	Fees represent services rendered by the Director from 23 August 2023 when regulatory approval was granted.

Note: The remuneration attributable to Non-Executive Directors in respect of the financial year ended 31 December 2023 included in the table above represents the fixed remuneration attributable to performance year 2023.

In addition to the above fees, Directors John C Grech, Eric Schumacher, Hussain Lalani and Mohammed Louhab were also awarded remuneration for their services as Directors on the LFC Board of Directors. The fees awarded are: John C Grech (Chairperson) USD15,000, Erich Schumacher USD10,000, Hussain Lalani USD10,000 and Mohammed Louhab USD10,000.

Directors' remuneration (*continued*)

The positions held by the Bank's Directors during the financial year ended 31 December 2023 are presented hereunder:

Name of director	Position
John C. Grech	Non-Executive Director, Chairperson FIMBank BoD, Chairperson LFC BoD, Chairperson BRIC, Chairperson BCC, Chairperson CGC, Permanent Invitee NRC
Masaud M.J. Hayat	Non-Executive Director, Vice Chairperson BoD, Chairperson NRC
Abdel Karim A.S. Kabariti	Non-Executive Director, Member BoD, Member BCGC, Member NRC – retired May 2023
Claire Imam Thompson	Independent Non-Executive Director, Member BoD (independent member), Member BAC, Member BRC, Member BCGC - resigned November 2023
Edmond Brincat	Independent Non-Executive Director, Member BoD (independent member), Chairperson BAC, Chairperson BESGC, Vice Chairperson NRC
Erich Schumacher	Non-Executive Director, Member BoD, Member BRC, Member LFC BoD
Hussain Abdul Aziz Lalani	Non-Executive Director, Member BoD, Chairperson BRC, Vice Chairperson BAC, Vice Chairperson BRIC, Member LFC BoD
Majed Essa Ahmed Al-Ajeel	Non-Executive Director, Member BoD, Chairperson BCGC, Vice Chairperson NRC, Member LFC BoD - retired May 2023
Mohamed Fekih Ahmed	Non-Executive Director, Member BoD, Member BCC, Member LFC BoD -retired May 2023
Rabih Soukarieh	Non-Executive Director, Member BoD, Vice Chairperson BCC
Rogers David LeBaron	Non-Executive Director, Member BoD, Member BCGC, Member NRC, Permanent Invitee BAC - retired May 2023
Sunny Bhatia	Non-Executive Director, Member BoD, BCGC, Member NRC
Mohamed Louhab	Non-Executive Director up to 30 November 2023, Executive Director as from 1 December 2023, Member BoD, Member BCC, Member BESGC, Non-voting Member BRIC, Member LFC BoD and invitee on Board Committees

Executive Directors and Deputy CEO

In accordance with Capital Markets Rules 12.2A, the disclosure of information in terms of Capital Markets Rules 12.26K and Appendix 12.1 to Chapter 12 of the Capital Markets Rules is applicable in respect of remuneration payable to both the GCEO as well as the Deputy CEO.

In this respect, the tables below present information in respect of remuneration received by the Bank's outgoing GCEO (Adrian A. Gostuski), the newly appointed GCEO (Mohammed Louhab) and the Deputy GCEO (Simon Lay). Adrian A. Gostuski and Mohammed Louhab did not receive any remuneration from the Bank's subsidiaries, whereas the Deputy CEO received all his remuneration from London Forfaiting Company (LFC), where he holds the position of CEO of this subsidiary of the Bank.

Name of executive	Fixed remuneration			*** Variable remuneration			Pension Expense USD	Total remuneration USD	Proportion of fixed and variable remuneration USD
	Base salary USD	Fees USD	* Fringe benefits USD	One-year variable USD	Multi-year variable USD	** Extraordinary Items USD			
	Mohammed Louhab	33,357	-	13,492	NA	NA			
Adrian A. Gostuski	367,069	-	130,521	267,931	-	-	-	765,522	65% : 35%
Simon Lay	463,642	-	126,070	62,150	-	-	75,502	727,364	91.5% : 8.5%

' * ' the amounts in respect of officers in the position GCEO include: Travel, Accommodation, Car, Parking, Mobile, Pension Plan Allowances and Health, Personal Accident and Life insurance cover; the amount in respect of the officer in the role of Deputy CEO include a Pension Plan Allowance and Health and Life insurance cover.

' ** ' the amount reflects the relocation flights and other related costs.

' *** ' Note: The remuneration attributable to Directors in respect of the financial year ended 31 December 2023 included in the table above represents the fixed remuneration attributable to performance year 2023 and the variable remuneration attributable to performance year 2022. This is due to the fact that the variable remuneration will only be formally determined and approved by the NRC subsequent to the reporting date. The same methodology has been applied in respect of the remuneration attributable to Directors in respect of the prior financial years.

The variable remuneration awarded to the above-mentioned persons during the reporting year (performance bonus in respect of financial year 2022) reflects their overall performance. In determining the variable remuneration of both the GCEO and the Deputy CEO. Their performance was assessed by the NRC against specific goals related to financials as well as other criteria, namely service/client delivery; risk and control; leadership and people management; market position; and project and initiatives. On the basis of this assessment, the NRC approved the aforementioned performance bonus to the outgoing GCEO and the Deputy CEO. This in view of the outgoing GCEO's extraordinary efforts to strategically redirect the Group towards a more sustainable business model and Deputy CEO's material contribution in ensuring that LFC remains a profit-making entity for the Group also in 2022.

In accordance with the Group's Remuneration Policy, no deferral requirements are applicable in respect of the variable remuneration awarded in respect of the financial year ended 31 December 2023. In addition, the variable remuneration is payable in cash and, accordingly, no share-based remuneration was awarded to the GCEO or Deputy GCEO. Finally, none of the variable remuneration awarded in respect of the financial year ended 31 December 2023 or the preceding financial years were reclaimed or adjusted, neither in the form of malus nor in the form of clawback.

An analysis of the annual change of remuneration paid to Executive Directors and the Deputy CEO over the last three financial years is presented hereunder:

Name of executive	** 2023 USD	2022 USD	2021 USD	* Difference 2023 vs 2022 %	* Difference 2022 vs 2021 %	* Difference 2021 vs 2020 %	Notes
Mohammed Louhab	56,565	NA	NA	NA	NA	NA	Appointed GCEO with effect from 1 December 2023. Annualised total remuneration would amount to USD562,168 (excluding one-time relocation payment and any future variable remuneration which may be awarded).
Adrian A. Gostuski	765,521	787,996	634,882	2.9	24.1	21.1	For the purposes of calculating the annual percentage change between 2023 and 2022, the fixed remuneration received in 2023 was annualised considering the cessation of GCEO position on 30 November 2023, which would have resulted in total remuneration amounting to USD810,733 or a 2.9% increase compared to 2022.
Simon Lay	727,364	861,899	782,889	(15.6)	10.1	7.6	The decrease in the remuneration of the Deputy CEO of USD 134,535 or 15.6% is mainly due to lower variable remuneration received in 2023 compared to 2022.

‘ * ‘ Differences also include fluctuation in rate of exchange.

‘ ** ‘ Note: The remuneration attributable to Directors in respect of the financial year ended 31 December 2023 included in the table above represents the fixed remuneration attributable to performance year 2023 and the variable remuneration attributable to performance year 2022. This is due to the fact that the variable remuneration will only be formally determined and approved by the NRC subsequent to the reporting date. The same methodology has been applied in respect of the remuneration attributable to Directors in respect of the prior financial years.

The positions held by the Bank’s Executive Directors and Deputy CEO during the financial year ended 31 December 2023 are presented hereunder:

Name of executive	Position
Mohammed Louhab	With effect from 1st December 2023: GCEO and Executive Director FIMBank as above, Chairperson ALCO, Chairperson NCIC, Chairperson MCC, Chairperson TC Member ERPC, Member ITSC, Member ORMC
Adrian A. Gostuski	Up to 30th November 2023: GCEO FIMBank, Chairperson MCC, Chairperson ALCO, Chairperson NCIC, Chairperson TC From 1st December 2023: Member MCC, Member ALCO, Member NCIC, Member TC, Member ERPC, Member ITSC, Member ORMC, Non-Voting Member BRIC
Simon Lay	Full year 2023: Chairperson Egypt Factors BoD, Chairperson India Factoring BoD, Chairperson FPI BoD, Member Brasil Factors BoD, Member FBS BoD Deputy CEO FIMBank, CEO LFC, Member MCC, Member ALCO, Member ERPC

Company performance and average remuneration of the Bank's employees

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

Performance indicators	2023 USD	2022 USD	2021 USD	2020 USD	Difference 2023 vs 2022 %	Difference 2022 vs 2021 %	Difference 2021 vs 2020 %
Operating income/(loss) before net impairment	6,290,495	4,206,308	3,237,112	(5,823,426)	49.5	* 29.9	* 155.6
Net profit/(loss) for the period	2,490,148	(22,010,084)	(663,219)	(55,976,602)	(111.3)	** (3,218.7)	* 98.8
Gross non-performing assets	20,605,923	94,001,953	119,068,469	174,337,048	(78.0)	* 21.1	* 31.7

' * ' Percentages in respect of FIMBank Performance are being shown as positive given that they denote improvements in these metrics.

' ** ' Percentage in respect of FIMBank Performance is being shown as negative given that this figure denotes a deterioration in this metric.

Average remuneration on full-time equivalent basis of employee	2023 USD	2022 USD	2021 USD	2020 USD	Difference 2023 vs 2022 %	Difference 2022 vs 2021 %	Difference 2021 vs 2020 %
Employees of the Bank	74,684	77,158	79,792	75,851	(3.2)	(3.3)	5.2

Denotes membership of:

- FIMBank Board of Directors (“BoD”)
- Board Audit Committee (“BAC”)
- Board Corporate Governance Committee (“BCGC”)
- Board Credit Committee (“BCC”)
- Board Environment, Social and Governance Committee (2BESGC)
- Board Nomination and Remuneration Committee (“NRC”)
- Board Review and Implementation Committee (“BRIC”)
- Board Risk Committee (“BRC”)
- Asset Liabilities Committee (ALCO)
- Management Credit Committee (“MCC”)
- Emerging Risk and Provisioning Committee (“ERPC”)
- IT Steering Committee (“ITSC”)
- Operational Risk Management Committee (“ORMC”)
- Non-Credit Insurance Committee (“NCIC”)
- Transformation Committee (“TC”)

The Directors’ Remuneration Report for 2022 was approved at the Annual General Meeting held on 4 May 2023 with the Resolution being passed by 427,664,923 votes in favour, 52,603,658 “as he prefers” votes, 2,669,515 votes against and 2,583,354 abstentions. There were no issues raised on the Report during the said Annual General Meeting.

This Directors’ Remuneration Report in terms of Chapter 12 of the Capital Markets Rules is being put forward to an advisory vote of the 2024 Annual General Meeting in accordance with the requirements of the Capital Markets Rule 12.26 L.

In accordance with Capital Markets Rule 12.26N, the contents of the Directors’ Remuneration Report within this Remuneration Report have been reviewed by the external auditor to ensure compliance with the requirements emanating from Appendix 12.1 of the Capital Markets Rules.

Statements of financial position

Group

		31 December 2023	Group 31 December 2022 Restated USD	1 January 2022 Restated USD
	Note	USD	USD	USD
Assets				
Balances with the Central Bank of Malta, treasury bills and cash	19	353,010,186	216,867,325	239,998,839
Derivative assets held for risk management	20	715,713	1,610,475	841,688
Trading assets	21	374,177,108	444,583,661	439,985,203
Loans and advances to banks	22	152,814,948	149,713,926	198,488,576
Loans and advances to customers	23	431,342,074	484,528,057	511,919,402
Financial investments at fair value through profit or loss	24	19,329,840	18,179,220	19,966,163
Financial investments at fair value through other comprehensive income	25	140,755,780	143,189,022	162,408,542
Financial investments at amortised cost	26	28,399,073	14,602,008	9,914,754
Property and equipment	28	25,185,250	26,717,939	30,910,454
Investment property	29	22,257,617	21,637,065	17,223,820
Intangible assets and goodwill	31	2,623,987	3,096,854	9,376,595
Current tax assets		1,910,849	1,498,194	1,280,465
Deferred tax assets	32	19,000,479	22,001,417	24,920,527
Other assets	33	9,161,060	7,911,490	9,315,905
Total assets		1,580,683,964	1,556,136,653	1,676,550,933
Liabilities and equity				
Liabilities				
Derivative liabilities held for risk management	20	626,476	578,779	1,499,026
Amounts owed to institutions and banks	34	412,570,931	473,295,256	563,553,044
Amounts owed to customers	35	934,738,942	876,187,765	822,174,779
Debt securities in issue	36	27,543,864	15,451,068	45,345,575
Current tax liabilities		1,631,829	250,624	567,144
Deferred tax liabilities	32	4,266,961	4,097,858	4,215,075
Provision for liabilities and charges	37	236,214	907,755	356,722
Other liabilities	38	19,771,615	14,857,450	14,859,385
Total liabilities		1,401,386,832	1,385,626,555	1,452,570,750
Equity				
Called up share capital	39	261,221,882	261,221,882	261,221,882
Share premium	39	858,885	858,885	858,885
Reserve for general banking risks	39	-	-	2,218,995
Currency translation reserve	39	(14,337,472)	(13,717,527)	(10,941,184)
Fair value reserve	39	(4,677,868)	(14,077,514)	9,879,740
Other reserve	39	2,982,435	2,982,435	2,982,435
Accumulated losses	39	(67,269,892)	(67,240,656)	(42,869,373)
Total equity attributable to equity holders of the Group		178,777,970	170,027,505	223,351,380
Non-controlling interests	40	519,162	482,593	628,803
Total equity		179,297,132	170,510,098	223,980,183
Total liabilities and equity		1,580,683,964	1,556,136,653	1,676,550,933
Memorandum items				
Contingent liabilities	41	31,281,753	14,673,092	7,022,055
Commitments	42	147,803,707	100,001,463	153,618,234

Statements of financial position

Bank

		31 December 2023	Bank 31 December 2022 Restated USD	1 January 2022 Restated USD
	Note	USD	USD	USD
Assets				
Balances with the Central Bank of Malta, treasury bills and cash	19	352,997,057	216,852,467	239,982,048
Derivative assets held for risk management	20	812,609	1,610,475	841,688
Loans and advances to banks	22	114,325,243	125,882,432	182,458,548
Loans and advances to customers	23	618,118,225	718,910,427	724,767,858
Financial investments at fair value through profit or loss	24	19,329,840	18,179,220	19,966,163
Financial investments at fair value through other comprehensive income	25	140,755,780	143,189,022	162,408,542
Financial investments at amortised cost	26	28,399,073	14,602,008	9,914,754
Investments in subsidiaries	27	157,687,573	152,687,573	159,448,858
Property and equipment	28	2,994,784	4,770,241	1,965,249
Intangible assets	31	2,624,736	3,099,853	3,774,315
Current tax assets		-	-	66,667
Deferred tax assets	32	15,004,834	15,004,834	16,336,538
Other assets	33	7,747,110	6,830,284	8,919,842
Total assets		1,460,796,864	1,421,618,836	1,530,851,070
Liabilities and equity				
Liabilities				
Derivative liabilities held for risk management	20	626,476	818,031	1,533,556
Amounts owed to institutions and banks	34	333,498,402	386,787,784	497,633,356
Amounts owed to customers	35	951,166,330	869,220,415	822,950,838
Provision for liabilities and charges	37	90,135	121,209	201,775
Other liabilities	38	10,633,538	10,498,948	7,921,481
Total liabilities		1,296,014,881	1,267,446,387	1,330,241,006
Equity				
Called up share capital	39	261,221,882	261,221,882	261,221,882
Share premium	39	858,885	858,885	858,885
Reserve for general banking risks	39	-	-	2,218,995
Fair value reserve	39	(17,382,450)	(25,501,836)	(1,074,305)
Other reserve	39	2,681,041	2,681,041	2,681,041
Accumulated losses	39	(82,597,375)	(85,087,523)	(65,296,434)
Total equity		164,781,983	154,172,449	200,610,064
Total liabilities and equity		1,460,796,864	1,421,618,836	1,530,851,070
Memorandum items				
Contingent liabilities	41	42,331,477	38,670,533	44,398,883
Commitments	42	100,220,087	91,414,423	107,469,111

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2023 was 1.1050 (2022: 1.0666).

The Notes on pages 50 to 193 are an integral part of these Financial Statements.

The Financial Statements on pages 40 to 193 were approved and authorised for issue by the Board of Directors on 24 April 2024.

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 24 April 2024 as per Director's Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Statements of profit or loss

For the year ended 31 December

		Group 2023	2022 Restated	Bank 2023	2022 Restated
	Note	USD	USD	USD	USD
Interest income	9	95,492,537	61,433,662	52,818,308	30,248,635
Interest expense	9	(40,242,672)	(17,663,162)	(33,156,902)	(13,509,191)
Net interest income	9	55,249,865	43,770,500	19,661,406	16,739,444
Fee and commission income	10	5,246,853	4,000,058	3,116,178	2,744,994
Fee and commission expense	10	(5,986,430)	(6,004,736)	(1,206,187)	(1,924,794)
Net fee and commission (expense)/income	10	(739,577)	(2,004,678)	1,909,991	820,200
Net trading results	11	(3,220,869)	(6,924,935)	(921,644)	1,411,029
Net gain/(loss) from equity investments measured at fair value through profit or loss	12	768,541	(337,257)	768,541	(337,257)
Dividend income	13	40,228	3,821,545	12,221,863	10,321,545
Net changes in fair value of investment property	29	(1,398,978)	-	-	-
Other operating income	14	921,017	865,004	328,330	566,474
Other operating expenses	15	(24,531)	(364,205)	(24,531)	(364,205)
Operating income before net impairment		51,595,696	38,825,974	33,943,956	29,157,230
Net movement in expected credit losses and other credit impairment charges	5	(1,960,888)	(20,028,684)	(2,993,592)	(17,424,101)
Impairment of goodwill	31	-	(5,249,307)	-	-
Impairment of investments in subsidiaries	27	-	-	-	(8,261,536)
Operating income		49,634,808	13,547,983	30,950,364	3,471,593
Administrative expenses	16	(40,664,264)	(35,160,839)	(24,824,525)	(22,139,252)
Depreciation and amortisation	28/31	(3,176,337)	(3,101,584)	(2,828,936)	(2,811,670)
Total operating expenses		(43,840,601)	(38,262,423)	(27,653,461)	(24,950,922)
Profit/(Loss) before tax		5,794,207	(24,714,440)	3,296,903	(21,479,329)
Taxation	17	(5,786,533)	(1,957,610)	(806,755)	(530,755)
Profit/(Loss) for the year		7,674	(26,672,050)	2,490,148	(22,010,084)
Profit/(Loss) for the year attributable to:					
Equity holders of the Bank		(30,812)	(26,590,278)	2,490,148	(22,010,084)
Non-controlling interests	40	38,486	(81,772)	-	-
		7,674	(26,672,050)	2,490,148	(22,010,084)
Earnings per share					
Basic earnings per share (US cents)	18	(0.01)	(5.09)		

The Notes on pages 50 to 193 are an integral part of these Financial Statements.

Statements of other comprehensive income

For the year ended 31 December

	Group 2023 USD	2022 Restated USD	Bank 2023 USD	2022 Restated USD
Profit/(Loss) for the year	7,674	(26,672,050)	2,490,148	(22,010,084)
Other comprehensive income:				
Items that will not be reclassified subsequently to profit or loss:				
Properties:				
- Surplus arising on revaluation	1,314,568	-	-	-
- Income tax	(34,308)	470,277	-	-
	1,280,260	470,277	-	-
Items that are or may be reclassified subsequently to profit or loss:				
Foreign operations - foreign currency translation differences	(621,862)	(2,840,781)	-	-
Debt instruments at fair value through other comprehensive income:				
- Fair value gains/(losses)	8,119,386	(23,095,827)	8,119,386	(23,095,827)
- Income tax	-	(1,331,704)	-	(1,331,704)
	7,497,524	(27,268,312)	8,119,386	(24,427,531)
Other comprehensive income, net of tax	8,777,784	(26,798,035)	8,119,386	(24,427,531)
Other movements in comprehensive income	1,576	-	-	-
Total comprehensive income	8,787,034	(53,470,085)	10,609,534	(46,437,615)
Total comprehensive income attributable to:				
Equity holders of the Bank	8,750,465	(53,323,875)	10,609,534	(46,437,615)
Non-controlling interests	36,569	(146,210)	-	-
	8,787,034	(53,470,085)	10,609,534	(46,437,615)

Statements of changes in equity

For the year ended 31 December 2023

Group

	Attributable to equity holders of the Bank						Total USD	Non- controlling interests USD	Total equity USD
	Called up share capital USD	Share premium USD	Currency translation reserve USD	Fair value reserve ¹ USD	Other reserve USD	Accumulated losses USD			
Balance at 1 January 2023 (as restated)	261,221,882	858,885	(13,717,527)	(14,077,514)	2,982,435	(67,240,656)	170,027,505	482,593	170,510,098
Total comprehensive income									
(Loss)/Profit for the year	-	-	-	-	-	(30,812)	(30,812)	38,486	7,674
Other comprehensive income:									
- Debt instruments at fair value through other comprehensive income - fair value gains, net of tax	-	-	-	8,119,386	-	-	8,119,386	-	8,119,386
- Surplus arising on revaluation of properties, net of tax	-	-	-	1,280,260	-	-	1,280,260	-	1,280,260
- Foreign operations – foreign currency translation differences	-	-	(619,945)	-	-	-	(619,945)	(1,917)	(621,862)
Total other comprehensive income	-	-	(619,945)	9,399,646	-	-	8,779,701	(1,917)	8,777,784
Other movements in comprehensive income	-	-	-	-	-	1,576	1,576	-	1,576
Total comprehensive income	-	-	(619,945)	9,399,646	-	(29,236)	8,748,889	36,569	8,787,034
Balance at 31 December 2023	261,221,882	858,885	(14,337,472)	(4,677,868)	2,982,435	(67,269,892)	178,777,970	519,162	179,297,132

¹ The fair value reserve as at 1 January 2023 has been restated to reflect the reversal of the reclassification of a portfolio of investments which was previously reported and measured at amortised cost and is now presented and measured at fair value through other comprehensive income. Refer to Note 4 for an explanation of the impact.

Statements of changes in equity

For the year ended 31 December 2022

Group

Attributable to equity holders of the Bank

	Called up Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve ² USD	Other reserve USD	Accumulated losses USD	Total USD	Non- controlling interests USD	Total equity USD
Balance at 1 January 2022 (as previously reported)	261,221,882	858,885	2,218,995	(10,941,184)	10,954,045	2,982,435	(42,869,373)	224,425,685	628,803	225,054,488
Impact of reversal of reclassification of investment portfolio (Note 4, 25.2)	-	-	-	-	(1,074,305)	-	-	(1,074,305)	-	(1,074,305)
Balance at 1 January 2022 (as restated)	261,221,882	858,885	2,218,995	(10,941,184)	9,879,740	2,982,435	(42,869,373)	223,351,380	628,803	223,980,183
Total comprehensive income										
Loss for the year	-	-	-	-	-	-	(26,590,278)	(26,590,278)	(81,772)	(26,672,050)
Other comprehensive income:										
- Debt instruments at fair value through other comprehensive income - fair value losses, net of tax (as restated)	-	-	-	-	(24,427,531)	-	-	(24,427,531)	-	(24,427,531)
- Surplus arising on revaluation of properties, net of tax	-	-	-	-	470,277	-	-	470,277	-	470,277
- Foreign operations - foreign currency translation differences	-	-	-	(2,776,343)	-	-	-	(2,776,343)	(64,438)	(2,840,781)
Total other comprehensive income	-	-	-	(2,776,343)	(23,957,254)	-	-	(26,733,597)	(64,438)	(26,798,035)
Total comprehensive income	-	-	-	(2,776,343)	(23,957,254)	-	(26,590,278)	(53,323,875)	(146,210)	(53,470,085)
Transfer between reserves	-	-	(2,218,995)	-	-	-	2,218,995	-	-	-
Balance at 31 December 2022 (as restated)	261,221,882	858,885	-	(13,717,527)	(14,077,514)	2,982,435	(67,240,656)	170,027,505	482,593	170,510,098

² The fair value reserve as at 1 January 2022 and 31 December 2022 has been restated to reflect the reversal of the reclassification of a portfolio of investments which was previously reported and measured at amortised cost and is now presented and measured at fair value through other comprehensive income. Refer to Note 4 for an explanation of the impact.

Statements of changes in equity

For the year ended 31 December 2023

Bank

	Called up share capital USD	Share premium USD	Fair value reserve ³ USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 1 January 2023 (as restated)	261,221,882	858,885	(25,501,836)	2,681,041	(85,087,523)	154,172,449
Total comprehensive income						
Profit for the year	-	-	-	-	2,490,148	2,490,148
Other comprehensive income:						
- Debt investments at fair value through other comprehensive income - fair value gains, net of tax	-	-	8,119,386	-	-	8,119,386
Total other comprehensive income	-	-	8,119,386	-	-	8,119,386
Total comprehensive income	-	-	8,119,386	-	2,490,148	10,609,534
Balance at 31 December 2023	261,221,882	858,885	(17,382,450)	2,681,041	(82,597,375)	164,781,983

³ The fair value reserve as at 1 January 2023 has been restated to reflect the reversal of the reclassification of a portfolio of investments which was previously reported and measured at amortised cost and is now presented and measured at fair value through other comprehensive income. Refer to Note 4 for an explanation of the impact.

Statements of changes in equity

For the year ended 31 December 2022

Bank

	Called up share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve ⁴ USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 1 January 2022 (as previously reported)	261,221,882	858,885	2,218,995	-	2,681,041	(65,296,434)	201,684,369
Impact of reversal of reclassification of investment portfolio (Note 4, 25.2)	-	-	-	(1,074,305)	-	-	(1,074,305)
Balance at 1 January 2022 (as restated)	261,221,882	858,885	2,218,995	(1,074,305)	2,681,041	(65,296,434)	200,610,064
Total comprehensive income							
Loss for the year	-	-	-	-	-	(22,010,084)	(22,010,084)
Other comprehensive income:							
- Debt investments at fair value through other comprehensive income – fair value losses, net of tax (as restated)	-	-	-	(24,427,531)	-	-	(24,427,531)
Total other comprehensive income	-	-	-	(24,427,531)	-	-	(24,427,531)
Total comprehensive income	-	-	-	(24,427,531)	-	(22,010,084)	(46,437,615)
Transfer between reserves	-	-	(2,218,995)	-	-	2,218,995	-
Balance at 31 December 2022 (as restated)	261,221,882	858,885	-	(25,501,836)	2,681,041	(85,087,523)	154,172,449

⁴ The fair value reserve as at 1 January 2022 and 31 December 2022 has been restated to reflect the reversal of the reclassification of a portfolio of investments which was previously reported and measured at amortised cost and is now presented and measured at fair value through other comprehensive income. Refer to Note 4 for an explanation of the impact.

Statements of cash flows

For the year ended 31 December

	Group 2023 USD	2022 Restated USD	Bank 2023 USD	2022 Restated USD
Cash flows from operating activities				
Interest and commission receipts	99,410,908	66,446,604	52,462,009	40,370,717
Interest and commission payments	(39,953,513)	(13,534,811)	(27,268,050)	(12,382,986)
Payments to employees and suppliers	(36,383,127)	(36,264,817)	(24,275,402)	(22,429,122)
Operating profit/(loss) before changes in operating assets/liabilities	23,074,268	16,646,976	918,557	5,558,609
Decrease/(Increase) in operating assets:				
– Loans and advances to customers and banks	80,642,118	31,578,874	91,123,276	36,058,246
– Other assets	(809,685)	(3,052,483)	(632,506)	(2,884,544)
(Decrease)/Increase in operating liabilities:				
– Amounts owed to customers, institutions and banks	(14,330,127)	(7,758,320)	(18,089,097)	(13,640,792)
– Other liabilities	344,918	(217,251)	351,181	(223,771)
– Net inflows from balances with subsidiary companies	-	-	46,022,425	(13,749,925)
Cash flows from/(used in) trading assets:				
– Payments to acquire trading assets	(772,551,650)	(812,766,912)	-	-
– Proceeds on settlement of trading assets	847,048,996	790,052,784	-	-
Net cash generated from operating activities before income tax	163,418,838	14,483,668	119,693,836	11,117,823
Income tax paid	(1,762,645)	(1,282,984)	(806,755)	(476,091)
Net cash flows generated from operating activities	161,656,193	13,200,684	118,887,081	10,641,732
Cash flows from/(used in) investing activities				
Payments to acquire financial investments at fair value through other comprehensive income	-	(25,549,207)	-	(25,549,207)
Payments to acquire financial investments at amortised cost	(13,440,236)	(14,569,219)	(13,440,236)	(14,569,219)
Payments to acquire treasury bills at amortised cost	(288,263,020)	(429,590,021)	(288,263,020)	(429,590,021)
Payments to acquire shares in subsidiary companies	-	-	-	(252)
Payments to acquire property and equipment	(154,846)	(1,113,450)	(34,872)	(916,620)
Payments to acquire intangible assets	(490,433)	(318,308)	(490,433)	(318,308)
Proceeds on settlement of financial investments at fair value through profit or loss	249,464	127,493	249,464	127,493
Proceeds on maturity of financial investments at fair value through other comprehensive income	13,745,002	13,000,000	13,745,002	13,000,000
Proceeds on maturity of financial investments at amortised cost	-	9,800,719	-	9,800,719
Proceeds on maturity of treasury bills at amortised cost	288,934,098	296,265,806	288,934,098	296,265,806
Proceeds on disposal of property and equipment	31,064	19,729	27,500	1,565
Receipt of dividends	40,228	3,821,545	7,221,863	8,821,545
Net cash flows from/(used in) investing activities	651,321	(148,104,913)	7,949,366	(142,926,499)
Increase/(Decrease) in cash and cash equivalents c/f	162,307,514	(134,904,229)	126,836,447	(132,284,767)

Statements of cash flows

For the year ended 31 December

	Group		Bank	
	2023 USD	2022 Restated USD	2023 USD	2022 Restated USD
Increase/(Decrease) in cash and cash equivalents b/f	162,307,514	(134,904,229)	126,836,447	(132,284,767)
Cash flows from/(used in) financing activities				
– Proceeds on issue of debt securities	38,142,327	72,331,491	-	-
– Payments to settle debt securities	(26,893,950)	(99,499,621)	-	-
– Payment of lease liabilities	(830,369)	(700,703)	(1,450,567)	(1,330,082)
Net cash flows from/(used in) financing activities	10,418,008	(27,868,833)	(1,450,567)	(1,330,082)
Effect of realised exchange (losses)/gains arising from cash movements during the year	(15,762,409)	29,242,289	(7,268,046)	15,912,422
Increase/(Decrease) in cash and cash equivalents	156,963,113	(133,530,773)	118,117,834	(117,702,427)
Analysed as follows:				
– Effect of exchange rate changes on cash and cash equivalents	2,900,384	(15,406,845)	3,401,372	(14,867,995)
– Net increase/(decrease) in cash and cash equivalents	154,062,729	(118,123,928)	114,716,462	(102,834,432)
Increase/(Decrease) in cash and cash equivalents	156,963,113	(133,530,773)	118,117,834	(117,702,427)
Cash and cash equivalents at beginning of year	(43,919,669)	89,611,104	9,611,898	127,314,325
Cash and cash equivalents at end of year	113,043,444	(43,919,669)	127,729,732	9,611,898

Notes to the financial statements

For the year ended 31 December 2023

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13	Dividend income	37	Provision for liabilities and charges
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Notes to the financial statements

For the year ended 31 December 2023

1 Reporting entity

FIMBank p.l.c. (the “Bank”) is a company domiciled and incorporated in Malta. The address of the Bank’s registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian’s STJ 3155, Malta. The Bank is a credit institution licenced in Malta and is primarily involved in the provision of lending, trade finance and factoring services to corporate customers, as well as the raising of deposits from corporate and retail customers.

The Bank and its subsidiaries, namely London Forfaiting Company Limited (“LFC”), FIMFactors B.V. (“FIMFactors”), The Egyptian Company for Factoring S.A.E. (“Egypt Factors”), FIM Property Investment Limited and FIM Business Solutions Limited, are included in the scope of consolidation as at and for the year ended 31 December 2023 and are referred to as the “Group” in these financial statements and individually as “Group entities”.

In this respect, the consolidated financial statements of the Group as at and for the year ended 31 December 2023 comprise the Bank and its subsidiaries, whereas the standalone financial statements of FIMBank p.l.c. reflect the financial results and financial position of the Bank. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2 Basis of preparation

2.1 Statement of compliance

The Financial Statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU. All references in these Financial Statements to IAS and IFRS refer to those adopted by the EU.

Article 4 of Regulation 1606/2002/EC requires that, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) to the extent that the said provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) are incompatible with the provisions of the Regulation.

These Financial Statements have also been drawn up in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

The Board of Directors confirm that, at the time of approving these Financial Statements, the Group is capable of continuing to operate as a going concern for the foreseeable future.

The Financial Statements were authorised for issue by the Board of Directors on 24 April 2024.

2.2 Basis of measurement

The Financial Statements have been prepared on the historical cost basis except for the following which are measured at fair value:

- derivatives held for risk management;
- trading assets;
- financial investments measured at fair value through profit or loss;
- financial investments measured at fair value through other comprehensive income;
- freehold land and premises and improvement to premises within ‘Property and equipment’ at Group level; and
- investment property at Group level.

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

During the financial year ended 31 December 2023, the Group and Bank adopted amendments to existing standards that are mandatory for accounting periods beginning on 1 January 2023. The Group and Bank have applied the following amendments for the first time in the financial year commencing on 1 January 2023:

- Deferred tax relating to assets and liabilities arising from a single transaction – amendments to IAS 12;
- Income taxes: income tax reform – pillar two model rules – amendments to IAS 12;
- Definition of accounting estimates – amendments to IAS 8; and
- Disclosure of accounting policies – amendments to IAS 1.

The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not have a significant effect on these Financial Statements.

2.3.1 Deferred tax related to assets and liabilities arising from a single transaction

The Group has adopted Deferred Tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12) from 1 January 2023. The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. For leases, an entity is required to recognise the associated deferred tax asset and liabilities from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at the date. For all other transactions the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Group previously accounted for deferred tax on leases by applying the ‘integrally linked’ approach, resulting in a similar outcome to the amendments, except that the deferred tax asset or liability was disclosed on a net basis. Following the amendments, the Group discloses a separate deferred tax asset and a deferred tax liability within the notes to the financial statements.

Accordingly, the impact of this change on the consolidated financial statements is insignificant. The key impact for the Group relates to the disclosure of deferred tax asset and liabilities recognised (Refer to Note 32).

2.3.2 Income taxes: income tax reform – pillar two model rules

On 20 December 2021, the Organisation for Economic Co-Operation and Development (“OECD”) released a framework for Pillar Two Model Rules which aims to introduce a global minimum corporate tax rate of 15% applicable to multinational enterprise groups with global revenue over €750 million. On 15 December 2022, the EU Council formally adopted the EU minimum tax directive by written procedure and in most EU countries the new rules are expected to apply for accounting periods starting on or after 31 December 2023.

The Maltese Ministry for Finance and Employment announced that it will be applying the derogation that Article 50 of the EU Directive allows. Therefore, no Income Inclusion Rule and no Undertaxed Payments Rule will apply until the derogation continues to hold. It was also announced that no Qualified Minimum Domestic Top-up will apply in Malta at least in 2024.

The Group is within the scope of the OECD Pillar Two model rules. Since the Pillar Two legislation was not effective at the reporting date, the group has no related current tax exposure. The Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Under the legislation, the Group is liable to pay a top-up tax for the difference between its Global Anti-Base Erosion Rules (“GloBE”) effective tax rate per jurisdiction and the 15% minimum rate. All entities within the Group have an effective tax rate that exceeds 15% for the financial year ended 31 December 2023, except for one subsidiary that operates in Egypt.

The Group is in the process of assessing its exposure to the Pillar Two legislation when it comes into effect. This assessment indicates that for Egypt the average effective tax rate based on accounting profit is 0% for the annual reporting period to 31 December 2023. However, although the average effective tax rate is below 15%, the Group might not be exposed to paying Pillar Two income taxes due to the impact of specific adjustments envisaged in the Pillar Two legislation which give rise to different effective tax rates. Due to the complexities in applying the legislation and calculating GloBE income, the quantitative impact of the enacted or substantively enacted legislation cannot yet be estimated in a reliable manner. Even for those entities with an accounting effective tax rate above 15%, there might still be Pillar Two tax implications. The Group has engaged tax specialists to assist it with applying the legislation.

2.4 Standards, interpretations and amendments to published standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted. However, the Group and Bank have not early adopted them in preparing these Financial Statements.

The following amended standards are not expected to have a significant impact on the Group's and Bank's Financial Statements:

- amendments to IAS 1 – presentation of financial statements: classification of liabilities as current or non-current;
- amendments to IAS 7 – statements of cash flows and IFRS 7 – financial instruments disclosures: supplier finance arrangements;
- amendments to IFRS 16 – leases: lease liability in a sale and leaseback; and
- amendments to IAS 21 – the effects of change in foreign exchange rates - lack of exchangeability.

2.5 Functional and presentation currency

These Financial Statements are presented in United States Dollars (“USD”), which is the Bank's functional currency.

2.6 Use of judgements and estimates

In preparing these consolidated financial statements, Management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

2.6.1 Judgements

Information about judgements made in applying Accounting Policies that have the most significant effects on the amounts recognised in the Financial Statements is included in the following notes:

- Accounting Policy 3.9.2 – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principal and Interest (“SPPI”) on the principal amount outstanding; and
- Note 5.2.1.3 – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of the Expected Credit Losses (“ECL”) and selection and approval of models used to measure ECL.

2.6.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2024 is set out below in relation to the impairment of financial instruments and in the following Notes in relation to other areas:

- Accounting Policy 3.9.5 – impairment of financial instruments: key assumptions used in estimating recoverable cash flows;
- Note 5 – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- Note 6.2 – determination of the fair value of financial instruments with significant unobservable inputs;
- Note 27.3 – impairment testing for CGUs: key assumptions underlying recoverable amounts; and
- Note 32 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

3 Material accounting policies

The Group and Bank (where applicable) have consistently applied the following Accounting Policies to all periods presented in these Financial Statements.

3.1 Basis of consolidation

3.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it 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 over the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3.1.3 Interests in equity-accounted investees

Equity-accounted investees are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in equity-accounted investees and joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

3.1.4 Non-controlling interests

Non-controlling interests are initially measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.5 Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sell.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative Statement of Profit or Loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

3.1.6 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.7 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.2 Foreign currency

3.2.1 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction.

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

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

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see Accounting Policy 3.9.2.1); and
- qualifying cash flow hedges to the extent that the hedge is effective.

3.2.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US Dollar at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into US Dollar at spot exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the currency translation reserve, except to the extent that the translation difference is allocated to a non-controlling interest.

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is re-attributed to non-controlling interest.

3.3 Interest income and expense

3.3.1 Effective interest rate

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

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

When calculating the effective interest rate for financial instruments other than POCI financial assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For POCI financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

3.3.2 Calculation of interest income and expense

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

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to being applied on the gross carrying amount.

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

3.3.3 Presentation

Interest income calculated using the effective interest method presented in the Statement of Profit or Loss and OCI includes:

- interest on financial assets measured at amortised cost;
- interest on debt instruments measured at fair value through other comprehensive income;
- negative interest on financial liabilities measured at amortised cost; and
- interest income on other financial investments at fair value through profit or loss.

Interest expense presented in the Statement of Profit or Loss and OCI includes:

- interest on financial liabilities measured at amortised cost;
- negative interest on financial investments measured at amortised cost;
- interest expense on lease liabilities; and
- interest expense on other financial liabilities at fair value through profit or loss.

Cash flows related to capitalised interest are presented in the Statement of Cash Flows consistently with interest cash flows that are not capitalised.

3.4 Fee and commission income and expense

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

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fees and commission income, including account servicing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.5 Net trading results

Net trading results comprises net gains less / losses relating to trading assets and net trading gains or losses on derivatives held for risk management purposes, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.6 Net gain or loss from other financial instruments at fair value through profit or loss

Net gain or loss from other financial instruments at fair value through profit or loss relates to derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at fair value through profit or loss and also non-trading assets mandatorily measured at fair value through profit or loss.

3.7 Dividends

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

3.8 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, accounting for them in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and recognising the related expenses in 'Other expenses'.

3.8.1 Current tax

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

Current tax assets and liabilities are offset only if certain criteria are met.

3.8.2 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3.9 Financial assets and liabilities

3.9.1 Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on balance sheet on the settlement date.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

3.9.2 Classification

3.9.2.1 Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

A debt instrument is measured at amortised cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

A debt instrument is measured at fair value through other comprehensive income ("FVOCI") only if it meets both of the following conditions and is not designated as fair value through profit or loss:

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

Business model assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way in which the business is managed, and information is provided to Management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, in particular, 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 the assets;
- how the performance of the portfolio is evaluated and 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 its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its 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.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at fair value through profit or loss because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

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

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at fair value through profit or loss ("FVTPL") unless the Group designates these instruments at FVOCI upon initial recognition.

Reclassifications

The Group reclassifies debt instruments when and only when its business model for managing those assets changes. In such cases, the instruments are reclassified in the period following which the Group changes its business model for managing financial assets.

Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at amortised cost. Such financial assets primarily comprise balances with Central Bank of Malta, loans and advances to banks and customers, treasury bills classified within 'Balances with Central Bank of Malta, Treasury Bills and cash', and financial investments measured at amortised cost.

The amortised cost of a financial asset is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Interest income from these financial assets is recognised in 'Interest income' using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'Other operating income', whereas foreign exchange gains and losses are presented in 'Net trading results'. Impairment losses are presented as a separate line item in the statement of profit or loss.

Financial assets measured at fair value through other comprehensive income

Financial assets held within a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are SPPI are measured at FVOCI. These primarily comprise financial investments measured at FVOCI.

For debt securities measured at FVOCI, unrealised gains and losses subsequent to initial recognition are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method recognised in 'Interest income';
- movements in loss allowances recognised in 'Net impairment charge on financial assets'; and
- foreign exchange gains and losses recognised in 'Net trading results'.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Financial assets mandatorily measured at fair value through profit or loss

Debt instruments that do not meet the criteria for amortised cost or FVOCI are automatically classified and measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL is recognised in profit or loss and presented net within 'Net trading results' in the period in which it arises.

Such financial assets comprise primarily Group's trading assets, which are managed and whose performance is evaluated on a fair value basis. Trading assets are acquired principally for the purpose of selling in the near term or to be held as part of a portfolio that is managed together for short-term profit or position taking.

The management of these assets by LFC is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The contractual cash flows of the instruments are SPPI. However, these instruments are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the business model's objective. Consequently, all trading assets are mandatorily measured at FVTPL.

Trading assets are initially recognised and subsequently measured at fair value in the statements of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of 'Net trading results' in profit or loss.

In addition, equity investments that are not designated at FVOCI at initial recognition are also classified and mandatorily measured at FVTPL. Changes in the fair value of financial assets measured at FVTPL are recognised in 'Net gain/(loss) from equity investments measured at fair value through profit or loss' in the statement of profit or loss as applicable. Such instruments principally comprise the Group's investment in unlisted sub-funds and other equity investments classified within 'Financial investments measured at fair value through profit or loss'.

Derivatives held for risk management purposes

Derivatives are financial instruments that derive their value from the price of underlying items such as currency forwards or interest rate swaps. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. In this respect, derivatives held for risk management purposes are measured at fair value in the Statement of Financial Position, with gains and losses recognised in 'Net trading results' in profit or loss.

Net investment hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of, for a derivative, changes in the fair value of the hedging instrument or, for a non-derivative, foreign exchange gains and losses is recognised in OCI and presented in the translation reserve within equity. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in profit or loss. The amount recognised in OCI is fully or partially reclassified to profit or loss as a reclassification adjustment on disposal or partial disposal of the foreign operation, respectively.

3.9.2.2 Financial liabilities

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

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ('repo' or 'stock lending'), the consideration received is accounted for as a deposit, and the underlying asset continues to be recognised in the Group's financial statements.

These financial liabilities are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Group did not elect to carry any non-derivative liabilities at fair value through profit or loss.

When the Group designates a financial liability as at fair value through profit or loss, the change in the fair value of the liability attributable to changes in its credit risk is presented in other comprehensive income as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the change in fair value of the liability attributable to credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; with
- the impact on profit or loss of expected changes in the fair value of instruments whose characteristics are economically related to the characteristics of the liability.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

3.9.3 Derecognition

3.9.3.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also Accounting Policy 3.9.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received (including any new asset obtained less any new liability assumed) is recognised in profit or loss.

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

If the Group enters into transactions whereby it transfers assets recognised on its Statement of Financial Position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

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

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

3.9.3.2 Financial liabilities

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

3.9.4 Modifications of financial assets and financial liabilities

3.9.4.1 Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see Accounting Policy 3.9.3) and a new financial asset is recognised at fair value plus any eligible transaction costs.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written-off before the modification takes place (see Note 5.2.1.8 for write-off policy).

If the modification of a financial asset measured at amortised cost or FVOCI does not result in the derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower (see Accounting Policy 3.9.5), then the gain or loss is presented together with impairment losses. In other cases, differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

3.9.4.2 Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument, and change in covenants, are also taken into consideration.

In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

Interest rate benchmark reform

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Group first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applies the policies on accounting for modifications set out above to the additional changes.

3.9.5 Identification and measurement of impairment

The Group recognises loss allowances for expected credit losses (“ECLs”) in respect of the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments, principally comprising Balances with Central Bank of Malta, Treasury bills, loans and advances to banks and customers, and financial investments measured at amortised cost or FVOCI;
- financial guarantee contracts; and
- loan commitments.

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

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which loss allowances are measured as 12-month ECL:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 5.2.1.2).

The Group considers a financial instrument to have low credit risk when it is assigned a credit risk rating that is equivalent to the globally understood definition of ‘investment grade’ by an external credit rating agency. Balances held with credit institutions in reputable jurisdictions classified within ‘Loans and advances to banks’ and debt securities classified within ‘Financial investments measured at amortised cost’ and ‘Financial investments measured at fair value through other comprehensive income’ are considered to have low credit risk when the financial instrument is assigned an ‘investment-grade’ credit risk rating. The Group does not apply the low credit risk exemption to any other financial instrument.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months from the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’. Financial instruments allocated to Stage 1 have not undergone significant increase in credit risk since initial recognition and are not credit-impaired.

Life-time ECL represent the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as ‘Stage 2 financial instruments’. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as ‘Stage 3 financial instruments’.

3.9.5.1 Measurement of ECL

The measurement of ECL reflects:

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

Loss allowances reflect a probability-weighted estimate of expected credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (“POCI”) financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

In measuring ECL, the Group relies on risk and economic data and modelling techniques provided by Moody’s Analytics – a global firm specialising in areas of credit risk analysis, economic and regulatory capital calculation, economic research and other areas intrinsically linked to the ECL model.

Note 5 provides more detail in respect of the methodology applied by the Group for the measurement of loss allowances.

3.9.5.2 Purchased or originated credit-impaired financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

3.9.5.3 Restructured financial assets

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as “forbearance activities”) to maximise collection opportunities and minimise the risk of default. If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made in respect of whether the financial asset should be derecognised (see Accounting Policy 3.9.3) and the ECL is measured as follows:

- if the expected restructuring will not result in the derecognition of the existing asset, the expected cash flows arising from the modified financial asset are included in the ECL calculation to estimate shortfalls from the existing asset. In this respect, the loss allowance in respect of such exposures is estimated by reference to the expected cash flows arising from the modified financial asset. (see Note 5.2.1.3); and
- if the expected restructuring will result in derecognition of the existing asset, the restructured asset is considered a ‘new’ financial asset. Any new financial assets that arise following derecognition events as a result of substantial modification to the terms of the instrument are classified as Stage 1 assets, unless the new financial asset is credit-impaired on initial recognition, in which case it will be classified as a POCI financial asset. A loss is booked in profit or loss (normally as a write-off) since the new instrument is recognised at fair value.

3.9.5.4 Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at fair value through other comprehensive income are credit-impaired (referred to as “Stage 3 financial assets”). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower’s condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a financial asset that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

3.9.5.5 Financial guarantee contracts held

The Group assesses whether a financial guarantee contract held is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. The factors that the Group considers when making this assessment include whether:

- the guarantee is implicitly part of the contractual terms of the debt instrument;
- the guarantee is required by laws and regulations that govern the contract of the debt instrument;
- the guarantee is entered into at the same time as and in contemplation of the debt instruments; and
- the guarantee is given by the parent of the borrower or another company within the borrower's group.

If the Group determines that the guarantee is an integral element of the financial asset, then any premium payable in connection with the initial recognition of the financial asset is treated as a transaction cost of acquiring it. The Group considers the effect of the protection when measuring the fair value of the debt instrument and when measuring ECL.

If the Group determines that the guarantee is not an integral element of the debt instrument, then it recognises an asset representing any prepayment of guarantee premium and a right to compensation for credit losses. A prepaid premium asset is recognised only if the guaranteed exposure is neither credit-impaired nor has undergone a significant increase in credit risk when the guarantee is acquired. These assets are recognised under 'Other assets'. The Group presents gains or losses on a compensation right in profit or loss in the line item 'Impairment losses on financial instruments'.

3.9.5.6 Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL 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;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at fair value through other comprehensive income: no loss allowance is recognised in the Statement of Financial Position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3.9.5.7 Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the 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-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Net movement in expected credit losses and other credit impairment charges' in the Statement of Profit or Loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.9.6 Offsetting

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

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

3.9.7 Fair value measurement

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

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

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

Further details on the determination of fair values are disclosed in Note 5.

3.10 Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

3.11 Investments in subsidiaries, associates and jointly controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate statements of financial position at cost less any impairment losses (see Accounting Policy 3.16).

3.12 Property and equipment

3.12.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Subsequent to initial recognition, freehold land and buildings are carried at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Items of property and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Fair value does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property. Any surpluses arising on such revaluation are recognised in other comprehensive income and accumulated in equity as a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this fair value reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

3.12.2 Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

3.12.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis, allocating the cost / revalued amounts less estimated residual values over the estimated useful lives of each component of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Improvements to leasehold premises are depreciated over the shorter of the lease term and their useful lives.

Land is not depreciated.

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

- buildings 50 years
- Improvement to premises 14 years
- computer system 7 years
- computer equipment 4 years
- others 5 – 7 years

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.12.4 Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

3.12.5 Derecognition

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

3.13 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3.13.1 Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'Property and equipment' and lease liabilities in 'Other liabilities' in the Statement of Financial Position.

3.13.1.1 Short-term leases and leases of low-value assets

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

3.13.2 Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices. When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Accounting Policies 3.9.3 and 3.8.5). The Group further regularly views estimated unguaranteed residual values used in calculating the gross investment in the lease.

3.14 Investment property

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the Group is classified as investment property. Investment property also includes property that is being developed for future use as investment property, when such identification is made.

Investment property is initially measured at cost, including related transaction costs. Subsequent to initial recognition, investment property is carried at its fair value with any change therein recognised in profit or loss.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Fair value does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve (see Accounting Policy 3.12.4) is transferred to retained earnings.

If an investment property becomes owner-occupied, it is reclassified to property and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes.

3.15 Intangible assets and goodwill

3.15.1 Recognition and measurement

3.15.1.1 Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets (see Accounting Policy 3.1.2). Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

3.15.1.2 Software

Software acquired by the Group is stated at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

3.15.1.3 Other intangible assets

Other intangible assets, including customer relationships, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

3.15.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

3.15.3 Amortisation

The cost of intangible assets less their estimated residual values is amortised using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised. The estimated useful lives for current and comparative periods are as follows:

- software 7 years
- other intangible assets 5 years

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

3.16 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than deferred tax assets and investment property, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

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

An impairment loss is recognised if the carrying amount of an asset or a CGU exceeds its recoverable amount.

The Group's corporate assets, other than goodwill, do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3.18 Financial guarantees and loan commitments

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

Financial guarantees issued and loan commitments at a below market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies in Accounting Policy 3.9.3 are applied to loan commitments issued and held.

The Group has not issued any loan commitments that are measured at fair value through profit or loss.

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

3.19 Employee benefits

3.19.1 Defined contribution plans

The Malta-registered Group entities contribute towards a defined contribution state pension plan in accordance with Maltese legislation. Other subsidiaries contribute to other defined contribution plans. The Group does not have a commitment beyond the payment of fixed contributions. Related costs are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

3.19.2 Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

3.20 Share capital

3.20.1 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.20.2 Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

When such shares are later reissued, sold or cancelled, the consideration received is recognised as a change in equity. No gain or loss is recognised in the Statement of Profit or Loss.

3.21 Earnings per share

The Group presents basic and diluted earnings per share (“EPS”) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

As at 31 December 2023 and 2022, basic and diluted earnings per share were equal.

3.22 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components, whose operating results are reviewed regularly by Executive Management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to Executive Management include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

4 Comparative information

During the financial year ended 31 December 2022, the Group and Bank reclassified a portfolio of debt instruments which were previously measured at fair value through other comprehensive income to a hold-to-collect business model, resulting in amounts being reclassified and remeasured in accordance with IFRS 9 requirements in respect of financial instruments measured at amortised cost. During the financial year ended 31 December 2023, Management decided to reverse the effect of the reclassification of this portfolio, as explained in further detail in Note 25.2 of these Financial Statements.

In this respect, the comparatives for 'Financial investments at fair value through other comprehensive income' and 'Financial investments at amortised cost' have been restated to reverse the effects of the reclassification of this portfolio. The impact of this restatement is presented within Note 25.2 of these Financial Statements.

In addition to the above, the following amounts were also restated in the comparative information:

- a. **Loans and advances to customers - Factoring Receivables:** For Factoring receivables which were originated on a non-recourse basis, the Group previously recognised i) a receivable from the end debtor and ii) a receivable from and corresponding payable to the client. Following a re-assessment of the accounting treatment by Management, it was determined that the Group should only be recognising one receivable from the end debtor, to reflect the fact that the Group's exposure to credit risk is solely to the end debtor. In this respect, the receivable from and corresponding payable to the client have been reversed in the statement of financial position as at 31 December 2022 and 1 January 2022.
- b. **Classification of fee and commission income / expense:** During the financial year ended 31 December 2023, Management re-assessed its financial reporting practices in relation to the presentation of certain interest income and expense in accordance with the requirements emanating from IFRS 9 as well as the presentation of fee and commission income and expense in accordance with the requirements emanating from IFRS 15. In this respect, certain elements of fee and commission income and expense which were previously presented as part of the Group's 'Net fee and commission (expense) / income' in the statement of profit or loss were reclassified to 'Net interest income' given that it was determined that these should be reflected as an integral part of the effective interest rate in accordance with IFRS 9. In this respect, these amounts have been reclassified to 'Net interest income' in the statement of profit or loss for the financial year ended 31 December 2022.
- c. **Classification of balances with Central Bank of Malta:** At 31 December 2022, money market placements with the Central Bank of Malta were presented within 'Loans and advances to banks'. Given the nature of these balances, these amounts were reclassified to 'Balances with the Central Bank of Malta'. At 1 January 2022 the Group had no money market placements with the Central Bank of Malta.
- d. **Classification of cash balances pledged in favour of the Depositor Compensation Scheme and the Single Resolution Fund:** At 31 December 2022 and 1 January 2022, these amounts were presented within 'Loans and advances to customers'. Given the nature of these balances, these amounts were reclassified to 'Other assets'. In addition, following a re-assessment by Management in respect of the possibility that such amounts become payable in the future, a contingent liability is also being reflected as described in further detail in Note 41 of these Financial Statements.

The impact of the restatements to the comparative information on the statement of financial position as well as the statement of profit or loss is presented hereunder:

Group – 31 December 2022

Statements of financial position	Note	31 December 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	31 December 2022 as restated USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	19	211,898,623	4,968,702	-	216,867,325
Loans and advances to banks	22	154,682,628	(4,968,702)	-	149,713,926
Loans and advances to customers	23	592,785,152	(2,538,650)	(105,718,445)	484,528,057
Other assets	33	5,372,830	2,538,650	-	7,911,490
Liabilities					
Amounts owed to customers	35	981,906,210	-	(105,718,445)	876,187,765
Memorandum items					
Contingent liabilities	41	12,134,442	2,538,650	-	14,673,092
Statements of profit or loss for the financial year ended 31 December 2022					
Interest income	9	48,000,111	13,433,551	-	61,433,662
Fee and commission income	10	18,019,213	(14,019,155)	-	4,000,058
Fee and commission expense	10	(6,590,340)	585,604	-	(6,004,736)

Group – 1 January 2022

Statements of financial position	Note	1 January 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	1 January 2022 as restated USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	19	239,998,839	-	-	239,998,839
Loans and advances to banks	22	198,488,576	-	-	198,488,576
Loans and advances to customers	23	628,912,340	(5,071,521)	(111,921,417)	511,919,402
Other assets	33	4,244,384	5,071,521	-	9,315,905
Liabilities					
Amounts owed to customers	35	934,096,196	-	(111,921,417)	822,174,779
Memorandum items					
Contingent liabilities	41	1,950,534	5,071,521	-	7,022,055

Bank – 31 December 2022

Statements of financial position	Note	31 December 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	31 December 2022 as restated USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	19	211,883,765	4,968,702	-	216,852,467
Loans and advances to banks	22	130,851,134	(4,968,702)	-	125,882,432
Loans and advances to customers	23	729,767,493	(2,538,650)	(8,318,416)	718,910,427
Other assets	33	4,291,634	2,538,650	-	6,830,284
Liabilities					
Amounts owed to customers	35	877,538,831	-	(8,318,416)	869,220,415
Memorandum items					
Contingent liabilities	41	36,131,883	2,538,650	-	38,670,533
Statements of profit or loss for the financial year ended 31 December 2022					
Interest income	9	27,401,735	2,846,900	-	30,248,635
Fee and commission income	10	6,177,499	(3,432,505)	-	2,744,994
Fee and commission expense	10	(2,510,399)	585,605	-	(1,924,794)

Bank – 1 January 2022

Statements of financial position	Note	1 January 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	1 January 2022 as restated USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	19	239,982,048	-	-	239,982,048
Loans and advances to banks	22	182,458,548	-	-	182,458,548
Loans and advances to customers	23	745,564,139	(5,071,521)	(15,724,760)	724,767,858
Other assets	33	3,848,321	5,071,521	-	8,919,842
Liabilities					
Amounts owed to customers	35	838,675,598	-	(15,724,760)	822,950,838
Memorandum items					
Contingent liabilities	41	39,327,362	5,071,521	-	44,398,883

5 Financial risk review

5.1 Introduction and overview

This Note presents information about the Group’s exposure to financial risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital.

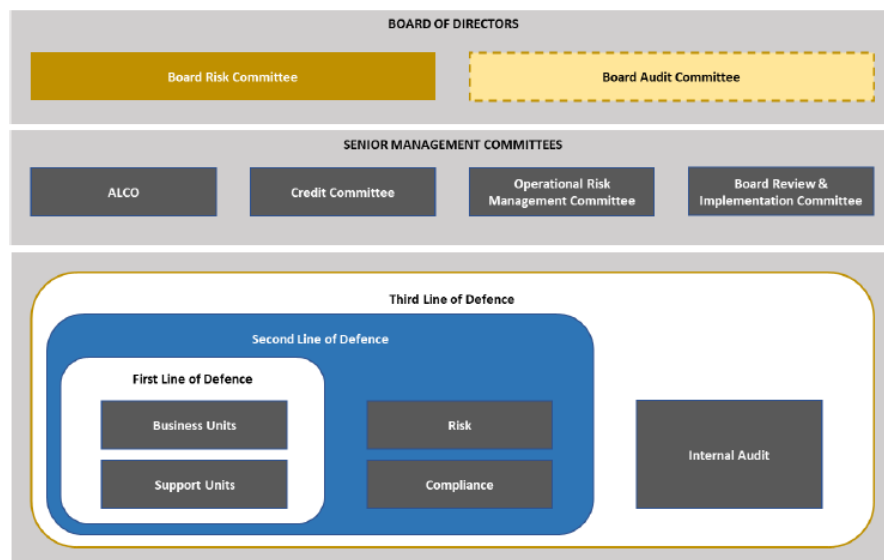
The Group has exposure to the following risks from financial instruments:

- a. credit risk:
 - default risk;
 - concentration risk;
 - counterparty credit risk;
 - settlement risk; and
 - foreign exchange lending risk;
- b. liquidity risk;
- c. market risk:
 - foreign exchange risk;
 - interest rate risk in the banking book;
 - position risk in traded debt instruments; and
 - price risk;
- d. operational risk (including IT and Legal risk); and
- e. compliance and financial crime risk (including conduct and reputational risk).

5.1.1 Risk management framework

The risk factors associated with the banking industry are multiple and varied. Exposure to the above-mentioned risks arises in the normal course of both the Bank’s and the Group’s business. The Group is engaged in trade finance business, therefore control over contingent liabilities and commitments is fundamental since the risks involved are substantively the same as with on-balance sheet items.

The Group adopts the three lines of defence model as outlined in the below diagram.



The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group and for ensuring that proper systems of internal controls are in place. The Board Risk Committee ("BRC"), a Board committee, has the task of assisting the Board in fulfilling its responsibilities concerning the establishment and implementation of the Group’s Risk Management strategy, systems and policies. The scope of the Committee’s responsibility covers the Bank and all its Group entities. Management is ultimately delegated with the task of creating an effective control environment to the highest possible standards. The Risk Management Department ("RMD") is responsible for the implementation of the risk strategy approved by the Board as part of the overall vision and strategy for the Group.

The Internal Audit function monitors compliance with policies, standards and procedures and the effectiveness of the internal control environment of the Group. The Internal Auditor periodically reviews and tests the internal systems of control independently from Management, adopting a risk-based approach. The Internal Auditor reports to the Board Audit Committee. All reports are circulated and also copied to the Chairman of the Board of Directors.

Adherence to the various banking directives and rules issued by the Regulatory Authorities from time to time and applicable to credit institutions licensed in Malta is and shall continue to form the basis of the risk control environment of the Group. The Group is committed to ensuring strict compliance with the thresholds established by the regulatory frameworks in relation to capital adequacy, liquidity and other key regulatory ratios, credit management, quality of assets and financial reporting.

5.2 Credit risk

Credit risk is the risk that one party to a financial transaction might fail to fulfil an obligation and cause the other party to incur a financial loss. The Group finances international trade in many countries worldwide, especially emerging markets, which in turn entails an exposure to sovereign, bank and corporate credit risk. Credit risk is not only associated with loans but also with other on- and off- balance sheet exposures such as letters of credit, guarantees, acceptances and money market products.

The Group is exposed to the following types of credit risk:

- default risk;
- concentration risk;
- counterparty credit risk;
- settlement risk; and
- foreign exchange lending risk.

5.2.1 Default Risk

Default risk is the possibility that a borrower, whether corporate or personal or other, is unable to repay credit obligations to the Group when due.

Strict credit assessment and control procedures are in place in order to monitor such exposures. Overall responsibility for credit risk is entrusted to the Board Credit Committee ("BCC") which is responsible for overseeing adherence to the Group's Credit Policy and for approving individual limits for banks and corporates. The BCC has also delegated limited credit approval authorities to members of Management of the Bank and to risk committees set up at the subsidiaries. Country limits are approved by the BCC. The BCC is also responsible for the consideration of operational, legal and reputational risk related to credit activity. Further information on the composition and function of the BCC is found in the Statement of Compliance with the Principles of Good Corporate Governance.

The Group also ensures that it has a reasonable mix of loans to customers. This diversification of credit among different economic sectors is adopted by the Group to mitigate such risks. Additionally, through country limits, the Group manages its exposure to any one economy. The Group also monitors its risk on balances held with other banks and establishes limits for them. The risks associated with off-balance sheet exposures arise from the normal course of banking operations. In the case of risks associated with off-balance sheet assets, the Group exercises the same credit controls as those applied to on-balance sheet exposures and limits are established accordingly.

Credit risk is one of the main risks which needs to be managed and controlled by the RMD throughout the course of implementing the strategy set by the Board. The RMD is responsible for ensuring that credit proposals give a true and fair view of the risks involved as well as to control and monitor the execution of transactions in accordance with the terms of approval.

In this respect, the RMD's credit risk management responsibilities comprise the following:

- analysing credit risk and ensuring that it is maintained within parameters in line with the Group's strategy;
- recommending portfolio risk limits for Management and BRC approval;
- monitoring risk positions against approved risk limits;
- understanding changes in credit trends, concentrations and portfolio risk profile;
- ensuring that all existing and new products offered by the Group which involve the booking of credit risk are appropriately assessed by the unit which promotes the product and have passed through the Product Variation and New Product Approval process where necessary;
- making recommendations to the relevant approval body for the establishment and renewal of country and obligor limits. To facilitate this process, sufficient information must be submitted, including a rationale for the request and an appropriate analysis of the risks and their mitigants, if any;
- monitoring the quality of the Group's portfolio of assets and making recommendations regarding their credit grading;
- ensuring that all credit facility requests are assessed in a fair and independent manner;
- ensuring that appropriate policies and guidelines in relation to the monitoring and management of credit risk are established;
- disseminating the credit risk culture across the Group and ensuring that the highest standards are maintained;
- deploying tools and techniques to manage credit risk and measuring asset risk in relation to return; and
- providing timely and accurate credit information and analysis to key constituencies including Senior Management, Board members, regulators, auditors, rating agencies and other external parties.

5.2.1.1 Maximum exposure to credit risk

The Group's and Bank's maximum credit risk exposure to on and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements, is presented in the following table. For financial assets recognised in the statement of financial position, the maximum exposure to credit risk is equivalent to the carrying amount. For commitments and financial guarantees, the maximum exposure to credit risk is equivalent to the full amount of the committed facilities.

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Balances with the Central Bank of Malta, treasury bills and cash	353,010,186	216,867,325	352,997,057	216,852,467
Loans and advances to banks	152,814,948	149,713,926	114,325,243	125,882,432
Loans and advances to customers	431,342,074	484,528,057	618,118,225	718,910,427
Financial investments at fair value through other comprehensive income	140,755,780	143,189,022	140,755,780	143,189,022
Financial investments at amortised cost	28,399,073	14,602,008	28,399,073	14,602,008
Other assets	5,007,323	4,097,953	4,457,961	3,799,997
Off-balance sheet:				
- Guarantees	28,025,274	12,134,442	39,074,998	36,131,883
- Commitments	147,803,707	100,001,463	100,220,087	91,414,423
	1,287,158,365	1,125,134,196	1,398,348,424	1,350,782,659

The following table contains an analysis of the maximum credit risk exposure from financial assets subject to credit risk but not subject to impairment (i.e. financial assets measured at fair value through profit or loss).

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Derivative assets held for risk management	715,713	1,610,475	812,609	1,610,475
Trading assets	374,177,108	444,583,661	-	-
Financial investments at fair value through profit or loss	19,329,840	18,179,220	19,329,840	18,179,220
	394,222,661	464,373,356	20,142,449	19,789,695

5.2.1.2 Credit risk measurement

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

Credit risk grades

The Group allocates each exposure to internal credit risk grades based on a variety of data that is determined to be predictive of the risk of default and applying expert credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of default risk. These factors vary depending on the nature of the exposure and the type of borrower.

The Group manages the credit quality of its financial assets by using internal credit risk grades, which provide a progressively increasing risk profile ranging from '1' (best quality, less risky) to '10' (non-performing). These internal credit risk grades are essential for the assessment and measurement of credit risk in respect of exposures classified within the Group's portfolios of financial assets.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. For example, the difference in default risk between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to conditional PDs and to external credit rating scale applied by Moody's (or their equivalent):

Grading	12-month weighted-average PD	External rating
Grades 1 to 4- low risk	0.19%	Aaa-Baa3
Grades 5+ to 5- fair risk	1.90%	Ba1-Ba3
Grades 6+ to 7 high risk	4.81%	B1-Caa2
Grades 7- to 8- substandard	15.46%	Caa3-Ca
Grades 9 to 10 doubtful/loss	100.00%	C

All on- and off- balance sheet exposures are approved after a review of the counterparty's creditworthiness. Whilst any external rating of the counterparty by established external credit rating agencies is taken into account, an internal credit risk grade is assigned to all obligors.

Focusing specifically on loans and advances to customers, the Group has four lending portfolios:

- the Local Corporate Lending portfolio, predominantly comprising loans to the real estate activities sector in Malta;
- the Factoring Receivables portfolio, comprising portfolios of factored receivables (both on a non-recourse and recourse basis) in Europe, India and the Middle East;
- the Trade Finance portfolio, comprising import and export finance facilities in Europe; and
- a portfolio of other facilities comprising syndicated senior secured facilities to international corporates and shipping finance facilities.

The Group uses Moody's CreditLens to assign internal credit risk grades to exposures classified within the Local Corporate Lending and Trade Finance portfolios using both quantitative and qualitative borrower-specific inputs. Specifically, for exposures classified within the Local Corporate Lending portfolio, the internal credit risk grade is determined by reference to inputs related to the project being financed, such as the property type, property valuation upon completion, project costs, and project complexity, whereas the internal credit risk grade for exposures classified within the Trade Finance portfolio is determined by reference to quantitative (financial statement) inputs and other qualitative inputs, such as the entity's competitive position in the market and customer concentration level. In both cases, the borrower and exposure specific inputs are benchmarked against an underlying dataset within Moody's CreditLens model in order to assess the relative level of credit risk of the obligor.

Similarly, internal credit risk grades for exposures classified within the Factoring Receivables portfolio are determined using internally developed scorecards by reference to quantitative (e.g. sales growth and net worth of the entity) and qualitative (e.g. industry and market conditions) inputs. Finally, internal credit risk grades for syndicated facilities are also determined by reference to Moody's CreditLens whereas internal credit risk grades for shipping finance loans are determined by relationship managers on the basis of a qualitative assessment.

Each exposure is allocated to an internal credit risk grade on initial recognition, and is then subject to ongoing monitoring, which may result in an exposure being moved to a different internal credit risk grade. The monitoring typically involves use of the following data:

- 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 covenants, quality of management and Senior Management changes;
- data from credit reference agencies, press articles and changes in external credit ratings;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status as well as a range of variables about payment ratios;
- requests for and granting of forbearance; and
- existing and forecast changes in business, financial and economic conditions.

For exposures classified within Balances with Central Bank of Malta, financial investments measured at fair value through other comprehensive income, financial investments measured at amortised cost and loans and advances to banks, an internal credit risk grade is assigned on the basis of external credit ratings. In the event that an exposure is not rated, internal credit risk grades are assigned by reference to the Moody’s CreditLens scorecard applied for the Local Corporate Lending portfolio and sovereign external credit ratings, where relevant.

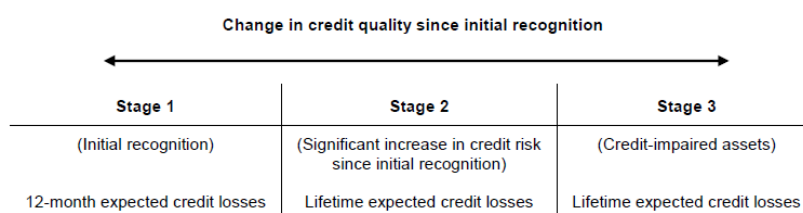
The three-stage model for staging

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition. The key driver of the measurement of ECLs relates to the level of credit risk for each exposure and, as a result, an assessment of the change in credit risk over the expected life of an asset is a core element in determining the staging criteria under IFRS 9. The three stages under IFRS 9 are as follows:

- Stage 1 - Financial instruments that have not had a significant increase in credit risk (“SICR”) since initial recognition, or that have “low credit risk” at the reporting date are classified in Stage 1. 12-month ECLs are recorded to measure the expected losses that result from default events that are possible within 12 months after the reporting date;
- Stage 2 - Financial instruments that have experienced a SICR since initial recognition are classified in Stage 2. Lifetime ECLs are recorded to measure the expected losses that result from all possible default events over the expected life of the financial instrument; and
- Stage 3 - Financial instruments that demonstrate objective evidence of impairment, and which are considered to be in default or credit-impaired, are classified in Stage 3, also requiring the measurement of lifetime ECLs.

Purchased or originated credit-impaired (“POCI”) financial assets are those financial assets that are credit-impaired on initial recognition. The ECL in respect of such exposures is always measured on a lifetime basis.

The following diagram summarises the impairment requirements under IFRS 9:



The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are outlined below.

Significant increase in credit risk

When determining whether the 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. This includes both quantitative and qualitative information and analysis, based on historical experience, expert credit judgement and forward-looking information.

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account information about past events, current conditions and future economic conditions.

The Group uses two principal criteria for determining whether there has been a significant increase in credit risk since initial recognition:

- a quantitative test based on changes in internal credit risk grades and, by extension, changes in conditional forward-looking point-in-time (“PiT”) PDs of obligors; and
- qualitative indicators, primarily based on delinquency using a backstop of 30 days past due.

It is possible for multiple exposures to the same obligor to be classified under different stages. This may occur when the Group holds exposures originated at differing points in time thereby potentially giving rise to differing default risk at initial recognition, causing a variation in the relative increase in credit risk since origination between the different instruments.

Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, as well as the geographical region in which the borrower operates.

For the purposes of the quantitative SICR assessment, the Group has adopted a ratings-based approach (i.e. based on notch deterioration). Due to the lack of internal history of defaults, the Group uses a credit risk modelling solution developed by Moody’s in case of the Local Corporate Lending, Trade Finance and syndicated lending exposures and an internally developed scorecard in case of Factoring Receivables exposures in order to assign internal credit risk grades to obligors and facilities at the date of the credit risk assessment. As explained previously, these internal credit risk grades are derived by: (i) benchmarking the obligor’s financial information (in case of Trade Finance, Factoring Receivables and syndicated lending exposures) or project specific information (in case of Local Corporate Lending exposures) with those of the underlying model dataset; and (ii) applying a qualitative scorecard to adjust the credit score to better reflect obligor-specific peculiarities. Adjustments are also made to capture country- and industry-specific credit risk characteristics impacting the credit risk of a particular obligor.

Borrower-specific credit scores are then mapped to an unconditional PiT PD. A forward-looking, probability weighted PiT PD estimated by the model is determined through the application of multiple forward-looking macroeconomic scenarios and then mapped to an implied default rating, which adopts Moody’s public ratings agency scale terminology from C up to Aaa. When performing the SICR assessment, the Group compares the implied rating at origination to the implied rating at the reporting date and determines the difference in notches between them. The Group’s staging criteria is therefore deemed to be based on a ratings/notch deterioration approach.

The quantitative SICR staging decision uses a relative threshold approach, which involves calculating the magnitude of the difference between the reporting date rating and the origination date rating based on the deterioration in the number of notches between the two ratings. As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group’s quantitative modelling, there is a two-notch deterioration from the rating at origination.

Although the Group has adopted a ratings-based approach (i.e. based on notch deterioration) for its SICR assessment, each implied rating is represented by an underlying PD. In this respect, the objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing the implied rating as at the reporting date with the implied rating at initial recognition.

Credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group’s credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on expert judgment and relevant historical experiences and exposures which are categorised on the watch list are downgraded to Stage 2.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which a scheduled payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. The Group applies a further backstop when the rating of the obligor reaches a level that is equivalent to a facility in arrears. A significant increase in credit risk occurs where the obligor is internally graded below 7-.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, the loss allowance on an instrument, returns to being measured as 12-month ECL. Where the SICR was initially determined using the Group’s quantitative criteria (i.e., deterioration in rating), the exposure is deemed to have cured only if there is evidence of an improvement in the implied default rating (instrument should evidence an implied default rating which is at worst one notch lower than the original inception rating (reflecting worse credit quality compared to the date of initial recognition but better credit quality compared to the two-notch downgrade required to migrate an exposure into Stage 2) in order to trigger a reclassification from Stage 2 to Stage 1).

Some qualitative SICR indicators, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In the case of delinquency, any instrument that is no longer 30-days past due can only be reclassified to Stage 1 when: (i) all contractual arrears have been remediated (Nil days past due); and (ii) no further non-payment has been observed for a minimum of 90 days. In the case of forbearance, the Group determines a probation period of one year during which an instrument classified in Stage 2 is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. In this respect, a Stage 2 exposure can only cure and be upgraded to Stage 1 if at least one year has passed since downgrade to Stage 2 and if the borrower has demonstrated satisfactory performance throughout that period. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

IFRS 9 allows a low credit risk expedient for staging purposes. Under this expedient, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Group considers "low credit risk" to exist in case of selected financial instruments (for example listed bonds and counterparties to which an external credit rating has been assigned by an external credit rating agency) with an investment grade credit rating (BBB and better) assigned by at least one major external credit rating agency. Should the external credit rating of a financial instrument fall below the investment grade threshold, the instrument is deemed to have suffered a SICR, at which point the instrument will be re-classified as a Stage 2 exposure, moving from a 12-month to a lifetime ECL calculation.

Definition of default

In order to assess whether there has been an increase in credit risk of a financial instrument since initial recognition, changes in default risk are considered over the remaining life of the financial instrument. The definition of default is therefore critical to the application of IFRS 9 requirements. However, IFRS 9 does not specifically define default, but requires the Group to apply a definition that is consistent with the definition used for internal credit risk management purposes.

The Group applies the definition of default in a consistent manner with internal credit risk management practice, which definition considers both qualitative and quantitative factors. In this respect, the Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Group considers the following indicators:

- qualitative: factors which are taken into consideration include delinquency, breaches of covenant, forbearance measures and non-payment on another obligation of the same issuer to the Group;
- quantitative: this is based on the ratings-based approach described earlier, with exposures having an implied rating of Ca or below being treated as defaulted.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has implemented the definition of default as per Article 178 of the Capital Requirements Regulation which stipulates that a default shall be considered to have occurred when either or both of the following criteria are present: there are material credit obligations due by the obligor which are more than 90 days past due and/or the obligor is considered as unlikely to pay its credit obligations without the realisation of collateral. This definition is used for the purpose of measuring ECL and identifying assets as being credit-impaired. Therefore, the definitions of credit-impaired and default are aligned so that Stage 3 exposures comprise loans that are considered defaulted or otherwise credit-impaired.

Exposures which are classified as defaulted / credit-impaired are those that have been assigned an internal credit risk grade of 9 or 10. Defaulted exposures may comprise forbore loans and advances to customers that have been subject to a change in contractual cash flows as a result of a concession which the Group would not otherwise consider, and where it is probable that without the concession the borrower would be unable to meet the contractual payment obligations in full, unless the concession is insignificant and there are no other indicators of impairment. Forborne loans that are classified as credit-impaired will continue to be classified as such until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment.

An instrument not comprising of forbore loans and advances is considered to have cured from defaulted status when it no longer meets any of the default criteria for a period of 12 consecutive months. When forbearance measures are extended to a defaulted instrument, such instrument is considered to have cured from defaulted status when it no longer meets any of the default criteria for a period of 12 consecutive months, and thereafter becoming a 'performing forbore' exposure. Performing forbore exposures are cured to performing status after 24 consecutive months of no events indicating financial distress.

5.2.1.3 Measurement of ECL

ECLs are measured on a 12-month or a lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. Specifically, ECLs are the discounted product of the following variables:

- The probability of default ("PD"), which represents the likelihood of a borrower defaulting on its financial obligation (as per the 'definition of default' above), either over the next 12 months ("12-month PD") or over the remaining lifetime ("lifetime PD") of the obligation;
- The loss given default ("LGD"), which represents the Group's expectation of the extent of the loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default ("EAD"). The estimation of LGD considers the structure and seniority of the claim, together with the nature and recoverability / enforceability of collateral and associated recovery costs; and
- exposure at default ("EAD"), which represents the expected exposure in the event of a default.

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

In measuring ECLs, the Group adopts a credit risk modelling solution developed by Moody's Analytics. When calculating the Group's ECL, special considerations are made to assess the impact of the current and forecasted economic conditions, as explained in further detail in note 5.2.1.7. 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 period, 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.

Probability of default

The term structure of PDs follows a two-staged approach. In the first instance, borrower-specific internal credit risk grades (derived using the methodology described in note 5.2.1.2) are mapped to Moody's official credit rating-scale table. Following this, the resultant credit rating is converted into a PiT PD term structure using Moody's 'Rating to PiT PD' converter, calibrated by reference to historical default data observed in the market. This is done through statistical models which analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time, based on the obligor's implied rating, as well as country and industry information.

"Unconditional" PiT PDs refer to the PD term structure based on historical information and prior to the application of forward-looking macroeconomic scenarios. Multiple forward-looking macroeconomic scenarios are applied to the unconditional PiT PD term structure to estimate a forward-looking probability-weighted "conditional" PiT PD at an obligor level.

PDs are determined upon origination date and at each subsequent reporting date at an obligor level rather than at a facility level. Therefore, at any given date, multiple facilities attributable to the same obligor are assigned the same PD, reflecting the borrower's financial condition as at the date of the assessment. In this regard, different facilities with the same obligor originated at the same time are expected to have an identical PD both at origination date as well as subsequent reporting dates. However, facilities with the same obligor originated at different time intervals can have different PDs upon origination, reflecting the borrower's financial condition and credit risk at each respective origination date, whereas identical PDs are determined at each subsequent reporting date in respect of all such facilities.

Loss given default

As described above, the LGD represents the magnitude of the likely loss in the event of a default event. It is based on the difference between the contractual cash flows due and the cash flows that the Group expects to receive, whether from cash flows or from any collateral. It takes into account the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. LGD for ECL measurement includes the expected impact of future economic conditions and discounting back from estimated time of default to reporting date using the original EIR.

The Group applies unsecured LGD rates derived from statistical models developed by Moody's by benchmarking exposure-specific characteristics with the underlying dataset. The LGD model considers a series of variables including the debt structure, the country and industry in which the borrower operates, seniority of the claim, and the borrower-specific PD.

For exposures classified within the Local Corporate Lending portfolio, which are primarily secured by residential and / or commercial real estate, the secured LGD is derived through the application of adjustments to the unsecured LGD to reflect the collateral value after taking into consideration pre-determined haircuts.

For certain exposures classified within the Factoring Receivables portfolio, the Group purchases credit insurance cover or correspondent factor import cover from foreign third-party underwriters, which provide insurance cover in respect of losses up to a pre-determined percentage of each eligible receivable. Exposures classified within the Trade Finance portfolio are principally collateralised by bank guarantees. In this respect, the secured LGD is derived through the application of adjustments to the unsecured LGD to reflect the collateral value.

Syndicated loan exposures are typically unsecured, although there might be instances where specific collateral is requested by the syndicate, such as charges over immovable property. Similarly, shipping finance loans are typically secured by the vessel being financed as well as related vessel insurance cover. In such cases, the secured LGD is derived through the application of adjustments to the unsecured LGD to reflect the collateral value after taking into consideration pre-determined haircuts.

In addition, exposures across all portfolios are in some instances also collateralised by cash pledges. In this respect, adjustments to the unsecured LGD are also applied to reflect these credit risk mitigation techniques.

The same macroeconomic modelling elements used to derive PiT PDs are then used to determine conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures.

Exposure at default

The EAD represents the expected exposure in the event of a default. The Group derives the EAD by reference to the current exposure to the counterparty and estimates of potential further drawdowns in case of off-balance sheet commitments. The EAD of on-balance sheet exposures is equal to the instrument's gross carrying amount at the time of default. For lending commitments, the EAD includes current and potential future amounts that may be drawn under the contract, whereby expected potential future drawdowns are determined based on estimated credit conversion factors. For financial guarantees, the EAD reflects the probability that the financial guarantee becomes payable.

The Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) during which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period is deemed to reflect the date on which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Judgemental adjustments

Where appropriate, the Group makes adjustments to the ECL estimate outside the Group's regular modelling process to reflect Management judgements. Changes to the assumptions underlying these judgemental adjustments could materially affect ECL within the next 12 months. These adjustments include post-model adjustments ("PMA") and overlays.

PMAs are adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement. They are usually calculated and allocated at a granular level through modelled analysis, calculated separately for each economic scenario and where appropriate used to adjust stage allocation outcomes. Overlays are adjustments to the ECL model outputs that have been made outside the detailed ECL calculation and reporting process. These do not meet the Group's definition of PMAs because they are not calculated at granular level through modelled analysis.

The Group has internal governance frameworks and controls in place to assess the appropriateness of all judgemental adjustments. The aim of the Group is to incorporate these PMAs into the ECL models, where possible, as part of the periodic recalibration and model assessment procedures.

Judgemental adjustments to the ECL estimate are applied in order to factor in additional facts that are not fully incorporated into the ECL models.

Total judgemental adjustments as at 31 December 2023 increased the loss allowance by USD1,941,961 (2022: USD1,281,670).

Credit-impaired exposures

For exposures classified as Stage 3 (“defaulted”) exposures, the Group estimates the expected future cash flows on an individual basis using a discounted cash flow (“DCF”) methodology. The expected future cash flows are based on Management’s estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

Estimated future cash flows are generally dependent on parameters or assumptions around borrowers’ operating cash flows, judgements around the possible outcome of litigation and / or liquidation proceedings and out-of-court settlements, and recoveries through the sale or repossession of collateral to determine a probability weighted recoverable amount of the loan.

5.2.1.4 Credit quality analysis

The following table sets out information about the credit quality of assets. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts. For contingent liabilities and commitments, the amounts in the table represent the amounts committed.

Group – 31 December 2023

	12-month PD ranges	2023			Total USD
		Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.03% - 0.44%	336,709,471	-	-	336,709,471
Grades 5+ to 5- fair risk	0.36% - 0.36%	16,384,741	-	-	16,384,741
		353,094,212	-	-	353,094,212
Loss allowance		(84,026)	-	-	(84,026)
Carrying amount		353,010,186	-	-	353,010,186
Loans and advances to banks					
Grades 1 to 4- low risk	0.18% - 0.71%	57,774,145	-	-	57,774,145
Grades 5+ to 5- fair risk	0.39% - 1.36%	28,897,955	-	-	28,897,955
Grades 6+ to 7 high risk	1.03% - 5.33%	61,678,406	4,373,226	-	66,051,632
Grade 7- to 8- substandard	2.45%	-	330,800	-	330,800
		148,350,506	4,704,026	-	153,054,532
Loss allowance		(229,755)	(9,829)	-	(239,584)
Carrying amount		148,120,751	4,694,197	-	152,814,948
Loans and advances to customers					
Grades 1 to 4- low risk	0.09% - 0.96%	14,877,147	8,532	-	14,885,679
Grades 5+ to 5- fair risk	0.47% - 7.58%	106,621,284	16,552,944	-	123,174,228
Grades 6+ to 7 high risk	1.34% - 19.01%	193,343,710	14,192,197	-	207,535,907
Grade 7- to 8- substandard	11.65% - 23.98%	33,480,002	44,064,180	3,667,626	81,211,808
Grade 9 to 10 doubtful/loss	100%	-	-	23,447,745	23,447,745
		348,322,143	74,817,853	27,115,371	450,255,367
Loss allowance		(1,992,933)	(3,235,201)	(13,685,159)	(18,913,293)
Carrying amount		346,329,210	71,582,652	13,430,212	431,342,074
Financial investments at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.03% - 0.5%	140,755,780	-	-	140,755,780
Carrying amount at fair value		140,755,780	-	-	140,755,780
Loss allowance		(83,233)	-	-	(83,233)
Financial investments at amortised cost					
Grades 1 to 4- low risk	0.02% - 0.46%	18,758,990	-	-	18,758,990
Grades 5+ to 5- fair risk	2.25%	9,771,244	-	-	9,771,244
		28,530,234	-	-	28,530,234
Loss allowance		(131,161)	-	-	(131,161)
Carrying amount		28,399,073	-	-	28,399,073
Guarantees					
Grades 1 to 4- low risk	0.14% - 0.96%	239,527	-	-	239,527
Grades 5+ to 5- fair risk	0.42% - 2.99%	24,272,567	-	-	24,272,567
Grades 6+ to 7 high risk	1.48% - 18.65%	3,483,111	30,069	-	3,513,180
Carrying amount		27,995,205	30,069	-	28,025,274
Loss allowance		(7,501)	(50)	-	(7,551)
Commitments					
Grades 1 to 4- low risk	0.16% - 0.78%	40,457,254	-	-	40,457,254
Grades 5+ to 5- fair risk	1.16% - 3.15%	40,310,914	1,235,036	-	41,545,950
Grades 6+ to 7 high risk	1.83% - 10.76%	54,509,463	11,291,040	-	65,800,503
Carrying amount		135,277,631	12,526,076	-	147,803,707
Loss allowance		(78,764)	(3,543)	-	(82,307)

Group – 31 December 2022

		2022			
	12-month PD ranges	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.11% - 0.61%	201,055,654	-	-	201,055,654
Grades 5+ to 5- fair risk	0.56% - 0.57%	15,929,718	-	-	15,929,718
		216,985,372	-	-	216,985,372
Loss allowance		(118,047)	-	-	(118,047)
Carrying amount		216,867,325	-	-	216,867,325
Loans and advances to banks					
Grades 1 to 4- low risk	0.16% - 0.82%	53,973,155	-	-	53,973,155
Grades 5+ to 5- fair risk	0.64% - 4.39%	8,899,263	-	-	8,899,263
Grades 6+ to 7 high risk	1.2% - 7.34%	86,272,654	-	-	86,272,654
Grade 7- to 8- substandard	5.38%	-	1,011,069	-	1,011,069
		149,145,072	1,011,069	-	150,156,141
Loss allowance		(425,805)	(16,410)	-	(442,215)
Carrying amount		148,719,267	994,659	-	149,713,926
Loans and advances to customers					
Grades 1 to 4- low risk	0.08% - 0.9%	41,340,443	560,550	-	41,900,993
Grades 5+ to 5- fair risk	0.38% - 3.53%	136,285,389	15,840,557	-	152,125,946
Grades 6+ to 7 high risk	2.52% - 32.46%	150,749,736	67,155,643	-	217,905,379
Grade 7- to 8- substandard	16.16% - 40.49%	4,076,786	41,064,034	-	45,140,820
Grade 9 to 10 doubtful/loss	100%	-	-	102,531,826	102,531,826
		332,452,354	124,620,784	102,531,826	559,604,964
Loss allowance		(1,807,610)	(3,738,804)	(69,530,493)	(75,076,907)
Carrying amount		330,644,744	120,881,980	33,001,333	484,528,057
Financial investments at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.03% - 0.67%	143,189,022	-	-	143,189,022
Carrying amount at fair value		143,189,022	-	-	143,189,022
Loss allowance		(125,577)	-	-	(125,577)
Financial investments at amortised cost					
Grades 1 to 4- low risk	0.05%	4,835,740	-	-	4,835,740
Grades 5+ to 5- fair risk	0.93%	9,805,955	-	-	9,805,955
		14,641,695	-	-	14,641,695
Loss allowance		(39,687)	-	-	(39,687)
Carrying amount		14,602,008	-	-	14,602,008
Guarantees					
Grades 1 to 4- low risk	0.29% - 0.84%	91,324	-	-	91,324
Grades 5+ to 5- fair risk	0.87% - 3.11%	7,516,187	4,127	-	7,520,314
Grades 6+ to 7 high risk	1.56% - 17.53%	4,270,380	85,847	-	4,356,227
Grade 9 to 10 doubtful/loss	100%	-	-	166,577	166,577
		11,877,891	89,974	166,577	12,134,442
Loss allowance		(43,668)	(107)	-	(43,775)
Commitments					
Grades 1 to 4- low risk	0.16% - 0.94%	5,902,394	-	-	5,902,394
Grades 5+ to 5- fair risk	1.09% - 3.16%	53,329,456	-	-	53,329,456
Grades 6+ to 7 high risk	1.8% - 29.66%	26,733,134	14,036,479	-	40,769,613
		85,964,984	14,036,479	-	100,001,463
Loss allowance		(274,242)	(2,878)	-	(277,120)

Bank – 31 December 2023

	12-month PD ranges	2023			Total USD
		Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta,					
treasury bills and cash					
Grades 1 to 4- low risk	0.03% - 0.44%	336,696,342	-	-	336,696,342
Grades 5+ to 5- fair risk	0.36% - 0.36%	16,384,741	-	-	16,384,741
		353,081,083	-	-	353,081,083
Loss allowance		(84,026)	-	-	(84,026)
Carrying amount		352,997,057	-	-	352,997,057
Loans and advances to banks					
Grades 1 to 4- low risk	0.18% - 0.71%	34,600,459	-	-	34,600,459
Grades 5+ to 5- fair risk	0.39% - 1.36%	21,922,395	-	-	21,922,395
Grades 6+ to 7 high risk	1.16% - 5.33%	53,314,041	4,373,226	-	57,687,267
Grade 7- to 8- substandard	2.45%	-	330,800	-	330,800
		109,836,895	4,704,026	-	114,540,921
Loss allowance		(205,849)	(9,829)	-	(215,678)
Carrying amount		109,631,046	4,694,197	-	114,325,243
Loans and advances to customers					
Grades 1 to 4- low risk	0.14% - 0.96%	326,508,825	-	-	326,508,825
Grades 5+ to 5- fair risk	0.47% - 7.58%	76,001,131	15,899,916	-	91,901,047
Grades 6+ to 7 high risk	1.34% - 19.01%	171,722,482	13,149,304	-	184,871,786
Grade 7- to 8- substandard	15% - 21.07%	-	7,017,657	3,667,626	10,685,283
Grade 9 to 10 doubtful/loss	100%	-	-	16,938,297	16,938,297
		574,232,438	36,066,877	20,605,923	630,905,238
Loss allowance		(2,749,760)	(2,641,065)	(7,396,188)	(12,787,013)
Carrying amount		571,482,678	33,425,812	13,209,735	618,118,225
Financial investments at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.03% - 0.5%	140,755,780	-	-	140,755,780
Carrying amount at fair value		140,755,780	-	-	140,755,780
Loss allowance		(83,233)	-	-	(83,233)
Financial investments at amortised cost					
Grades 1 to 4- low risk	0.02% - 0.46%	18,758,990	-	-	18,758,990
Grades 5+ to 5- fair risk	2.25%	9,771,244	-	-	9,771,244
		28,530,234	-	-	28,530,234
Loss allowance		(131,161)	-	-	(131,161)
Carrying amount		28,399,073	-	-	28,399,073
Guarantees					
Grades 1 to 4- low risk	0.39% - 0.96%	11,289,250	-	-	11,289,250
Grades 5+ to 5- fair risk	0.42% - 2.99%	24,272,567	-	-	24,272,567
Grades 6+ to 7 high risk	1.48% - 18.65%	3,483,112	30,069	-	3,513,181
Carrying amount		39,044,929	30,069	-	39,074,998
Loss allowance		(7,778)	(50)	-	(7,828)
Commitments					
Grades 1 to 4- low risk	0.16% - 0.78%	6,727,973	-	-	6,727,973
Grades 5+ to 5- fair risk	1.16% - 3.15%	40,310,914	1,235,036	-	41,545,950
Grades 6+ to 7 high risk	1.83% - 10.76%	40,655,124	11,291,040	-	51,946,164
Carrying amount		87,694,011	12,526,076	-	100,220,087
Loss allowance		(78,764)	(3,543)	-	(82,307)

Bank – 31 December 2022

	12-month PD ranges	2022			Total USD
		Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.11% - 0.61%	201,040,796	-	-	201,040,796
Grades 5+ to 5- fair risk	0.56% - 0.57%	15,929,718	-	-	15,929,718
		216,970,514	-	-	216,970,514
Loss allowance		(118,047)	-	-	(118,047)
Carrying amount		216,852,467	-	-	216,852,467
Loans and advances to banks					
Grades 1 to 4- low risk	0.16% - 0.82%	51,827,402	-	-	51,827,402
Grades 6+ to 7 high risk	1.2% - 6.36%	73,491,266	-	-	73,491,266
Grade 7- to 8- substandard	5.38%	-	981,535	-	981,535
		125,318,668	981,535	-	126,300,203
Loss allowance		(406,843)	(10,928)	-	(417,771)
Carrying amount		124,911,825	970,607	-	125,882,432
Loans and advances to customers					
Grades 1 to 4- low risk	0.12% - 0.87%	374,043,203	-	-	374,043,203
Grades 5+ to 5- fair risk	0.38% - 3.16%	107,707,494	15,683,049	-	123,390,543
Grades 6+ to 7 high risk	2.96% - 32.46%	139,237,803	49,388,541	-	188,626,344
Grade 7- to 8- substandard	16.57% - 33.05%	-	7,375,878	-	7,375,878
Grade 9 to 10 doubtful/loss	100%	-	-	93,835,376	93,835,376
		620,988,500	72,447,468	93,835,376	787,271,344
Loss allowance		(1,730,647)	(2,562,047)	(64,068,223)	(68,360,917)
Carrying amount		619,257,853	69,885,421	29,767,153	718,910,427
Financial investments at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.03% - 0.67%	143,189,022	-	-	143,189,022
Carrying amount at fair value		143,189,022	-	-	143,189,022
Loss allowance		(125,577)	-	-	(125,577)
Financial investments at amortised cost					
Grades 1 to 4- low risk	0.05%	4,835,740	-	-	4,835,740
Grades 5+ to 5- fair risk	0.93%	9,805,955	-	-	9,805,955
		14,641,695	-	-	14,641,695
Loss allowance		(39,687)	-	-	(39,687)
Carrying amount		14,602,008	-	-	14,602,008
Guarantees					
Grades 1 to 4- low risk	0.12% - 0.84%	24,095,625	-	-	24,095,625
Grades 5+ to 5- fair risk	0.87% - 3.11%	7,516,188	4,127	-	7,520,315
Grades 6+ to 7 high risk	1.56% - 17.53%	4,263,519	85,847	-	4,349,366
Grade 9 to 10 doubtful/loss	100%	-	-	166,577	166,577
		35,875,332	89,974	166,577	36,131,883
Loss allowance		(75,317)	(107)	-	(75,424)
Commitments					
Grades 1 to 4- low risk	0.16% - 0.94%	6,455,110	-	-	6,455,110
Grades 5+ to 5- fair risk	1.25% - 3.16%	52,776,740	-	-	52,776,740
Grades 6+ to 7 high risk	2.5% - 29.66%	18,146,094	14,036,479	-	32,182,573
		77,377,944	14,036,479	-	91,414,423
Loss allowance		(42,904)	(2,881)	-	(45,785)

The following table sets out information about the overdue status of financial assets under Stages 1, 2 and 3:

Group – 31 December 2023

	2023			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Loans and advances to banks				
Current	143,786,835	4,704,026	-	148,490,861
Overdue < 30 days	4,563,671	-	-	4,563,671
Overdue > 30 days	-	-	-	-
Total gross carrying amount	148,350,506	4,704,026	-	153,054,532
Loans and advances to customers				
Current	286,929,554	38,938,409	-	325,867,963
Overdue < 30 days	61,392,589	31,308,055	-	92,700,644
Overdue > 30 days	-	4,571,389	27,115,371	31,686,760
Total gross carrying amount	348,322,143	74,817,853	27,115,371	450,255,367

Group – 31 December 2022

	2022			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Loans and advances to banks				
Current	149,145,072	1,011,069	-	150,156,141
Overdue < 30 days	-	-	-	-
Overdue > 30 days	-	-	-	-
Total gross carrying amount	149,145,072	1,011,069	-	150,156,141
Loans and advances to customers				
Current	282,933,798	121,255,571	-	404,189,369
Overdue < 30 days	49,518,556	492,684	-	50,011,240
Overdue > 30 days	-	2,872,529	102,531,826	105,404,355
Total gross carrying amount	332,452,354	124,620,784	102,531,826	559,604,964

Bank – 31 December 2023

	2023			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Loans and advances to banks				
Current	105,273,224	4,704,026	-	109,977,250
Overdue < 30 days	4,563,671	-	-	4,563,671
Overdue > 30 days	-	-	-	-
Total gross carrying amount	109,836,895	4,704,026	-	114,540,921
Loans and advances to customers				
Current	547,798,597	22,954,067	-	570,752,664
Overdue < 30 days	26,433,841	8,644,572	-	35,078,413
Overdue > 30 days	-	4,468,238	20,605,923	25,074,161
Total gross carrying amount	574,232,438	36,066,877	20,605,923	630,905,238

Bank – 31 December 2022

	2022			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Loans and advances to banks				
Current	125,318,668	981,535	-	126,300,203
Overdue < 30 days	-	-	-	-
Overdue > 30 days	-	-	-	-
Total gross carrying amount	125,318,668	981,535	-	126,300,203
Loans and advances to customers				
Current	589,669,783	71,855,938	-	661,525,721
Overdue < 30 days	31,318,717	261,675	-	31,580,392
Overdue > 30 days	-	329,855	93,835,376	94,165,231
Total gross carrying amount	620,988,500	72,447,468	93,835,376	787,271,344

In 2023, there were no overdue balances for 'Balances with the Central Bank of Malta and treasury bills', 'Financial investments at fair value through other comprehensive income' and 'Financial investments at amortised cost' (2022: Nil).

The following table sets out information about the credit quality of 'Trading assets'. The analysis has been based on Moody's and Fitch ratings.

	Group	
	2023 USD	2022 USD
Trading assets		
Rated A- to A+	22,310,275	5,447,684
Rated BBB+ or below	242,218,978	263,545,485
Unrated	109,647,855	175,590,492
Carrying amount	374,177,108	444,583,661

5.2.1.5 Reconciliation of gross carrying amounts and allowances for ECL

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument:

Group – 31 December 2023

	Non-credit impaired				Credit Impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount USD	Allowance for ECL USD
	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD		
Loans and advances to customers								
Balance at 1 January	332,452,354	(1,807,610)	124,620,784	(3,738,804)	102,531,826	(69,530,493)	559,604,964	(75,076,907)
Transfer to Stage 1	6,971,978	(126,023)	(6,971,978)	126,023	-	-	-	-
Transfer to Stage 2	(832,499)	3	832,499	(3)	-	-	-	-
Net remeasurement of loss allowance arising from stage transfers	-	(42,479)	-	(3,462)	-	-	-	(45,941)
Changes in risk parameters	-	(190,907)	-	263,929	-	(1,113,923)	-	(1,040,901)
New financial assets originated or purchased and further lending	408,211,815	(1,489,020)	45,065,103	(209,007)	54,684	(38,406)	453,331,602	(1,736,433)
Financial assets that have been repaid or partially repaid	(403,901,641)	1,662,934	(87,356,483)	299,504	(16,812,662)	1,394,348	(508,070,786)	3,356,786
Write-offs	-	-	(65,007)	26,711	(59,663,556)	56,149,594	(59,728,563)	56,176,305
Foreign exchange and other movements	5,420,136	169	(1,307,065)	(92)	1,005,079	(546,279)	5,118,150	(546,202)
Balance at 31 December	348,322,143	(1,992,933)	74,817,853	(3,235,201)	27,115,371	(13,685,159)	450,255,367	(18,913,293)

Group – 31 December 2022

	Non-credit impaired				Credit Impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount USD	Allowance for ECL USD
	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD		
Loans and advances to customers								
Balance at 1 January	320,415,637	(1,267,844)	134,133,565	(2,740,295)	140,155,054	(78,776,715)	594,704,256	(82,784,854)
Transfer to Stage 1	6,322,485	(24,819)	(6,322,485)	24,819	-	-	-	-
Transfer to Stage 2	(5,364,350)	3,820	5,885,579	(485,677)	(521,229)	481,857	-	-
Transfer to Stage 3	-	-	(304,380)	1,813	304,380	(1,813)	-	-
Net remeasurement of loss allowance arising from stage transfers	-	(93,215)	-	336,595	-	23,767	-	267,147
Changes in risk parameters	-	526,220	-	(940,622)	-	(2,027,017)	-	(2,441,419)
New financial assets originated or purchased and further lending	374,613,473	(1,148,374)	49,891,502	(229,265)	6,827,172	(183,080)	431,332,147	(1,560,719)
Financial assets that have been repaid or partially repaid	(349,840,884)	161,387	(52,986,986)	297,467	(4,166,719)	1,099,422	(406,994,589)	1,558,276
Write-offs	-	-	-	-	(32,712,595)	13,412,727	(32,712,595)	13,412,727
Foreign exchange and other movements	(13,694,007)	35,215	(5,676,011)	(3,639)	(7,354,237)	(3,559,641)	(26,724,251)	(3,528,065)
Balance at 31 December	332,452,354	(1,807,610)	124,620,784	(3,738,804)	102,531,826	(69,530,493)	559,604,964	(75,076,907)

Bank – 31 December 2023

	Non-credit impaired				Credit Impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount USD	Allowance for ECL USD
	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD		
Loans and advances to customers								
Balance at 1 January	620,988,500	(1,730,647)	72,447,468	(2,562,047)	93,835,376	(64,068,223)	787,271,344	(68,360,917)
Transfer to Stage 1	18,021	-	(18,021)	-	-	-	-	-
Transfer to Stage 2	(832,479)	3	832,479	(3)	-	-	-	-
Net remeasurement of loss allowance arising from stage transfers	-	-	-	(3,462)	-	-	-	(3,462)
Changes in risk parameters	-	(859,172)	-	(156,717)	-	121,343	-	(894,546)
New financial assets originated or purchased and further lending	337,283,426	(1,372,156)	27,933,694	(11,111)	54,684	(38,406)	365,271,804	(1,421,673)
Financial assets that have been repaid or partially repaid	(396,312,437)	1,212,212	(65,168,753)	65,564	(15,182,710)	1,280,426	(476,663,900)	2,558,202
Write-offs	-	-	(65,007)	26,711	(59,583,023)	56,069,062	(59,648,030)	56,095,773
Foreign exchange and other movements	13,087,407	-	105,017	-	1,481,596	(760,390)	14,674,020	(760,390)
Balance at 31 December	574,232,438	(2,749,760)	36,066,877	(2,641,065)	20,605,923	(7,396,188)	630,905,238	(12,787,013)

Bank – 31 December 2022

	Non-credit impaired				Credit Impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying amount USD	Allowance for ECL USD
	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD	Gross carrying amount USD	Allowance for ECL USD		
Loans and advances to customers								
Balance at 1 January	600,778,464	(1,663,749)	74,589,203	(2,051,951)	118,357,177	(65,241,286)	793,724,844	(68,956,986)
Transfer to Stage 1	3,957,968	(431)	(3,957,968)	431	-	-	-	-
Transfer to Stage 2	(159,987)	-	681,216	(481,857)	(521,229)	481,857	-	-
Net remeasurement of loss allowance arising from stage transfers	-	-	-	488,329	-	-	-	488,329
Changes in risk parameters	-	384,082	-	(541,489)	-	(1,157,112)	-	(1,314,519)
New financial assets originated or purchased and further lending	371,417,048	(647,590)	24,861,234	(65,375)	6,764,122	(183,080)	403,042,404	(896,045)
Financial assets that have been repaid or partially repaid	(339,546,202)	197,041	(23,006,984)	96,337	(4,467,856)	233,802	(367,021,042)	527,180
Write-offs	-	-	-	-	(23,381,257)	6,640,123	(23,381,257)	6,640,123
Foreign exchange and other movements	(15,458,791)	-	(719,233)	(6,472)	(2,915,581)	(4,842,527)	(19,093,605)	(4,848,999)
Balance at 31 December	620,988,500	(1,730,647)	72,447,468	(2,562,047)	93,835,376	(64,068,223)	787,271,344	(68,360,917)

Group – 31 December 2023

	2023			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash				
Balance at 1 January	118,047	-	-	118,047
Net remeasurement of loss allowance	(46,750)	-	-	(46,750)
New financial assets originated or purchased and further lending	76,808	-	-	76,808
Financial assets that have been repaid or partially repaid	(64,079)	-	-	(64,079)
Balance at 31 December	84,026	-	-	84,026
Loans and advances to banks				
Balance at 1 January	425,805	16,410	-	442,215
Net remeasurement of loss allowance	(57,382)	(10,753)	-	(68,135)
New financial assets originated or purchased and further lending	93,845	9,653	-	103,498
Financial assets that have been repaid or partially repaid	(232,418)	(5,481)	-	(237,899)
Foreign exchange and other movements	(95)	-	-	(95)
Balance at 31 December	229,755	9,829	-	239,584
Financial investments at fair value through other comprehensive income				
Balance at 1 January	125,577	-	-	125,577
Net remeasurement of loss allowance	(38,948)	-	-	(38,948)
Financial assets that have been repaid or partially repaid	(3,396)	-	-	(3,396)
Balance at 31 December	83,233	-	-	83,233
Financial investments at amortised cost				
Balance at 1 January	39,687	-	-	39,687
Net remeasurement of loss allowance	86,758	-	-	86,758
New financial assets originated or purchased and further lending	4,716	-	-	4,716
Balance at 31 December	131,161	-	-	131,161
Guarantees				
Balance at 1 January	43,668	107	-	43,775
Net remeasurement of loss allowance	(36,006)	-	-	(36,006)
New financial assets originated or purchased and further lending	137	50	-	187
Financial assets that have been repaid or partially repaid	(298)	(107)	-	(405)
Balance at 31 December	7,501	50	-	7,551
Commitments				
Balance at 1 January	274,242	2,878	-	277,120
Net remeasurement of loss allowance	6,878	-	-	6,878
New financial assets originated or purchased and further lending	70,320	3,543	-	73,863
Financial assets that have been repaid or partially repaid	(272,676)	(2,878)	-	(275,554)
Balance at 31 December	78,764	3,543	-	82,307

Group – 31 December 2022

	2022 Allowance for ECL			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash				
Balance at 1 January	119,597	-	-	119,597
Net remeasurement of loss allowance	(46,311)	-	-	(46,311)
New financial assets originated or purchased and further lending	64,079	-	-	64,079
Financial assets that have been repaid or partially repaid	(19,318)	-	-	(19,318)
Balance at 31 December	118,047	-	-	118,047
Loans and advances to banks				
Balance at 1 January	363,708	22,443	-	386,151
Transfer to Stage 1	9	(9)	-	-
Net remeasurement of loss allowance	(31,409)	(4,860)	-	(36,269)
New financial assets originated or purchased and further lending	343,470	5,483	-	348,953
Financial assets that have been repaid or partially repaid	(248,518)	(6,647)	-	(255,165)
Foreign exchange and other movements	(1,455)	-	-	(1,455)
Balance at 31 December	425,805	16,410	-	442,215
Financial investments at fair value through other comprehensive income				
Balance at 1 January	82,065	-	-	82,065
Net remeasurement of loss allowance	42,275	-	-	42,275
New financial assets originated or purchased and further lending	3,036	-	-	3,036
Financial assets that have been repaid or partially repaid	(1,799)	-	-	(1,799)
Balance at 31 December	125,577	-	-	125,577
Financial investments at amortised cost				
Balance at 1 January	57,622	-	-	57,622
New financial assets originated or purchased and further Lending	39,687	-	-	39,687
Financial assets that have been repaid or partially repaid	(57,622)	-	-	(57,622)
Balance at 31 December	39,687	-	-	39,687
Guarantees				
Balance at 1 January	823	-	161,243	162,066
Net remeasurement of loss allowance	72	-	(158,039)	(157,967)
New financial assets originated or purchased and further lending	43,399	107	-	43,506
Financial assets that have been repaid or partially repaid	(626)	-	-	(626)
Foreign exchange and other movements	-	-	(3,204)	(3,204)
Balance at 31 December	43,668	107	-	43,775
Commitments				
Balance at 1 January	94,841	2,421	-	97,262
Net remeasurement of loss allowance	467	-	-	467
New financial assets originated or purchased and further lending	270,362	2,878	-	273,240
Financial assets that have been repaid or partially repaid	(91,428)	(2,421)	-	(93,849)
Balance at 31 December	274,242	2,878	-	277,120

Bank – 31 December 2023

	2023 Allowance for ECL			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash				
Balance at 1 January	118,047	-	-	118,047
Net remeasurement of loss allowance	(46,750)	-	-	(46,750)
New financial assets originated or purchased and further lending	76,808	-	-	76,808
Financial assets that have been repaid or partially repaid	(64,079)	-	-	(64,079)
Balance at 31 December	84,026	-	-	84,026
Loans and advances to banks				
Balance at 1 January	406,843	10,928	-	417,771
Net remeasurement of loss allowance	(62,184)	(10,753)	-	(72,937)
New financial assets originated or purchased and further lending	88,693	9,654	-	98,347
Financial assets that have been repaid or partially repaid	(227,503)	-	-	(227,503)
Balance at 31 December	205,849	9,829	-	215,678
Financial investments at fair value through other comprehensive income				
Balance at 1 January	125,577	-	-	125,577
Net remeasurement of loss allowance	(38,948)	-	-	(38,948)
Financial assets that have been repaid or partially repaid	(3,396)	-	-	(3,396)
Balance at 31 December	83,233	-	-	83,233
Financial investments at amortised cost				
Balance at 1 January	39,687	-	-	39,687
Net remeasurement of loss allowance	86,758	-	-	86,758
New financial assets originated or purchased and further lending	4,716	-	-	4,716
Balance at 31 December	131,161	-	-	131,161
Guarantees				
Balance at 1 January	75,317	107	-	75,424
Net remeasurement of loss allowance	(36,006)	-	-	(36,006)
New financial assets originated or purchased and further lending	414	50	-	464
Financial assets that have been repaid or partially repaid	(31,947)	(107)	-	(32,054)
Balance at 31 December	7,778	50	-	7,828
Commitments				
Balance at 1 January	42,904	2,881	-	45,785
Net remeasurement of loss allowance	6,878	-	-	6,878
New financial assets originated or purchased and further lending	70,320	3,543	-	73,863
Financial assets that have been repaid or partially repaid	(41,338)	(2,881)	-	(44,219)
Balance at 31 December	78,764	3,543	-	82,307

Bank – 31 December 2022

	2022 Allowance for ECL			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Balances with the Central Bank of Malta, treasury bills and cash				
Balance at 1 January	119,597	-	-	119,597
Net remeasurement of loss allowance	(46,311)	-	-	(46,311)
New financial assets originated or purchased and further lending	64,079	-	-	64,079
Financial assets that have been repaid or partially repaid	(19,318)	-	-	(19,318)
Balance at 31 December	118,047	-	-	118,047
Loans and advances to banks				
Balance at 1 January	345,928	22,435	-	368,363
Net remeasurement of loss allowance	(28,640)	(4,860)	-	(33,500)
New financial assets originated or purchased and further lending	336,589	-	-	336,589
Financial assets that have been repaid or partially repaid	(247,034)	(6,647)	-	(253,681)
Balance at 31 December	406,843	10,928	-	417,771
Financial investments at fair value through other comprehensive income				
Balance at 1 January	82,065	-	-	82,065
Net remeasurement of loss allowance	42,275	-	-	42,275
New financial assets originated or purchased and further lending	3,036	-	-	3,036
Financial assets that have been repaid or partially repaid	(1,799)	-	-	(1,799)
Balance at 31 December	125,577	-	-	125,577
Financial investments at amortised cost				
Balance at 1 January	57,622	-	-	57,622
New financial assets originated or purchased and further lending	39,687	-	-	39,687
Financial assets that have been repaid or partially repaid	(57,622)	-	-	(57,622)
Balance at 31 December	39,687	-	-	39,687
Guarantees				
Balance at 1 January	752	-	161,243	161,995
Net remeasurement of loss allowance	74	-	(158,039)	(157,965)
New financial assets originated or purchased and further lending	75,045	107	-	75,152
Financial assets that have been repaid or partially repaid	(554)	-	-	(554)
Foreign exchange and other movements	-	-	(3,204)	(3,204)
Balance at 31 December	75,317	107	-	75,424
Commitments				
Balance at 1 January	37,358	2,422	-	39,780
Net remeasurement of loss allowance	467	-	-	467
New financial assets originated or purchased and further lending	39,027	2,878	-	41,905
Financial assets that have been repaid or partially repaid	(33,948)	(2,419)	-	(36,367)
Balance at 31 December	42,904	2,881	-	45,785

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'Net movement in expected credit losses and other credit impairment charges' line item in the Group's Statements of Profit or Loss.

Group – 31 December 2023

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial investments at fair value through other comprehensive income USD	Financial investments at amortised cost USD	Guarantees USD	Commitments USD	Total USD
Net remeasurement of loss allowance	(46,750)	(68,135)	1,086,842	(38,948)	86,758	(36,006)	6,878	990,639
New financial assets originated or purchased and further lending	76,808	103,498	1,736,433	-	4,716	187	73,863	1,995,505
Financial assets that have been repaid or partially repaid	(64,079)	(237,899)	(3,356,786)	(3,396)	-	(405)	(275,554)	(3,938,119)
Write-offs	-	-	3,552,258	-	-	-	-	3,552,258
Total	(34,021)	(202,536)	3,018,747	(42,344)	91,474	(36,224)	(194,813)	2,600,283
Recoveries of amounts previously written off	-	-	(639,395)	-	-	-	-	(639,395)
Total	(34,021)	(202,536)	2,379,352	(42,344)	91,474	(36,224)	(194,813)	1,960,888

Group – 31 December 2022

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial investments at fair value through other comprehensive income USD	Financial investments at amortised cost USD	Guarantees USD	Commitments USD	Total USD
Net remeasurement of loss allowance	(46,311)	(36,269)	2,174,272	42,275	-	(157,967)	467	1,976,467
New financial assets originated or purchased and further lending	64,079	348,953	1,560,719	3,036	39,687	43,506	273,240	2,333,220
Financial assets that have been repaid or partially repaid	(19,318)	(255,165)	(1,558,276)	(1,799)	(57,622)	(626)	(93,849)	(1,986,655)
Write-offs	-	-	19,299,868	-	-	-	-	19,299,868
Total	(1,550)	57,519	21,476,583	43,512	(17,935)	(115,087)	179,858	21,622,900
Recoveries of amounts previously written off	-	-	(1,594,216)	-	-	-	-	(1,594,216)
Total	(1,550)	57,519	19,882,367	43,512	(17,935)	(115,087)	179,858	20,028,684

Bank – 31 December 2023

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial investments at fair value through other comprehensive income USD	Financial investments at amortised cost USD	Guarantees USD	Commitments USD	Total USD
Net remeasurement of loss allowance	(46,750)	(72,937)	898,008	(38,948)	86,758	(36,006)	6,878	797,003
New financial assets originated or purchased and further lending	76,808	98,347	1,421,673	-	4,716	464	73,863	1,675,871
Financial assets that have been repaid or partially repaid	(64,079)	(227,503)	(2,558,202)	(3,396)	-	(32,054)	(44,219)	(2,929,453)
Write-offs	-	-	3,552,257	-	-	-	-	3,552,257
Total	(34,021)	(202,093)	3,313,736	(42,344)	91,474	(67,596)	36,522	3,095,678
Recoveries of amounts previously written off	-	-	(102,086)	-	-	-	-	(102,086)
Total	(34,021)	(202,093)	3,211,650	(42,344)	91,474	(67,596)	36,522	2,993,592

Bank – 31 December 2022

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial investments at fair value through other comprehensive income USD	Financial investments at amortised cost USD	Guarantees USD	Commitments USD	Total USD
Net remeasurement of loss allowance	(46,311)	(33,500)	826,190	42,275	-	(157,965)	467	631,156
New financial assets originated or purchased and further lending	64,079	336,589	896,045	3,036	39,687	75,152	41,905	1,456,493
Financial assets that have been repaid or partially repaid	(19,318)	(253,681)	(527,180)	(1,799)	(57,622)	(554)	(36,367)	(896,521)
Write-offs	-	-	16,741,134	-	-	-	-	16,741,134
Total	(1,550)	49,408	17,936,189	43,512	(17,935)	(83,367)	6,005	17,932,262
Recoveries of amounts previously written off	-	-	(508,161)	-	-	-	-	(508,161)
Total	(1,550)	49,408	17,428,028	43,512	(17,935)	(83,367)	6,005	17,424,101

5.2.1.6 Loans with renegotiated terms and the Group's forbearance policy

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Conditions for treatment of such renegotiated loans are outlined in the Group's forbearance policy which is in line with the EBA/GL/2018/06 Guidelines on management on non-performing forborne exposures. Forbearance refers only to loan modifications or renegotiations in response to actual or perceived financial difficulties of a customer.

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 the current or potential credit deterioration of a customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with Accounting Policy 3.9.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly is based on the same methodology described in Note 5.2.1.2.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (unless the exposure is deemed to be credit-impaired at the time of derecognition, in which case the exposure will be classified as POCI).

The Group renegotiates loans 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 a) the debtor is currently in default or if there is a high risk of default; b) there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms; and c) the debtor is expected to be able to meet the revised terms.

The renegotiated terms usually relate to extensions to the contractual maturity, changes to the timing of interest payments and amendments to the terms of loan covenants.

For the purposes of disclosures in these Financial Statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable to the borrower than the Group had provided initially and that it would not otherwise consider.

For financial assets modified as part of the Group's Forbearance Policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Accounting Policy 3.9.5). A renegotiated loan is typically presented as credit-impaired when there has been a change in contractual cash flows as a result of a concession which the lender would otherwise not consider and it is probable that, without the concession, the borrower would be unable to meet contractual payment obligations in full. Accordingly, this will represent a significant concern regarding the borrower's ability to meet contractual payments, and the loan will be classified as credit-impaired, unless the concession granted is insignificant.

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

In the event that a forborne exposure is deemed to be credit-impaired, the renegotiated loan will continue to be disclosed as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, and there are no other indicators of impairment. In this respect, a customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the credit risk is considered to have decreased such that the exposure reverts to being classified as Stage 2 or Stage 1. In accordance with the Group's policy, a loan typically continues to be classified as renegotiated until maturity, early repayment or write-off.

For the Group, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD17,918,227 (2022: USD12,424,630), of which USD8,111,785 are fully collateralised Stage 2 exposures (2022: USD273,947) with an ECL allowance of USD Nil (2022: USD Nil), whilst USD9,806,442 are Stage 3 exposures (2022: USD12,150,683) with an ECL allowance of USD6,482,231 (2022: USD7,249,935) and an extendible collateral value of USD0 (2022: USD251,591). Interest income recognised during 2023 in respect of renegotiated and forborne assets amounted to USD534,747 (2022: USD695,751).

For the Bank, the aggregate amount of renegotiated and forbore loans at reporting date amounted to USD16,992,136 (2022: USD10,247,579), of which USD8,111,785 are fully collateralised Stage 2 exposures (2022: USD273,947) with an ECL allowance of Nil (2022: Nil), whilst USD8,880,351 are Stage 3 exposures (2022: USD9,973,632) with an ECL allowance of USD5,673,547 (2022: USD6,120,653) and an extendible collateral value of USD0 (2022: USD251,591). Interest income recognised during 2023 in respect of renegotiated and forbore assets amounted to USD431,581 (2022: USD315,193).

Movement in forbearance activity during the year is as follows:

Group – 31 December 2023

	2023		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	273,947	12,150,683	12,424,630
Additions	7,855,466	234,957	8,090,423
Recovered	(17,628)	(2,539,684)	(2,557,312)
Written off	-	(39,514)	(39,514)
Reclassified	-	-	-
At 31 December	8,111,785	9,806,442	17,918,227
Loss allowances	-	(6,482,231)	(6,482,231)

Group – 31 December 2022

	2022		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	4,330,159	15,837,294	20,167,453
Additions	-	1,761,231	1,761,231
Recovered	(4,073,840)	(4,134,796)	(8,208,636)
Written off	-	(1,295,418)	(1,295,418)
Reclassified	17,628	(17,628)	-
At 31 December	273,947	12,150,683	12,424,630
Loss allowances	-	(7,249,935)	(7,249,935)

Bank – 31 December 2023

	2023		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	273,947	9,973,632	10,247,579
Additions	7,855,466	2,325	7,857,791
Recovered	(17,628)	(976,829)	(994,457)
Written off	-	(118,777)	(118,777)
Reclassified	-	-	-
At 31 December	8,111,785	8,880,351	16,992,136
Loss allowances	-	(5,673,547)	(5,673,547)

Bank – 31 December 2022

	2022		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	1,948,525	13,569,272	15,517,797
Additions	-	12,328	12,328
Recovered	(1,692,206)	(2,294,922)	(3,987,128)
Written off	-	(1,295,418)	(1,295,418)
Reclassified	17,628	(17,628)	-
At 31 December	273,947	9,973,632	10,247,579
Loss allowances	-	(6,120,653)	(6,120,653)

5.2.1.7 Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since initial recognition as well as the measurement of ECL, as described in more detail in Notes 5.2.1.2 and 5.2.1.3.

The macroeconomic modelling methodology used by the Group in the measurement of ECL in respect of Stage 1 and Stage 2 exposures is based on a model developed by Moody's that leverages updates in market data across industries and countries to estimate conditional PiT PDs and LGDs by reference to observed and forecasted economic conditions.

The modelling methodology applied by the Group in the estimation of ECLs utilises macroeconomic correlation models to determine the historical correlation of a borrower's financial performance with overall macroeconomic conditions, with the correlation factor being estimated principally by reference to borrower size as well as the industry and country in which the borrower operates.

The Group uses Moody's Analytics GCorr Macro™ model to link credit-risk factors to macroeconomic variables using the following information for each counterparty: industry, country and sensitivity of the counterparty to systemic risk. The Group identifies and documents key drivers of credit risk and credit losses. The key drivers of credit risk for the Group's portfolios are: GDP growth rates, unemployment rates and equity prices. For exposures to specific industries and/or regions, the key drivers of credit risk also include relevant commodity prices, such as oil prices. The Group uses economic data from twelve different geographies which broadly represent the exposures carried by the Group at reporting date. In cases where information in respect of a specific country exposure is not available, the Group maps the exposure to the geographical region with the closest economic structure and credit risk drivers.

The Group applies three economic scenarios to capture non-linearity across portfolios in the estimation of ECLs: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, namely an upside and a downside scenario, each assigned a 30% probability of occurrence. Moody's Analytics regularly updates the base case forecast and alternative scenarios. The upside and downside scenario represent hypothetical events that push the economy away from the base case outlook.

Forecasted economic data in respect of each of the three scenarios are sourced from Moody's Analytics on a quarterly basis. The historical data in the Group's model reflects economic data published by national statistics offices and reputable third-party aggregators such as the World Bank and the International Monetary Fund.

The economic scenarios are developed by Moody's Analytics through a Global Macro Model used to establish relationships across series within each national economy. The parameters used by the model are estimated using econometric techniques through observable historical covariation over the macroeconomic time series. The scenarios are constructed in accordance with a target severity for each scenario. The probability weights assigned to each scenario are calibrated by reference to their severity and on how well they approximate possible future economic developments.

The model applies three possible scenarios covering a wide range of possible outcomes. Each scenario assumes different economic circumstances, global oil prices, disruptions to global oil supply, winding down of extraordinary fiscal support, impact of high debt levels and an ageing population on eurozone growth, increased (or decreased) tension levels over Russia's invasion of Ukraine and the escalation (or non-escalation) of Israel's war on Hamas to a broader regional conflict. The main assumptions used in the model include different levels of:

- geopolitical tensions, growth outlook, labour market conditions, pandemic resurgence/rebound, supply chain shortages;
- financial market conditions, debt sustainability, fiscal stimulus, consumer and business sentiment;
- oil prices, gas supply, surging energy costs, inflation, unemployment rates, GDP rates, input prices and demand for services; and
- deposit rates, bond yields, disposable income, interbank market rates, money and bond market sentiment.

As at 31 December 2023 and 31 December 2022, the projected macroeconomic paths in respect of the key macroeconomic variables selected for the top five geographical regions applied in the ECL calculation across the three macroeconomic scenarios and for the five-year forecasted period from the financial year ending 31 December 2024 to 2028 (2022: 31 December 2023 to 2027) are presented in the following tables. Given that the Group and Bank present information in respect of the top five geographical regions in terms of exposure amounts at each reporting date, different countries might be presented for different financial years in order to present information which is relevant for the ECL calculation at each respective reporting date.

31 December 2023

		Year-on-year change				
Country: Germany		2024	2025	2026	2027	2028
Equity	Base	8%	2%	3%	3%	2%
	Upside	15%	6%	4%	2%	1%
	Downside	-29%	29%	14%	5%	2%
GDP growth	Base	1%	2%	2%	1%	1%
	Upside	3%	2%	2%	1%	1%
	Downside	-5%	2%	3%	2%	1%
Unemployment	Base	0%	-3%	-2%	-2%	-2%
	Upside	-8%	-2%	1%	0%	-1%
	Downside	18%	3%	-11%	-8%	-4%
Country: Malta		2024	2025	2026	2027	2028
Equity	Base	9%	12%	13%	11%	8%
	Upside	22%	9%	12%	9%	7%
	Downside	-22%	31%	26%	13%	9%
GDP growth	Base	4%	4%	3%	3%	3%
	Upside	7%	4%	3%	3%	3%
	Downside	-3%	5%	4%	3%	3%
Unemployment	Base	25%	-1%	-4%	0%	0%
	Upside	24%	-3%	-4%	0%	0%
	Downside	40%	1%	-13%	0%	1%
Country: India		2024	2025	2026	2027	2028
Equity	Base	11%	7%	7%	8%	7%
	Upside	19%	6%	8%	6%	6%
	Downside	-26%	22%	19%	12%	6%
GDP growth	Base	7%	6%	6%	6%	6%
	Upside	9%	7%	7%	6%	6%
	Downside	-2%	5%	7%	7%	7%
Unemployment	Base	1%	0%	-1%	-1%	-1%
	Upside	-4%	0%	1%	0%	0%
	Downside	34%	5%	-15%	-11%	-5%
FX	Base	-1%	1%	0%	0%	1%
	Upside	-3%	1%	0%	0%	1%
	Downside	4%	1%	0%	0%	1%
Country: Egypt		2024	2025	2026	2027	2028
Equity	Base	14%	6%	6%	4%	3%
	Upside	30%	3%	4%	1%	2%
	Downside	-34%	33%	24%	11%	4%
GDP growth	Base	4%	6%	5%	5%	5%
	Upside	7%	6%	5%	5%	5%
	Downside	-1%	6%	6%	6%	5%
Unemployment	Base	3%	0%	2%	2%	1%
	Upside	-3%	1%	5%	4%	1%
	Downside	29%	-3%	-6%	-4%	-2%
Country: Italy		2024	2025	2026	2027	2028
Equity	Base	8%	9%	11%	6%	4%
	Upside	17%	9%	9%	4%	4%
	Downside	-28%	30%	23%	9%	4%
Unemployment	Base	3%	3%	1%	0%	0%
	Upside	0%	2%	2%	1%	1%
	Downside	35%	4%	-6%	-5%	-3%
Eurozone GDP	Base	1%	2%	2%	2%	1%
	Upside	3%	2%	2%	2%	1%
	Downside	-5%	2%	3%	2%	1%

31 December 2022

		Year-on-year change				
Country: Malta		2023	2024	2025	2026	2027
Equity	Base	1%	8%	10%	9%	7%
	Upside	14%	4%	8%	7%	6%
	Downside	-28%	26%	24%	12%	7%
GDP growth	Base	7%	1%	4%	3%	2%
	Upside	9%	1%	4%	3%	2%
	Downside	1%	1%	5%	3%	2%
Unemployment	Base	12%	3%	2%	1%	1%
	Upside	11%	1%	3%	2%	2%
	Downside	24%	15%	-1%	-3%	-3%
Country: Germany		2023	2024	2025	2026	2027
Equity	Base	5%	-2%	4%	4%	3%
	Upside	10%	2%	4%	3%	2%
	Downside	-31%	23%	15%	6%	2%
GDP growth	Base	1%	4%	3%	2%	1%
	Upside	3%	4%	3%	2%	1%
	Downside	-5%	5%	4%	2%	1%
Unemployment	Base	3%	-3%	-2%	-1%	0%
	Upside	-6%	-7%	1%	2%	1%
	Downside	35%	0%	-9%	-6%	-5%
Country: India		2023	2024	2025	2026	2027
Equity	Base	6%	4%	4%	2%	2%
	Upside	13%	3%	4%	1%	3%
	Downside	-16%	12%	8%	4%	3%
GDP growth	Base	5%	7%	6%	5%	5%
	Upside	7%	8%	7%	5%	5%
	Downside	-3%	7%	6%	4%	5%
Unemployment	Base	5%	-1%	0%	0%	0%
	Upside	2%	-1%	0%	0%	0%
	Downside	12%	-2%	-2%	-2%	-1%
FX	Base	2%	1%	1%	1%	1%
	Upside	1%	2%	1%	1%	1%
	Downside	6%	-1%	0%	1%	1%
Country: United Arab Emirates		2023	2024	2025	2026	2027
Equity	Base	-2%	-1%	1%	0%	1%
	Upside	4%	-3%	0%	0%	1%
	Downside	-20%	8%	4%	2%	1%
Unemployment	Base	-7%	-10%	-4%	-1%	-1%
	Upside	-29%	1%	12%	-1%	-1%
	Downside	21%	-20%	-9%	-6%	-3%
Oil price	Base	-11%	-15%	-1%	1%	1%
	Upside	-9%	-17%	-2%	1%	1%
	Downside	-34%	-3%	13%	1%	2%
Country: Egypt		2023	2024	2025	2026	2027
Equity	Base	32%	3%	3%	3%	2%
	Upside	50%	-2%	0%	1%	2%
	Downside	-16%	30%	17%	3%	2%
GDP growth	Base	6%	5%	5%	5%	5%
	Upside	8%	5%	5%	5%	5%
	Downside	1%	5%	6%	6%	5%
Unemployment	Base	-1%	1%	2%	2%	1%
	Upside	-5%	2%	4%	2%	1%
	Downside	-5%	2%	3%	2%	1%

Sensitivity of ECL to future economic conditions

The ECL is sensitive to judgements and assumptions made in respect of the formulation and calibration of forward-looking macroeconomic scenarios and how such scenarios are incorporated into the ECL calculation.

The level of estimation uncertainty and judgement as at 31 December 2023 remains elevated as a result of the economic effects of the significant inflationary pressures and the ensuing elevated interest rate environment being currently experienced. The latter is the direct consequence of a response by the European Central Bank ("ECB") and other regulators from a monetary policy perspective, with announced increases in interest rates designed to curb the spiralling effect of inflationary pressures.

In addition, the level of macroeconomic uncertainty is compounded by global geopolitical conflicts, in particular 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. In this respect, the level of estimation uncertainty and judgement has remained high during 2023. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain highly subjective. In this respect, Management performs a sensitivity analysis on the ECL recognised in respect of material asset classes.

The tables below show the loss allowance assuming that 100% probability weights were assigned to each of the three forward-looking macroeconomic scenarios (e.g. base case, upside and downside) instead of applying a weighted average ECL across the three macroeconomic scenarios. For ease of comparison, the tables also include the probability-weighted amounts that are reflected in the Financial Statements.

Group – 31 December 2023

	Upside	2023 Base Case	Downside	Probability-weighted
	USD	USD	USD	USD
Loans and advances to customers				
Gross exposure	450,255,367	450,255,367	450,255,367	450,255,367
Loss allowance	16,996,812	17,728,585	21,341,671	18,913,293

Group – 31 December 2022

	Upside	2022 Base Case	Downside	Probability-weighted
	USD	USD	USD	USD
Loans and advances to customers				
Gross exposure	559,604,964	559,604,964	559,604,964	559,604,964
Loss allowance	74,945,575	75,368,976	76,983,861	75,076,907

Bank – 31 December 2023

	Upside	2023 Base Case	Downside	Probability-weighted
	USD	USD	USD	USD
Loans and advances to customers				
Gross exposure	630,905,238	630,905,238	630,905,238	630,905,238
Loss allowance	9,477,335	10,049,349	13,187,940	12,787,013

Bank – 31 December 2022

	Upside	2022 Base Case	Downside	Probability-weighted
	USD	USD	USD	USD
Loans and advances to customers				
Gross exposure	787,271,344	787,271,344	787,271,344	787,271,344
Loss allowance	68,027,484	68,291,356	69,406,260	68,360,917

5.2.1.8 Write-off policy

The Group writes off an exposure (and any related allowances for impairment losses) when it has been determined that the exposure is partially or fully uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's or issuer's financial position such that the borrower or issuer can no longer pay the obligation; that proceeds from collateral will not be sufficient to pay back the entire exposure; or that future recoverability efforts are deemed unfeasible.

The table in Note 5.2.1.5 shows the gross carrying value of loans written off during the financial years ended 31 December 2023 and 31 December 2022 and the reversal of related loss allowance.

5.2.1.9 Collateral analysis

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 Group's Board established a policy regarding the acceptability of types of collateral and valuation parameters.

Loans are typically secured by cash collateral, property (including shipping vessels), credit insurance cover, bank guarantees, corporate guarantees, personal guarantees, pledged goods or some combination thereof. A haircut is applied to each collateral type depending on the haircuts determined by internal policy. These collaterals are reviewed periodically by Management both in terms of exposure to the Bank and the Group and also to ensure the validity and enforceability of the security taken under default events. Estimates of fair value are also updated periodically together with such reviews. Collateral is usually not held against investment securities, and no such collateral was held as at 31 December 2023 and 31 December 2022.

The nominal value is disclosed for all types of collateral other than for (a) shipping mortgages which are disclosed at the fair valuation obtained from an independent third party and (b) property which is disclosed at the market value obtained from an independent third party. An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Group – 31 December 2023

	Gross carrying amount USD	Cash USD	Property USD	Guarantees USD	Shipping mortgages USD	Insurance cover USD	Total collateral USD	Net uncovered amount USD
Loans and advances to customers								
Stage 1	348,322,143	26,402,184	69,988,324	79,334,188	29,500,000	21,643,209	226,867,905	121,454,238
Stage 2	74,817,853	4,368,835	8,784,388	2,805,735	-	9,955	15,968,913	58,848,940
Stage 3	27,115,371	1,155,046	3,119,493	-	-	-	4,274,539	22,840,832
	450,255,367	31,926,065	81,892,205	82,139,923	29,500,000	21,653,164	247,111,357	203,144,010
Commitments								
Stage 1	135,277,631	2,028,970	59,157,272	25,758,372	-	-	86,944,614	48,333,017
Stage 2	12,526,076	7,406,256	2,892,495	-	-	-	10,298,751	2,227,325
Stage 3	-	-	-	-	-	-	-	-
	147,803,707	9,435,226	62,049,767	25,758,372	-	-	97,243,365	50,560,342
Guarantees								
Stage 1	27,995,205	10,028,880	-	-	-	-	10,028,880	17,966,325
Stage 2	30,069	-	-	-	-	-	-	30,069
Stage 3	-	-	-	-	-	-	-	-
	28,025,274	10,028,880	-	-	-	-	10,028,880	17,996,394

Group – 31 December 2022

	Gross carrying amount USD	Cash USD	Property USD	Guarantees USD	Shipping mortgages USD	Insurance cover USD	Total collateral USD	Net uncovered amount USD
Loans and advances to customers								
Stage 1	332,452,354	11,078,422	76,874,414	19,260,275	14,900,000	37,136,509	159,249,620	173,202,734
Stage 2	124,620,784	41,029,795	420,464	4,740,753	-	284,328	46,475,340	78,145,444
Stage 3	102,531,826	3,160,557	-	-	-	11,475,283	14,635,840	87,895,986
	559,604,964	55,268,774	77,294,878	24,001,028	14,900,000	48,896,120	220,360,800	339,244,164
Commitments								
Stage 1	85,964,984	1,398,578	52,773,508	10,631,703	-	-	64,803,789	21,161,195
Stage 2	14,036,479	13,356,805	-	-	-	-	13,356,805	679,674
Stage 3	-	-	-	-	-	-	-	-
	100,001,463	14,755,383	52,773,508	10,631,703	-	-	78,160,594	21,840,869
Guarantees								
Stage 1	11,877,891	4,215,057	-	-	-	-	4,215,057	7,662,834
Stage 2	89,974	57,455	-	-	-	-	57,455	32,519
Stage 3	166,577	-	-	-	-	-	-	166,577
	12,134,442	4,272,512	-	-	-	-	4,272,512	7,861,930

Bank – 31 December 2023

	Gross carrying amount USD	Cash USD	Property USD	Guarantees USD	Shipping mortgages USD	Insurance cover USD	Total collateral USD	Net uncovered amount USD
Loans and advances to customers								
Stage 1	574,232,438	26,402,184	69,988,324	24,727,608	29,500,000	13,537,521	164,155,637	410,076,801
Stage 2	36,066,877	4,368,835	8,784,388	563,079	-	2,925	13,719,227	22,347,650
Stage 3	20,605,923	1,155,046	3,119,493	-	-	-	4,274,539	16,331,384
	630,905,238	31,926,065	81,892,205	25,290,687	29,500,000	13,540,446	182,149,403	448,755,835
Commitments								
Stage 1	87,694,011	2,028,970	59,157,272	17,558,372	-	-	78,744,614	8,949,397
Stage 2	12,526,076	7,406,256	2,892,495	-	-	-	10,298,751	2,227,325
Stage 3	-	-	-	-	-	-	-	-
	100,220,087	9,435,226	62,049,767	17,558,372	-	-	89,043,365	11,176,722
Guarantees								
Stage 1	39,044,929	10,397,443	-	-	-	-	10,397,443	28,647,486
Stage 2	30,069	-	-	-	-	-	-	30,069
Stage 3	-	-	-	-	-	-	-	-
	39,074,998	10,397,443	-	-	-	-	10,397,443	28,677,555

Bank – 31 December 2022

	Gross carrying amount USD	Cash USD	Property USD	Guarantees USD	Shipping mortgages USD	Insurance cover USD	Total collateral USD	Net uncovered amount USD
Loans and advances to customers								
Stage 1	620,988,500	11,078,422	76,874,414	19,040,859	14,900,000	37,136,509	159,030,204	461,958,296
Stage 2	72,447,468	41,029,795	420,464	4,740,750	-	284,328	46,475,337	25,972,131
Stage 3	93,835,376	3,160,557	-	-	-	11,475,283	14,635,840	79,199,536
	787,271,344	55,268,774	77,294,878	23,781,609	14,900,000	48,896,120	220,141,381	567,129,963
Commitments								
Stage 1	77,377,944	1,398,578	52,773,508	10,631,703	-	-	64,803,789	12,574,155
Stage 2	14,036,479	13,356,805	-	-	-	-	13,356,805	679,674
Stage 3	-	-	-	-	-	-	-	-
	91,414,423	14,755,383	52,773,508	10,631,703	-	-	78,160,594	13,253,829
Guarantees								
Stage 1	35,875,332	4,208,195	-	-	-	-	4,208,195	31,667,136
Stage 2	89,974	57,455	-	-	-	-	57,455	32,519
Stage 3	166,577	-	-	-	-	-	-	166,577
	36,131,883	4,265,650	-	-	-	-	4,265,650	31,866,232

5.2.1.10 Offsetting financial assets and financial liabilities

With the exception of cash collateral, as disclosed in this Note and in Notes 33 and 35, the Group and Bank do not carry financial instruments which are subject to offsetting in the Statements of Financial Position. Group entities have a legally enforceable right to offset such collaterals against the respective facilities for which the collateral is taken under default events. At 31 December 2023 and 2022, all financial assets and respective collaterals are disclosed separately in the Financial Statements without any offsetting.

5.2.2 Concentration of credit risk

The Group has established policies requiring limits on counterparties and countries, and controls in relation to concentration to specific sectors, and industries, thus ensuring more diversified on- and off- balance sheet lending portfolios.

Single-name counterparty limits follow the prudential rules emanating from the Capital Requirements Regulation which apply maximum limits for large exposures. A large exposure is defined as a consolidated exposure to a single entity or an economic group that exceeds 10% of a bank's regulatory capital. The maximum limit for non-institutions is 25% of regulatory capital. The maximum limit for institutions is 25% of regulatory capital or EUR150 million whichever is the higher. Where the amount of EUR150 million is higher than 25% of the bank's regulatory capital a reasonable limit shall be determined by the Group which however shall not exceed 100% of regulatory capital. It must also be noted that a further prudential rule-of-thumb followed by the Group on large exposures is that initial lending limits for new counterparties are usually set at a much lower level than the Group's legal lending limit. These limits might either remain at the original level, based on ongoing credit research on the name, or build up towards the Group's legal lending limit in a gradual manner, as the knowledge of the counterparty by the Bank consolidates through time.

Concentration risk by geographical region is monitored by the BCC and supervised by the BRC. The Group monitors concentrations of credit risk by geographic location based on the exposure country of the borrower ("country risk"). Country risk refers to risks associated with the economic, social and political environment of the obligor's exposure country. A component of country risk is transfer risk which arises when a borrower's obligation is not denominated in the respective local currency. The currency of the obligation may become unavailable to the borrower regardless of its particular condition. The Policy governing country risk concentration defines a ceiling – in terms of percentage of the Group's Own Funds – for each individual country exposure, which is linked to the rating granted to each country by international rating agencies. The ceiling increases (up to a maximum of 100% of the Bank's Own Funds for investment grade countries) with the rating of the country. As for single-name limits, country limits do not automatically increase to the pre-defined ceiling, as the initial assessment is based on the country's specific economic, financial and political risk conditions. Group entities put forward their business requests and counterparty approval requests to the Group Risk Management function following a thorough review from the local risk managers.

Concentration risk by sector is mitigated by the particular nature of the Group's business, i.e. a specialised trade finance institution with a focus on emerging markets. A significant portion of the Bank's exposure relates to banks' risk, located in a number of geographies and hence diversified by virtue of the country limit policy specified in the above paragraph, which usually guarantee/confirm the payment risk of the importers under international trade finance operations. Exposure to particular sectors is monitored indirectly through monitoring of the trends of the underlying commodities. Exposure to corporate entities in many cases consists of bridge financing towards a sale of goods/commodities which will eventually settle from receivables generated from the buyers of goods, bank letters of credit, or even settled directly by the customer. Depending on the sector of exposure an overall sector limit might be assigned by the BCC, with such limits being reviewed regularly. These include specialised sectors such as ship demolition financing, which is collateralised through a mortgage on each vessel financed, and real estate project financing, which is collateralised by a mortgage over property.

As the Group carries out activities with counterparties in emerging markets, there are certain risk factors which are particular to such activities, and which require careful consideration by prospective investors since they are not usually associated with activities in more developed markets. Such exposure relates to the risks of major political and economic changes including but not limited to, higher price volatility, the effect of exchange control regulations and the risks of expropriation, nationalisation and/or confiscation of assets. The ineffectiveness of the legal and judicial systems in some of the emerging markets, including those in which the Group is carrying out activities, may pose difficulties for the Group in preserving its legal rights.

The BCC approves country limits after these are presented with an analysis covering the political and economic situations for each of the countries to which a limit is issued.

The following are the Group's and Bank's region concentrations:

	Group 2023 USD	2022 USD	Bank 2023 USD	2022 USD
Balances with the Central Bank of Malta, treasury bills and cash				
– Europe	353,010,186	216,867,325	352,997,057	216,852,467
	353,010,186	216,867,325	352,997,057	216,852,467
Trading assets				
– Europe	31,828,756	82,233,407	-	-
– Sub-Saharan Africa	139,775,814	147,323,290	-	-
– Middle East and North Africa (MENA)	110,850,563	98,619,466	-	-
– Commonwealth of Independent States (CIS) region	16,246,223	5,099,800	-	-
– Others	75,475,752	111,307,698	-	-
	374,177,108	444,583,661	-	-
Loans and advances to banks				
– Europe	34,656,678	99,536,057	33,749,056	99,026,856
– Sub-Saharan Africa	45,171,224	5,106,346	45,171,224	5,106,346
– Commonwealth of Independent States (CIS) region	19,113,436	30,648,535	11,463,939	18,370,349
– Middle East and North Africa (MENA)	330,624	994,656	330,624	970,605
– Others	53,542,986	13,428,332	23,610,400	2,408,276
	152,814,948	149,713,926	114,325,243	125,882,432
Loans and advances to customers				
– Europe	155,078,652	174,266,901	370,179,082	427,705,590
– Sub-Saharan Africa	52,698,508	16,747,725	51,842,806	15,592,890
– Middle East and North Africa (MENA)	133,279,528	200,960,130	101,208,100	184,557,632
– Others	90,285,386	92,553,301	94,888,237	91,054,315
	431,342,074	484,528,057	618,118,225	718,910,427
Financial investments at fair value through profit or loss				
– Europe	18,688,853	17,426,377	18,688,853	17,426,377
– Middle East and North Africa (MENA)	640,987	752,843	640,987	752,843
	19,329,840	18,179,220	19,329,840	18,179,220
Financial investments at fair value through other comprehensive income				
– Europe	140,755,780	143,189,022	140,755,780	143,189,022
	140,755,780	143,189,022	140,755,780	143,189,022
Financial investments at amortised cost				
– Europe	18,754,079	4,834,729	18,754,079	4,834,729
– Middle East and North Africa (MENA)	9,644,994	9,767,279	9,644,994	9,767,279
	28,399,073	14,602,008	28,399,073	14,602,008
Guarantees				
– Europe	27,605,515	11,522,050	38,655,239	35,519,491
– Middle East and North Africa (MENA)	419,759	612,392	419,759	612,392
	28,025,274	12,134,442	39,074,998	36,131,883
Commitments				
– Europe	72,422,491	59,212,388	72,422,491	59,765,103
– Sub-Saharan Africa	39,544,662	24,524,102	9,759,120	18,124,563
– Middle East and North Africa (MENA)	22,752,586	13,524,757	17,752,586	13,524,757
– Others	13,083,968	2,740,216	285,890	-
	147,803,707	100,001,463	100,220,087	91,414,423

The following are the Group's and Bank's sector concentrations:

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Balances with the Central Bank of Malta, treasury bills and cash				
- Financial intermediation	221,758,441	91,488,249	221,745,312	91,473,391
- Public administration	131,251,745	125,379,076	131,251,745	125,379,076
	353,010,186	216,867,325	352,997,057	216,852,467
Trading assets				
- Industrial raw materials	37,734,232	51,798,300	-	-
- Shipping and transportation	351,497	5,600,957	-	-
- Wholesale and retail trade	16,995,057	35,115,323	-	-
- Financial intermediation	239,193,354	248,681,065	-	-
- Public administration	68,654,187	67,809,494	-	-
- Other services	11,248,781	35,578,522	-	-
	374,177,108	444,583,661	-	-
Loans and advances to banks				
- Financial intermediation	152,814,948	149,713,926	114,325,243	125,882,432
	152,814,948	149,713,926	114,325,243	125,882,432
Loans and advances to customers				
- Industrial raw materials	183,171,375	172,578,767	55,658,839	72,815,848
- Shipping and transportation	966,513	2,031,586	673,989	-
- Wholesale and retail trade	127,745,154	130,462,081	95,547,769	91,712,231
- Financial intermediation	52,927,880	52,683,256	383,386,425	412,921,413
- Real estate activities	46,908,035	53,353,107	77,308,258	79,530,116
- Other services	19,623,117	73,419,260	5,542,945	61,930,819
	431,342,074	484,528,057	618,118,225	718,910,427
Financial investments at fair value through profit or loss				
- Financial intermediation	19,277,483	18,126,144	19,277,483	18,126,144
- Other services	52,357	53,076	52,357	53,076
	19,329,840	18,179,220	19,329,840	18,179,220
Financial investments at fair value through other comprehensive income				
- Shipping and transportation	5,304,461	9,849,204	5,304,461	9,849,204
- Financial intermediation	39,578,149	46,564,488	39,578,149	46,564,488
- Public administration	95,873,170	86,775,330	95,873,170	86,775,330
	140,755,780	143,189,022	140,755,780	143,189,022
Financial investments at amortised cost				
- Financial intermediation	17,060,289	14,602,008	17,060,289	14,602,008
- Public administration	11,338,784	-	11,338,784	-
	28,399,073	14,602,008	28,399,073	14,602,008
Guarantees				
- Industrial raw materials	8,129,749	2,302,822	8,129,749	2,302,822
- Shipping and transportation	-	180,000	-	180,000
- Wholesale and retail trade	368,564	368,564	368,564	368,564
- Financial intermediation	16,155,043	5,841,433	27,204,767	29,845,736
- Real estate activities	3,351,702	3,203,281	3,351,702	3,203,281
- Other services	20,216	238,342	20,216	231,480
	28,025,274	12,134,442	39,074,998	36,131,883
Commitments				
- Industrial raw materials	39,245,995	27,960,496	28,382,235	27,960,496
- Wholesale and retail trade	20,733,217	1,476,405	20,733,217	1,476,405
- Financial intermediation	53,686,665	29,028,954	16,966,805	26,841,454
- Real estate activities	27,988,824	34,682,412	27,988,824	34,682,412
- Public administration	-	6,399,540	-	-
- Other services	6,149,006	453,656	6,149,006	453,656
	147,803,707	100,001,463	100,220,087	91,414,423

5.2.3 Counterparty credit risk

Counterparty credit risk is defined as the risk that a counterparty to an over-the-counter derivative transaction may default before completing the settlement of the transaction. An economic loss might occur if the transaction has a positive economic value at the time of default.

The use of derivatives within the Group is limited to hedging balance sheet positions, hedging capital investments, and interest rate hedging on behalf of LFC. The Group's Treasury unit is responsible for the internal management of such instruments.

Such a risk is monitored through the setting up of counterparty limits to capture the position and settlement risks associated with forward and other derivative instruments. The Group has in place operational procedures to mitigate these risks. Counterparty credit risk is assigned a capital charge using the mark-to-market method, based on the residual maturities of the contracts.

5.2.4 Settlement risk

Settlement risk arises through failed delivery versus payment ("DvP") transactions and for all non-DvP trades. The Group faces settlement risk due to the fact that few financial transactions are settled simultaneously or on a same day basis. Consequently, the Group could suffer a loss if the counterparty fails to deliver on settlement date.

In order to mitigate this risk, the Group has in place settlement lines where a limit is placed on the maximum settlement exposure against a single counterparty. These limits are reviewed at least annually. Through the setting of these limits, the Group ensures that it is not over-exposed to individual counterparties as a result of non-settlement of transactions. In addition, daily reconciliations are made on all accounts held with correspondent banks to match transactions recorded on the various operating systems, and any mismatches are investigated. This ensures timely detection of any non-settlement by counterparties so that appropriate steps are taken to correct the issue.

5.2.5 Foreign exchange lending risk

Foreign exchange lending risk is the risk that borrowers default due to movements in foreign exchange rates. The Group lends primarily in USD, but the customers of the Group may not necessarily operate in USD. As a result, foreign exchange rate movements could negatively affect the Group's borrowers. In the event that the currency of lending appreciates when compared to their currency of operation, loan repayments may be more costly in real terms and may increase the Group's probability of default.

Trade finance facilities are provided to customers that operate in USD. In fact, this is observed at initial stages of onboarding. However, in situations where this is not the case, the Group does not have specific mitigation measures to address FX lending risk but accepts such risk as part of its business.

5.3 Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its obligations as they become due because of an inability to liquidate assets or obtain adequate funding or that it cannot easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions.

Liquidity risk arises primarily due to mismatches in the maturity profile of financial assets and liabilities, which exposes the Group to the risk that it might not be able to meet its liabilities as they become due or will have to do so at excessive cost. Liquidity risk may also be affected by the depth of the market in which the Group operates.

Liquidity risk is divided into two categories:

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

Liquidity risk arises in the general funding of the Group's activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group raises funds from deposits, other financial institutions (by means of loans and money market placements), by issuing promissory notes and similar paper, and through increases in share capital and plough back of profits. In response to the ongoing Russia/Ukraine conflict, the liquidity crisis seen in a number of small US banks and other geopolitical headwinds, the Group maintained a strong liquidity profile with an elevated level of high-quality liquid assets maintaining its Liquidity Coverage Ratio on average close to 300% to mitigate the risk of unexpected liquidity outflows or shortfalls, well above the regulatory minimum of 100%.

5.3.1 Management of liquidity risk

Liquidity risk is managed by maintaining significant levels of liquid funds, and by identifying and monitoring changes in funding required to meet business goals driven by Management.

The Group's ALCO is responsible for establishing appropriate asset and liability management policies, monitoring their application and reviewing financial information on the basis of which investment and funding decisions are taken. The daily application of the asset and liability management policies rests with the Treasury unit of the Group.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury unit receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury unit then maintains a portfolio of liquid assets, largely made up of high-quality liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained. The liquidity requirements of business units and subsidiaries are met through short-term loans from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

When an operating subsidiary is subject to a liquidity limit imposed by its local regulator, the subsidiary is responsible for managing its overall liquidity within the regulatory limit in coordination with Treasury. Treasury monitors compliance of all operating subsidiaries with local regulatory limits on a daily basis.

The daily liquidity position is monitored, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

5.3.2 Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are presented below.

5.3.2.1 Liquidity coverage ratio ("LCR")

The LCR is a ratio of the Group's buffer of unencumbered high quality liquid assets to its net liquidity outflows over a 30-calendar day stress period. Net liquidity outflows are calculated by deducting the Group's liquidity inflows from its liquidity outflows. During a 30-day stressed period, the Group should be able to quickly convert its liquid assets into cash without recourse to central bank liquidity or public funds, which may result in its liquidity coverage ratio falling temporarily below the required minimum level. The regulatory LCR minimum requirement is 100%. 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 Group and Bank. Additional disclosures are included within the Pillar 3 Disclosures Report published on the Bank's website.

5.3.2.2 Net stable funding ratio (“NSFR”)

The NSFR ratio requires the Group to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. By maintaining a stable funding structure the Group reduces the likelihood that disruptions to the regular sources of funding will erode its liquidity position in a way that would increase the risk of failure, which will potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. 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 Group and Bank. The regulatory minimum is set at 100%. Additional disclosures are included within the Pillar 3 Disclosures Report.

5.3.2.3 Concentration risk with regards to liquidity management

In addition to monitoring overall liquidity risk via the LCR and NSFR, the Group also takes into consideration the proportion of total funding arising from wholesale sources, the value of deposits raised from the top 10 bank, corporate and retail depositors, and the concentration of deposits raised from Online Deposit Platforms. The Group’s single largest source of deposits is an Online Deposit Platform that aggregates deposits from a large number of individual retail depositors. These depositors place up to a maximum of €100,000 with the Bank (to ensure the entire balance is covered under the Depositor Compensation Scheme) based on their assessment of the country risk associated with Malta and the interest rate offered by the Bank. The Bank manages the volume of deposits via adjustments to the offered rates to either encourage or discourage new deposits or the roll over of existing deposits. These additional liquidity risk measures are managed on a day-to-day basis by the Treasury function, monitored by the Risk Management Department, and reported to and overseen by the ALCO and Board Risk Committee.

5.3.2.4 Residual contractual maturities of financial assets and liabilities

Group - 31 December 2023

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No maturity USD
Assets									
Balances with the Central Bank of Malta, treasury bills and cash	353,010,186	353,071,229	232,384,310	63,022,868	33,015,391	16,239,560	-	-	8,409,100
Trading assets	374,177,108	410,280,357	11,529,342	60,824,498	110,472,027	110,387,195	48,355,640	68,711,655	-
Derivative assets held for risk management	715,713	715,713	603,886	99,879	-	11,948	-	-	-
Loans and advances to banks	152,814,948	153,994,103	96,007,756	38,126,895	7,883,657	2,721,814	-	9,253,981	-
Loans and advances to customers	431,342,074	458,572,278	126,252,520	71,866,719	83,430,623	82,730,854	20,542,787	73,748,775	-
Financial investments at fair value through profit or loss	19,329,840	19,329,840	-	-	-	-	-	-	19,329,840
Financial investments at fair value through OCI	140,755,780	147,651,397	5,103,566	-	-	12,903,183	28,142,988	101,501,660	-
Financial investments at amortised cost	28,399,073	32,497,878	-	2,458,798	5,653,384	9,513,458	3,505,613	11,366,625	-
Total assets	1,500,544,722	1,576,112,795	471,881,380	236,399,657	240,455,082	234,508,012	100,547,028	264,582,696	27,738,940
Liabilities									
Derivative liabilities held for risk management	(626,476)	(626,476)	(455,055)	(86,901)	-	(84,520)	-	-	-
Amounts owed to institutions and banks	(412,570,931)	(415,245,710)	(275,542,230)	(88,401,569)	(33,298,863)	(9,371,546)	-	(8,631,502)	-
Amounts owed to customers	(934,738,942)	(942,582,357)	(455,267,877)	(189,778,254)	(155,205,077)	(131,534,323)	(3,065,975)	(7,730,851)	-
Debt securities in issue	(27,543,864)	(27,940,439)	(5,524,862)	(11,049,724)	(11,365,853)	-	-	-	-
Other liabilities	(2,118,563)	(2,195,987)	(36,292)	(149,146)	(259,972)	(438,056)	(631,150)	(681,371)	-
Total liabilities	(1,377,598,776)	(1,388,590,969)	(736,826,316)	(289,465,594)	(200,129,765)	(141,428,445)	(3,697,125)	(17,043,724)	-
Liquidity gap			(264,944,936)	(53,065,937)	40,325,317	93,079,567	96,849,903	247,538,972	
Cumulative liquidity gap			(264,944,936)	(318,010,873)	(277,685,556)	(184,605,989)	(87,756,086)	159,782,886	

Group - 31 December 2022

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No maturity USD
Assets									
Balances with the Central Bank of Malta, treasury bills and cash	216,867,325	216,861,803	108,822,568	63,592,889	22,168,959	10,614,721	-	-	11,662,666
Trading assets	444,583,661	469,233,392	28,003,387	72,891,424	151,358,755	131,317,048	62,839,537	22,823,241	-
Derivative assets held for risk management	1,610,475	1,610,475	862,905	390,260	303,465	53,845	-	-	-
Loans and advances to banks	149,713,926	151,314,871	80,502,652	48,263,070	920,536	11,784,675	970,605	8,873,333	-
Loans and advances to customers	484,528,057	507,794,578	214,092,284	46,103,882	58,056,341	108,967,963	26,979,078	53,595,030	-
Financial investments at fair value through profit or loss	18,179,220	18,179,220	-	-	-	-	-	-	18,179,220
Financial investments at fair value through OCI	143,189,022	150,817,443	-	6,676,935	7,063,964	-	17,855,201	119,221,343	-
Financial investments at amortised cost	14,602,008	18,492,458	-	-	320,964	641,927	6,143,361	11,386,206	-
Total assets	1,473,273,694	1,534,304,240	432,283,796	237,918,460	240,192,984	263,380,179	114,787,782	215,899,153	29,841,886
Liabilities									
Derivative liabilities held for risk management	(578,779)	(578,779)	(136,858)	(55,634)	(293,218)	(93,069)	-	-	-
Amounts owed to institutions and banks	(473,295,256)	(476,046,125)	(301,209,084)	(66,349,306)	(34,049,116)	(44,745,856)	(21,061,410)	(8,631,353)	-
Amounts owed to customers	(876,187,765)	(879,068,723)	(463,010,495)	(185,413,108)	(80,572,219)	(138,390,126)	(10,512,968)	(1,169,807)	-
Debt securities in issue	(15,451,068)	(15,568,873)	-	(15,568,873)	-	-	-	-	-
Other liabilities	(2,704,717)	(3,042,967)	(12,927)	(110,642)	(216,219)	(475,271)	(866,614)	(1,361,294)	-
Total liabilities	(1,368,217,585)	(1,374,305,467)	(764,369,364)	(267,497,563)	(115,130,772)	(183,704,322)	(32,440,992)	(11,162,454)	-
Liquidity gap			(332,085,568)	(29,579,103)	125,062,212	79,675,857	82,346,790	204,736,699	
Cumulative liquidity gap			(332,085,568)	(361,664,671)	(236,602,459)	(156,926,602)	(74,579,812)	130,156,887	

Bank - 31 December 2023

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No maturity USD
Assets									
Balances with the Central Bank of Malta, treasury bills and cash	352,997,057	353,058,099	232,384,309	63,022,868	33,015,391	16,239,560	-	-	8,395,971
Derivative assets held for risk management	812,609	812,609	700,782	99,879	-	11,948	-	-	-
Loans and advances to banks	114,325,243	115,441,453	58,455,595	38,126,895	7,875,752	1,729,230	-	9,253,981	-
Loans and advances to customers	618,118,225	648,124,541	116,830,361	102,597,981	256,609,008	78,137,786	20,542,787	73,406,618	-
Financial investments at fair value through profit or loss	19,329,840	19,329,840	-	-	-	-	-	-	19,329,840
Financial investments at fair value through OCI	140,755,780	147,651,397	5,103,566	-	-	12,903,183	28,142,988	101,501,660	-
Financial investments at amortised cost	28,399,073	32,497,878	-	2,458,798	5,653,384	9,513,458	3,505,613	11,366,625	-
Total assets	1,274,737,827	1,316,915,817	413,474,613	206,306,421	303,153,535	118,535,165	52,191,388	195,528,884	27,725,811
Liabilities									
Derivative liabilities held for risk management	(626,476)	(626,476)	(455,055)	(86,901)	-	(84,520)	-	-	-
Amounts owed to institutions and banks	(333,498,402)	(334,541,899)	(241,844,225)	(57,762,015)	(22,436,754)	(3,867,403)	-	(8,631,502)	-
Amounts owed to customers	(951,166,330)	(959,014,206)	(451,792,246)	(189,778,254)	(174,979,244)	(131,667,636)	(3,065,975)	(7,730,851)	-
Other liabilities	(2,286,126)	(2,323,645)	(749,378)	(3,985)	(3,985)	(771,505)	(674,422)	(120,370)	-
Total liabilities	(1,287,577,334)	(1,296,506,226)	(694,840,904)	(247,631,155)	(197,419,983)	(136,391,064)	(3,740,397)	(16,482,723)	-
Liquidity gap			(281,366,291)	(41,324,734)	105,733,552	(17,855,899)	48,450,991	179,046,161	
Cumulative liquidity gap			(281,366,291)	(322,691,025)	(216,957,473)	(234,813,372)	(186,362,381)	(7,316,220)	

Bank - 31 December 2022

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD	No maturity USD
Assets									
Balances with the Central Bank of Malta, treasury bills and cash	216,852,467	216,846,944	108,822,567	63,592,889	22,168,959	10,614,721	-	-	11,647,808
Derivative assets held for risk management	1,610,475	1,610,475	862,905	390,260	303,465	53,845	-	-	-
Loans and advances to banks	125,882,432	127,388,882	62,723,131	44,292,108	289,242	10,240,463	970,605	8,873,333	-
Loans and advances to customers	718,910,427	744,706,974	142,325,792	106,570,129	179,196,822	231,322,799	32,011,300	53,280,132	-
Financial investments at fair value through profit or loss	18,179,220	18,179,220	-	-	-	-	-	-	18,179,220
Financial investments at fair value through OCI	143,189,022	150,817,443	-	6,676,935	7,063,964	-	17,855,201	119,221,343	-
Financial investments at amortised cost	14,602,008	18,492,458	-	-	320,964	641,927	6,143,361	11,386,206	-
Total assets	1,239,226,051	1,278,042,396	314,734,395	221,522,321	209,343,416	252,873,755	56,980,467	192,761,014	29,827,028
Liabilities									
Derivative liabilities held for risk management	(818,031)	(818,031)	(376,110)	(55,634)	(293,218)	(93,069)	-	-	-
Amounts owed to institutions and banks	(386,787,784)	(387,400,850)	(267,312,752)	(35,768,107)	(23,107,331)	(31,519,897)	(21,061,410)	(8,631,353)	-
Amounts owed to customers	(869,220,415)	(872,042,506)	(456,012,219)	(185,413,108)	(80,572,219)	(138,418,846)	(10,512,968)	(1,113,146)	-
Other liabilities	(3,490,312)	(3,583,821)	(698,520)	-	-	(715,521)	(1,456,463)	(713,317)	-
Total liabilities	(1,260,316,542)	(1,263,845,208)	(724,399,601)	(221,236,849)	(103,972,768)	(170,747,333)	(33,030,841)	(10,457,816)	-
Liquidity gap			(409,665,206)	285,472	105,370,648	82,126,422	23,949,626	182,303,198	
Cumulative liquidity gap			(409,665,206)	(409,379,734)	(304,009,086)	(221,882,664)	(197,933,038)	(15,629,840)	

The gross nominal inflow/outflow for financial assets and financial liabilities represent undiscounted cash flows based on the carrying amount and include the estimated interest payments. The time buckets in the above tables are representative of this gross nominal inflow/outflow based on the residual contractual maturities.

The following amounts are representative of the gross nominal inflows/outflows for the derivative instruments:

Group & Bank - 2023

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Total USD
Derivatives					
Inflows	30,255,212	32,325,281	4,192,441	20,002,727	86,775,661
Outflows	(30,030,539)	(32,445,437)	(4,180,658)	(19,981,056)	(86,637,690)
	224,673	(120,156)	11,783	21,671	137,971

Group & Bank - 2022

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Total USD
Derivatives					
Inflows	38,879,304	44,716,383	15,942,546	11,570,218	111,108,451
Outflows	(38,370,493)	(44,482,358)	(15,932,354)	(11,557,404)	(110,342,609)
	508,811	234,025	10,192	12,814	765,842

5.4 Market risk

Market risk is the risk that the fair value of a financial instrument or future cash flows derived therefrom fluctuate due to changes in market prices. Market risk comprises four types of risk: foreign exchange risk, interest rate risk, position risk and other price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The management of market risk, which is described in further detail below, is tracked by ALCO using various metrics and by the BRC on a quarterly basis against the Group's Risk Appetite Statement.

The Group manages its interest rate risk using an in-house Interest Rate Risk in the Banking Book ("IRRBB") model that considers the maturity mismatch for its primary currencies and the effect that the six interest rate shock scenarios mandated by the European Central Bank have on net interest income and the economic value of equity ("EVE").

5.4.1 Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument fluctuates due to changes in foreign exchange rates. Foreign exchange risk is related to monetary assets and liabilities of the Group and Bank that are not denominated in the functional currency. Transactional exposures give rise to foreign currency gains and losses that are recognised in the Statements of Profit or Loss. The Group and Bank manage this risk by ensuring that foreign currency denominated liabilities are matched to corresponding assets in the same currency. Open currency positions are monitored closely and managed through matching of assets and liabilities denominated in the same currency as well as through hedging.

Mismatches could arise where the Group enters into foreign exchange transactions which could result in an on-balance sheet mismatch mitigated by an off-balance sheet hedging contract. Other mismatches are allowed up to an established threshold, as specified in the Treasury Policy and Hedging Policy, and any excesses are regularised immediately. Open foreign exchange positions are monitored by the Treasury and Risk Management functions to ensure that mismatches remain within agreed parameters. The Group ensures that its net exposure is kept to an acceptable level by entering into forward currency contracts when considered appropriate.

Group - 31 December 2023

<i>All amounts are expressed in USD</i>	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	26,008,194	326,995,938	25	6,029	353,010,186
Trading assets	200,298,344	171,679,279	-	2,199,485	374,177,108
Loans and advances to banks	68,308,036	66,654,529	12,882,667	4,969,716	152,814,948
Loans and advances to customers	190,371,781	185,303,365	24,412,566	31,254,362	431,342,074
Financial investments at fair value through profit or loss	52,358	18,636,495	-	640,987	19,329,840
Financial investments at fair value through other comprehensive income	36,432,838	104,322,942	-	-	140,755,780
Financial investments at amortised cost	16,517,721	2,236,359	-	9,644,993	28,399,073
Other assets	157,879	3,633,741	1,099,918	115,785	5,007,323
Liabilities					
Amounts owed to institutions and banks	(331,446,874)	(52,596,240)	(9,792,313)	(18,735,504)	(412,570,931)
Amounts owed to customers	(55,716,559)	(873,460,598)	(1,606)	(5,560,179)	(934,738,942)
Debt securities in issue	-	(27,543,864)	-	-	(27,543,864)
Other liabilities	(7,502,745)	(6,898,542)	(1,864,740)	(1,188,141)	(17,454,168)
Net on balance sheet financial position	143,480,973	(81,036,596)	26,736,517	23,347,533	112,528,427
Notional amount of derivative instruments held for risk management	20,808,471	31,636,970	(30,024,203)	(22,421,238)	
Net foreign exchange exposure		(49,399,626)	(3,287,686)	926,295	

Group - 31 December 2022

<i>All amounts are expressed in USD</i>	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	4,972,928	211,889,153	54	5,190	216,867,325
Trading assets	256,046,083	164,524,398	-	24,013,180	444,583,661
Loans and advances to banks	18,277,195	111,576,958	17,391,282	2,468,491	149,713,926
Loans and advances to customers	253,710,493	188,821,633	17,080,447	24,915,484	484,528,057
Financial investments at fair value through profit or loss	53,077	17,373,300	-	752,843	18,179,220
Financial investments at fair value through other comprehensive income	46,888,196	96,300,826	-	-	143,189,022
Financial investments at amortised cost	4,834,728	-	-	9,767,280	14,602,008
Other assets	233,355	2,957,471	875,926	31,201	4,097,953
Liabilities					
Amounts owed to institutions and banks	(354,275,351)	(103,912,057)	(6,306,950)	(8,800,898)	(473,295,256)
Amounts owed to customers	(135,450,868)	(731,125,882)	(1,045,321)	(8,565,694)	(876,187,765)
Debt securities in issue	-	(15,451,068)	-	-	(15,451,068)
Other liabilities	(5,042,657)	(5,276,728)	(1,426,655)	(686,029)	(12,432,069)
Net on balance sheet financial position	90,247,179	(62,321,996)	26,568,783	43,901,048	98,395,014
Notional amount of derivative instruments held for risk management	38,533,240	34,935,032	(30,749,974)	(42,718,298)	
Net foreign exchange exposure		(27,386,964)	(4,181,191)	1,182,750	

In addition to the positions shown in the tables overleaf, the Bank also has an exposure to Indian Rupees in respect of the investment in India Factoring, which had a carrying amount of USD33.7 million as at 31 December 2023 and 31 December 2022. In this respect, the Bank entered into forward foreign exchange derivative contracts to hedge its exposure to INR. As at 31 December 2023, the notional amount of these derivative contracts amounts to USD30.0 million (2022: USD30.8 million).

Bank - 31 December 2023

<i>All amounts are expressed in USD</i>	In reporting currency	EUR	Other currencies	Total
Assets				
Balances with the Central Bank of Malta, treasury bills and cash	26,004,091	326,989,945	3,021	352,997,057
Loans and advances to banks	47,335,276	65,971,956	1,018,011	114,325,243
Loans and advances to customers	244,372,334	361,849,371	11,896,520	618,118,225
Financial investments at fair value through profit or loss	52,358	18,636,495	640,987	19,329,840
Financial investments at fair value through other comprehensive income	36,432,838	104,322,942	-	140,755,780
Financial investments at amortised cost	16,517,721	2,236,359	9,644,993	28,399,073
Other assets	150,034	4,188,660	119,267	4,457,961
Liabilities				
Amounts owed to institutions and banks	(280,898,394)	(52,596,240)	(3,768)	(333,498,402)
Amounts owed to customers	(75,093,701)	(875,641,852)	(430,777)	(951,166,330)
Other liabilities	(1,955,876)	(6,106,724)	(78,421)	(8,141,021)
Net on balance sheet financial position	12,916,681	(50,149,088)	22,809,833	(14,422,574)
Notional amount of derivative instruments held for risk management	20,808,471	31,636,970	(22,421,238)	
Net foreign exchange exposure		(18,512,118)	388,595	

Bank - 31 December 2022

<i>All amounts are expressed in USD</i>	In reporting currency	EUR	Other currencies	Total
Assets				
Balances with the Central Bank of Malta, treasury bills and cash	4,968,702	211,882,265	1,500	216,852,467
Loans and advances to banks	14,672,630	109,803,182	1,406,620	125,882,432
Loans and advances to customers	364,210,570	321,592,456	33,107,401	718,910,427
Financial investments at fair value through profit or loss	53,077	17,373,300	752,843	18,179,220
Financial investments at fair value through other comprehensive income	46,888,196	96,300,826	-	143,189,022
Financial investments at amortised cost	4,834,728	-	9,767,280	14,602,008
Other assets	275,793	3,476,485	47,719	3,799,997
Liabilities				
Amounts owed to institutions and banks	(299,275,979)	(87,502,890)	(8,915)	(386,787,784)
Amounts owed to customers	(136,013,243)	(731,260,640)	(1,946,532)	(869,220,415)
Other liabilities	(2,073,531)	(4,611,019)	(156,438)	(6,840,988)
Net on balance sheet financial position	(1,459,057)	(62,946,035)	42,971,478	(21,433,614)
Notional amount of derivative instruments held for risk management	38,533,240	34,935,032	(42,718,298)	
Net foreign exchange exposure		(28,011,003)	253,180	

The following exchange rates against the US Dollar were applied during the year:

	Average rate		Reporting date mid-spot rate	
	2023	2022	2023	2022
1 EUR	1.0813	1.0517	1.1050	1.0666
1 INR	0.0121	0.0127	0.0120	0.0121

A 7% strengthening of the following currencies against the US Dollar at 31 December would have increased/(decreased) equity and/or profit or loss by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2023				
EUR	(3,457,974)	(3,457,974)	(1,295,848)	(1,295,848)
INR	(230,138)	-	(2,101,694)	(2,101,694)
Other currencies	64,841	64,841	27,202	27,202
2022				
EUR	(1,917,087)	(1,917,087)	(1,960,770)	(1,960,770)
INR	(292,683)	-	(2,152,498)	(2,152,498)
Other currencies	82,793	82,793	17,723	17,723

A 7% weakening of the above currencies against the US Dollar at 31 December would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

5.4.2 Position risk

Position risk in traded debt instruments refers to the risk of adverse effects on the value of positions in the trading book of general movements in market interest rates or prices or movements specific to the issuer of a security.

The forfeiting portfolio (position risk) is comprised of assets originating from banks and companies operating in many market sectors in a very broad range of countries, the majority of which are emerging markets. The Group regularly updates its mark-to-market positions and records the unrealised and realised profits and losses. The performance of this portfolio remained within the risk parameters and within the stress tests applied as part of the regular ICAAP process; where the assessment applied in 2023 assumed a shock to credit spreads and an additional shock relating to an unexpected change in interest rates.

5.4.3 Interest rate risk

Interest rate risk refers to the risk to earnings from the Group's financial instruments in the non-trading (i.e. banking book) to movements in interest rates. The Group uses two complementary approaches to measuring Interest Rate Risk in the Banking Book ("IRRBB"):

- changes in economic value (i.e. economic value or EVE when assessing the change in value relative to equity); and
- changes in expected earnings (i.e. changes in forecast net interest income or NII).

The key difference between the two measures is that EVE calculates the change in the net-present value of the balance sheet under a range of yield curve stress scenarios while NII looks at the change in expected earnings.

EVE measures the changes in the net present value of the interest rate sensitive instruments over their remaining life resulting from interest rate movements, i.e. until all positions have run off. A run-off balance sheet is a balance sheet where existing non-trading book positions amortise and are not replaced by any new business. In this way, EVE is a long-term measure, assessing the impact over the remaining life of the balance sheet while NII is a short-medium term measure, assessing the impact to expected future profitability within a given time horizon resulting from interest rate movements.

Accordingly, interest rate risk is managed through the use of maturity/re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as 'gap analysis', will eventually portray the Group's sensitivity of earnings and equity.

A positive, or asset-sensitive, gap arises when assets (both on- and off-balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates.

The IRRBB on a consolidated basis is managed on a monthly basis. Additional disclosures are included within the Pillar 3 Disclosures Report published on the Bank's website.

Whilst treasury bills are not interest-bearing instruments, their value is interest rate sensitive. The price of treasury bills at issuance is reflective of the risk-free rates at the time of issuance. Within the following tables, treasury bills are not marked as non-interest bearing and, instead, are replaced on maturity at a price that reflects a changed reference rate. This aligns the treatment of treasury bills in this assessment with the IRRBB assessment detailed in the Pillar 3 Disclosures Report published on the Bank's website.

The tables below are representative of the carrying amounts of the exposures subject to interest rate risk in the banking book broken down by repricing dates.

Group – 31 December 2023

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Not subject to interest rate risk USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	240,701,293	63,022,868	33,015,391	16,239,560	-	31,074	353,010,186
Trading assets	80,639,382	193,032,230	64,490,802	26,217,441	9,257,253	540,000	374,177,108
Loans and advances to banks	94,213,686	37,935,502	7,885,432	2,680,135	8,360,926	1,739,267	152,814,948
Loans and advances to customers	291,462,685	13,914,819	110,025,707	8,687,579	6,242,329	1,008,955	431,342,074
Financial investments at fair value through comprehensive income	4,985,000	-	-	12,644,664	122,543,659	582,457	140,755,780
Financial investments at amortised cost	-	2,392,239	14,593,174	9,152,734	1,985,111	275,815	28,399,073
	712,002,046	310,297,658	230,010,506	75,622,113	148,389,278	4,177,568	1,480,499,169
Liabilities							
Amounts owed to institutions and banks	(283,644,872)	(81,653,270)	(32,099,448)	(3,867,403)	(8,517,194)	(2,788,744)	(412,570,931)
Amounts owed to customers	(427,615,143)	(186,247,544)	(170,838,046)	(109,646,533)	(26,698,463)	(13,693,213)	(934,738,942)
Debt securities in issue	(5,443,771)	(10,729,398)	(11,049,724)	-	-	(320,971)	(27,543,864)
	(716,703,786)	(278,630,212)	(213,987,218)	(113,513,936)	(35,215,657)	(16,802,928)	(1,374,853,737)
Interest sensitivity gap	(4,701,740)	31,667,446	16,023,288	(37,891,823)	113,173,621	(12,625,360)	
Cumulative gap		26,965,706	42,988,994	5,097,171	118,270,792	105,645,432	

Group – 31 December 2022

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Not subject to interest rate risk USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	120,465,036	63,592,889	22,168,959	10,614,721	-	25,720	216,867,325
Trading assets	98,058,032	161,988,854	114,021,769	54,861,037	15,043,969	610,000	444,583,661
Loans and advances to banks	81,249,139	57,895,785	603,159	1,460,729	8,026,240	478,874	149,713,926
Loans and advances to customers	440,155,127	21,086,987	17,220,848	4,342,432	947,174	775,489	484,528,057
Financial investments at fair value through other comprehensive income	-	6,577,400	7,019,394	-	128,908,538	683,690	143,189,022
Financial investments at amortised cost	-	-	9,762,043	-	4,822,489	17,476	14,602,008
	739,927,334	311,141,915	170,796,172	71,278,919	157,748,412	2,591,250	1,453,483,999
Liabilities							
Amounts owed to institutions and banks	(298,744,689)	(73,382,842)	(33,464,164)	(35,980,056)	(29,848,252)	(1,875,253)	(473,295,256)
Amounts owed to customers	(462,080,830)	(184,544,303)	(79,961,228)	(135,889,074)	(11,306,295)	(2,406,035)	(876,187,765)
Debt securities in issue	-	(15,419,088)	-	-	-	(31,980)	(15,451,068)
	(760,825,519)	(273,346,233)	(113,425,392)	(171,869,130)	(41,154,547)	(4,313,268)	(1,364,934,089)
Interest sensitivity gap	(20,898,185)	37,795,682	57,370,780	(100,590,211)	116,593,863	(1,722,018)	
Cumulative gap		16,897,497	74,268,277	(26,321,934)	90,271,929	88,549,911	

Bank – 31 December 2023

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Not subject to interest rate risk USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	240,701,293	63,022,868	33,015,391	16,239,560	-	17,945	352,997,057
Loans and advances to banks	56,876,233	37,935,502	7,879,420	1,733,848	8,360,926	1,539,314	114,325,243
Loans and advances to customers	452,436,857	-	156,471,975	5,281,294	2,149,494	1,778,605	618,118,225
Financial investments at fair value through other comprehensive income	4,985,000	-	-	12,644,664	122,543,659	582,457	140,755,780
Financial investments at amortised cost	-	2,392,239	14,593,174	9,152,734	1,985,111	275,815	28,399,073
	754,999,383	103,350,609	211,959,960	45,052,100	135,039,190	4,194,136	1,254,595,378
Liabilities							
Amounts owed to institutions and banks	(239,953,166)	(56,599,448)	(22,099,448)	(3,867,403)	(8,517,194)	(2,461,743)	(333,498,402)
Amounts owed to customers	(449,500,336)	(186,247,544)	(170,838,046)	(109,776,533)	(26,698,463)	(8,105,408)	(951,166,330)
	(689,453,502)	(242,846,992)	(192,937,494)	(113,643,936)	(35,215,657)	(10,567,151)	(1,284,664,732)
Interest sensitivity gap	65,545,881	(139,496,383)	19,022,466	(68,591,836)	99,823,533	(6,373,015)	
Cumulative gap		(73,950,502)	(54,928,036)	(123,519,872)	(23,696,339)	(30,069,354)	

Bank – 31 December 2022

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Not subject to interest rate risk USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	120,465,036	63,592,889	22,168,959	10,614,721	-	10,862	216,852,467
Loans and advances to banks	63,598,772	54,126,363	-	-	8,026,240	131,057	125,882,432
Loans and advances to customers	679,034,772	14,982,597	16,497,328	-	5,637,778	2,757,952	718,910,427
Financial investments at fair value through other comprehensive income	-	6,577,400	7,019,394	-	128,908,538	683,690	143,189,022
Financial investments at amortised cost	-	-	9,762,043	-	4,822,489	17,476	14,602,008
	863,098,580	139,279,249	55,447,724	10,614,721	147,395,045	3,601,037	1,219,436,356
Liabilities							
Amounts owed to institutions and banks	(265,211,752)	(34,800,000)	(23,464,164)	(31,996,587)	(29,848,253)	(1,467,028)	(386,787,784)
Amounts owed to customers	(455,085,104)	(184,544,303)	(79,961,228)	(135,917,390)	(11,306,297)	(2,406,093)	(869,220,415)
	(720,296,856)	(219,344,303)	(103,425,392)	(167,913,977)	(41,154,550)	(3,873,121)	(1,256,008,199)
Interest sensitivity gap	142,801,724	(80,065,054)	(47,977,668)	(157,299,256)	106,240,495	(272,084)	
Cumulative gap		62,736,670	14,759,002	(142,540,254)	(36,299,759)	(36,571,843)	

5.4.3.1 Sensitivity analysis for financial instruments subject to interest rate risk

The tables below depict the changes in Economic Value of Equity and Net Interest Income from movement in stressed yield curves on a consolidated basis and solo basis for the end of financial years 2023 and 2022. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. IRRBB is reported monthly on a consolidated basis, however Bank calculations are calculated and presented as at year end. The IRRBB tool is in line with the latest EBA guidelines. Further information related to the measurement of interest rate risk can be found in the Pillar 3 Disclosures Report.

2023

	Parallel up USD	Parallel down USD	Short rates up USD	Short rates down USD	Steeper USD	Flattener USD
Sensitivity of equity to interest rate movements						
Group	(7,487,322)	4,281,044	(80,259)	(338,276)	(3,885,533)	1,154,989
Group (incl. Trading book)	(9,333,056)	5,418,460	(2,186,933)	1,129,388	(2,929,820)	(322,506)
Bank	(7,517,131)	4,408,833	(93,716)	(143,029)	(3,788,942)	1,099,473
Sensitivity of net interest income to Interest rate movements						
Group	(4,682,140)	2,340,881	-	-	-	-
Group (incl. Trading book)	(369,710)	(1,672,173)	-	-	-	-
Bank	(671,968)	335,984	-	-	-	-

2022

	Parallel up USD	Parallel down USD	Short rates up USD	Short rates down USD	Steeper USD	Flattener USD
Sensitivity of equity to interest rate movements						
Group	(7,847,213)	4,702,306	347,833	(1,157,497)	(4,951,725)	1,700,982
Group (incl. Trading book)	(10,518,954)	6,156,513	(2,589,432)	993,783	(3,703,790)	(532,287)
Bank	(8,420,643)	5,145,308	194,857	(953,763)	(5,053,773)	1,626,944
Sensitivity of net interest income to Interest rate movements						
Group	(5,231,995)	2,615,997	-	-	-	-
Group (incl. Trading book)	204,884	(1,203,213)	-	-	-	-
Bank	195,748	(433,409)	-	-	-	-

The specified size of the interest rate shocks for the Group's material currencies according to Annex 1 of the EBA Consultation Paper on Draft Regulatory Technical Standards are as follows:

	EUR in basis points	USD in basis points
Parallel up	+200	+200
Parallel down	-200	-200
Short rates up	+250	+300
Short rates down	-250	-300
Steeper		
short rates down	-250	-300
long rates up	+100	+150
Flattener		
short rates up	+250	+300
long rates down	-100	-150

5.4.4 Price risk

The Group is also exposed to price risk on other assets (i.e. other than traded debt instruments) that arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer’s or exposure’s financial stability and performance.

Other price risk arises from equity investments measured at fair value through profit or loss. Investments recorded at fair value through profit or loss are measured by reference to their market values, ideally in active markets. The financial assets designated at fair value through profit or loss include equity shares in sub-funds of a local collective investment scheme. It is assumed that units held in the funds are not easily liquidated, particularly under stress, hence these investments are considered as non high-quality liquid assets.

Additionally, the financial assets measured at fair value through other comprehensive income include a mixture of high-quality liquid assets and non high-quality liquid assets. All things being equal, the less liquid the assets are, the more their susceptibility to price risk.

The table below presents the carrying amount of the Group’s and Bank’s financial assets which are deemed to be exposed to price risk as at 31 December 2023 and 2022:

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Financial investments at fair value through profit or loss	19,329,840	18,179,220	19,329,840	18,179,220
Financial investments at fair value through other comprehensive income	140,755,780	143,189,022	140,755,780	143,189,022
Trading assets	374,177,108	444,583,661	-	-

5.4.4.1 Sensitivity analysis for price risk

The Group and Bank hold portfolios of assets measured at fair value and, as such, any movements in market interest rates have an impact on their capital base. The Group and Bank manage the risk attributable to these portfolios with risk sensitivities. In this respect, a 10% increase in market price at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2023	53,426,273	39,350,695	16,008,562	1,932,984
2022	60,595,190	46,276,288	16,136,824	1,817,922

A decrease in the price of securities at the reporting date would have had an equal but opposite effect to that shown above, on the basis that all other variables remain constant.

5.5 Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people or IT systems, or from external events. When policies, processes or controls fail to perform, there is potential of business disruption which can lead to financial losses. Operational risk exposures are managed through the implementation of a common framework for the identification, assessment, reporting, control and monitoring of operational risk. The Group invested in technology to manage and mitigate against operational risk and a strong operational risk awareness is embedded in the culture of the Group.

The Group cannot expect to eliminate all operational risk and its main objective is to maintain such risk within acceptable levels and parameters. Although the prime responsibility of establishing detailed processes to identify, assess, monitor and report operational risks in accordance with the Operational Risk Management (“ORM”) Policy, lies with the Business/Support Unit Head and the appointed Operational Risk Champion in each department, an independent ORM Unit within Risk Management Group and a Senior Management ORM Committee exist to oversee and embed the operational risk culture within the Group. Each of the respective roles and responsibilities are covered under the Group ORM Policy which was approved by the Board.

The Group maintains an operational risk management system that facilitates the recording of: operational risk incidents, the root causes of incidents, and, where appropriate, action plans to correct incidents and prevent future recurrences. The ORM Unit assesses the identified reported operational risk exposure and recommends measures to manage and mitigate such risks. Any significant operational lapses are escalated and discussed in ORM Committee for review of corrective measures to be eventually considered.

The Group has in place an enterprise wide ORM framework to measure, control, improve and monitor the operational risks that the organisation faces. The Group states its tolerance for Operational Risk in the Group Risk Appetite Framework and performance against this metric is tracked by the ORM Committee and BRC.

As part of the Enterprise Risk Management Framework (“ERM”), the Group maintains a Business Continuity Management Program (“BCM”). The BCM falls within the ERM of the Group. The BCM addresses the set of operational risks where environmental factors or poor operational controls raise the potential for loss of or damage to the Group’s operations (including people, information, infrastructure and premises). The objectives of the programme are to protect group employees, assets and reputation; ensure availability of services; identify responsibilities; and meet stakeholders’ expectations. Critical systems and procedures are regularly tested, to ensure continued improvement and ongoing operation following a business continuity event.

Two key components of operational risk are IT risk and legal risk. In view of the importance to monitor and mitigate both risks they are considered separately below.

5.5.1 IT risk

Information Technology (“IT”) risk comes about as a result of internal and external events arising from the use and changes to technology that enable and service business processes due to the potential impact to the latter from threats in the general security landscape. Inadequate information technology and processing, inadequate IT strategy and policy or inadequate use of the Group’s information technology may all increase IT risk beyond levels that are acceptable to the organisation.

The Group has an IT Steering Committee, the main aim of which is to ensure that strategic decisions relating to IT (including cyber security) are aligned with the overall Group’s business strategy.

The Group adopts various measures to manage IT risk and strives to keep up to date with the changes and developments in the IT environment. The Group is also constantly on the look-out for new risks and vulnerabilities with the aim to safeguard the business and Group against these risks.

The Group has well established policies and procedures aimed at regulating the use of technology assets which, amongst others, safeguards against information security breaches. The Group also operates a contingency site for systems that are classified as mission critical. The Group is committed to ongoing development and testing of its Business Continuity Plan to ensure awareness, relevance and effectiveness, and to maintain effective IT controls to reduce losses caused by system disruption or unauthorised use.

5.5.2 Legal risk

The Group is exposed to legal risk as a result of the different legal systems used in the different jurisdictions in which it operates. To mitigate this risk, it seeks legal opinions from the jurisdictions in which it intends to operate, in order to ascertain its potential liabilities when doing business there, including the extent to which an adverse judgement might result in excessive or punitive damages.

With reference to documentation, the Group endeavours to ensure that for each transaction detailed due diligence is carried out and that documentation is always tailored to the legal requirements of the jurisdiction in which the transaction takes place by seeking local legal advice to ascertain which formalities have to be followed locally to ensure a valid transaction.

The Group has an independent Legal function devoted to the function of identifying, assessing, monitoring and controlling/mitigating the legal risks which the Group is likely to encounter in its day-to-day activities across the jurisdictions in which it operates.

5.6 Climate related risk

The Group, like all financial institutions, is exposed to the risk of climate change. These climate related risks are potential negative impacts on the Group's own property, staff and activities or on those of its clients as a result of climate change. Climate related risks have an impact on other key risk areas (i.e. credit risk, market risk, operational risk) but are treated as an independent risk category by the European Central Bank and Malta Financial Services Authority.

Climate related risks can be grouped into two categories – physical risk and transition risk. Physical risks are those presented by acute weather events, longer term changes in climate and rising sea levels. Transition risks are those resulting from an inability to adapt to changing laws and regulations, consumer demand, and investor demand arising from measures to mitigate the impact of climate change.

The Group is in the process of developing an ESG transition plan which will seek to integrate climate and social factors into all aspects of the business. During 2023 the Group established a sub-committee of the Board called the Board ESG Committee, which has been given responsibility for overseeing the Group's ESG related risks. Additionally, a Management ESG Committee was established for the purposes of managing the incorporation of ESG considerations into the Group's strategy, governance, risk management and monitoring arrangements. The Board ESG and Management ESG Committees meet at least once quarterly, and more frequently as needs dictate.

5.7 Compliance and financial crime risk

Compliance and Financial crime risk may arise from operational failure, failure to comply with relevant legislations and regulations – including but not limited to: Anti-Money Laundering (“AML”) and Combating the Financing of Terrorism (“CFT”), Sanctions Regulations and Banking Regulations. These can include acts of misconduct or omissions on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring. All employees, officers and directors have a responsibility to conduct business ethically and with integrity, in line with Bank's Compliance Manual and related policies.

To this purpose, detailed AML, CFT and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as strong oversight by the Group's Board and Management have been devised. These policies and procedures are updated regularly to reflect the latest changes in regulations, legislation and related guidance.

The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented AML software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through these procedures, the Group is able to identify transactions and clients which pose a higher risk compared to others. These include 'politically exposed persons', clients and transactions deriving from non-compliant jurisdictions and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of country limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election processes and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group also conducts extensive training on sanctions, AML and CFT Regulations and Policies.

5.7.1 Conduct risk

Conduct risk is defined as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Conduct risk covers a wide range of issues and may arise from many business processes and products. Examples of conduct risk are: collusion, market manipulation, overcharging customers or not treating them fairly, selling complex products to unsophisticated clients, setting overly aggressive sales targets, and failure to manage conflicts of interest, amongst others. An employee's misconduct may lead to not only material losses but also reputational damage.

The Group promotes a culture of openness, transparency and fairness in respect of both employee-employee and employee-client interactions in addition to having in place a number of policies and procedures to govern conduct risk. Such controls include product design and approval processes, client selection criteria, treating customers fairly guidelines, employee conduct policies and others. The Group also ensures that there are adequate controls governing systems access and transactional approvals to ensure that all activity is appropriately authorized and in line with its expectations.

5.7.2 Reputational risk

Reputational risk at FIMBank is defined as the risk of possible damage to the Group's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction, which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Group's values and beliefs. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence and trust of its employees, shareholders, depositors, creditors, and from the public in general. The ensuing damage to the Group's reputation can be significant and can result in loss of customers, increased costs and ultimately, a reduction in income. Other than third parties, employees through their words and deeds, can also cause damage to the Group's brand.

Much like conduct risk, the Group controls its reputational risk through the promotion of an internal culture that is cognisant of such risk and the existence of policies and procedures mitigating the risk. The Group ensures that it maintains strong procedures and controls governing customer and counterparty vetting (KYC, KYCC, etc.) and makes use of market leading automated systems for mitigating risks associated with financial crime to ensure that the Group is not inadvertently supporting criminal activity.

5.8 Capital management

The Group's regulatory capital consists of Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, related share premium, retained earnings, reserves and NCI after adjustment for dividends proposed after the year-end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The level of capital held has an impact on shareholders' returns and the Group 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 stronger capital position.

The Group adheres to the requirements set out in the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD").

Pillar I covers credit, market, and operational risks which provides the minimum capital requirements as a percentage of risk-weighted assets. The Group utilises the Standardised Approach for credit risk and market risk, and the basic indicator approach for operational risk in order to calculate the Pillar I minimum capital requirements. Pillar II involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar I. Part of the Pillar II process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the Bank's self-assessment of risks not captured by Pillar I.

In addition to the prescribed minimum regulatory capital requirements, 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 Group's CET1 capital falls below the level of its combined buffer requirement. The Group is required to maintain a conservation buffer of 2.5% and the institution-specific countercyclical buffer to address macro-prudential or systemic risk, composed of CET1 capital. The countercyclical buffer 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.

In addition to the regulatory requirements stated above, the Group is expected to maintain a Pillar 2 Requirement (“P2R”) to be held in excess of the minimum own funds requirement and to be maintained at all times in accordance with Article 104a of CRD V. In addition, a Pillar 2 Guidance (“P2G”) made up entirely of CET1 capital is to be held over and above the Overall Capital Requirement (“OCR”).

The Group and its individually regulated operations have complied with all externally imposed capital requirements during the financial years ended 31 December 2023 and 2022.

The 2023 Pillar 3 Disclosures Report published on the Bank’s website includes additional regulatory disclosures in terms of Banking Rule BR/07/2014 ‘Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994’.

6 Fair values of financial instruments

The Group’s Accounting Policy on fair value measurements is discussed in Accounting Policy 3.9.7.

6.1 Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value framework and hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in Note 6.2.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities and exchange traded derivatives and simple over-the-counter derivatives like currency and interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and, also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and, are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

6.2 Determining fair values and Fair value hierarchy

A number of the Group's Accounting Policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Group has an established control framework with respect to the measurement of fair values. This framework includes reports to the Group's Chief Financial Officer and Executive Management having overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Market risk and related exposure to fair value movement is also a key function of the Group's Assets Liabilities Committee and all valuations of financial instruments are reported to the Committee for review and approval. Significant valuation issues are reported to the Group's Board Audit Committee.

The Group measures fair values of an asset or liability using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities, valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all assets or liabilities for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category also includes assets or liabilities that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 28 – property and equipment; and
- Note 29 – investment property.

6.3 Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised.

Group – 31 December 2023

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	20	-	715,713	-	715,713
Trading assets	21	-	-	374,177,108	374,177,108
Financial investments at fair value through profit or loss	24	-	-	19,329,840	19,329,840
Financial investments at fair value through other comprehensive income	25	140,755,780	-	-	140,755,780
Liabilities					
Derivative liabilities held for risk management:					
– foreign exchange	20	-	626,476	-	626,476

Group – 31 December 2022

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	20	-	1,610,475	-	1,610,475
Trading assets	21	-	-	444,583,661	444,583,661
Financial investments at fair value through profit or loss	24	-	-	18,179,220	18,179,220
Financial investments at fair value through other comprehensive income	25	143,189,022	-	-	143,189,022

Liabilities

Derivative liabilities held for risk management:					
– foreign exchange	20	-	578,779	-	578,779

Bank – 31 December 2023

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	20	-	715,713	-	715,713
– interest rate	20	-	96,896	-	96,896
Financial investments at fair value through profit or loss	24	-	-	19,329,840	19,329,840
Financial investments at fair value through other comprehensive income	25	140,755,780	-	-	140,755,780

Liabilities

Derivative liabilities held for risk management:					
– foreign exchange	20	-	626,476	-	626,476

Bank – 31 December 2022

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	20	-	1,610,475	-	1,610,475
Financial investments at fair value through profit or loss	24	-	-	18,179,220	18,179,220
Financial investments at fair value through other comprehensive income	25	143,189,022	-	-	143,189,022

Liabilities

Derivative liabilities held for risk management:					
– foreign exchange	20	-	723,311	-	723,311
– interest rate	20	-	94,720	-	94,720

Transfers of financial instruments between different levels of the fair value hierarchy, if any, are recorded as of the end of the reporting period. There were no transfers between the different levels in the fair value hierarchy during the reporting periods.

6.4 Level 3 fair value measurements

6.4.1 Reconciliation

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

Group – 31 December 2023

	Trading assets USD	Financial investments at fair value through profit or loss USD	Total USD
Balance at 1 January 2023	444,583,661	18,179,220	462,762,881
Total gains and losses in profit or loss	(3,304,340)	768,541	(2,535,799)
Purchases	772,551,650	-	772,551,650
Settlements	(847,048,996)	(249,464)	(847,298,460)
Effects of movement in exchange rates	7,395,133	631,543	8,026,676
Balance at 31 December 2023	374,177,108	19,329,840	393,506,948

Group – 31 December 2022

	Trading assets USD	Financial investments at fair value through profit or loss USD	Total USD
Balance at 1 January 2022	439,985,203	19,966,163	459,951,366
Total gains and losses in profit or loss	(5,289,526)	(337,257)	(5,626,783)
Purchases	812,766,912	-	812,766,912
Settlements	(790,052,784)	(127,493)	(790,180,277)
Effects of movement in exchange rates	(11,288,887)	(1,322,193)	(12,611,080)
Write-off	(1,537,257)	-	(1,537,257)
Balance at 31 December 2022	444,583,661	18,179,220	462,762,881

Bank – 31 December 2023

	Financial investments at fair value through profit or loss USD
Balance at 1 January 2023	18,179,220
Total gains and losses in profit or loss (Note 12)	768,541
Settlements	(249,464)
Effects of movement in exchange rates	631,543
Balance at 31 December 2023	19,329,840

Bank – 31 December 2022

Financial investments
at fair value through
profit or loss
USD

Balance at 1 January 2022	19,966,163
Total gains and losses in profit or loss (Note 12)	(337,257)
Settlements	(127,493)
Effects of movement in exchange rates	(1,322,193)
Balance at 31 December 2022	<u>18,179,220</u>

The change in unrealised gains or losses for the year included in profit or loss relating to those assets held at 31 December 2023 amounted to USD628,500 (2022: USD386,466).

These gains and losses are recognised in profit or loss as 'Net gain/(loss) from equity investments measured at fair value through profit or loss'.

6.4.2 Unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2023 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

6.4.2.1 Trading assets

The 'Trading assets' portfolio represent forfaiting assets, that is the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including bills of exchange, promissory notes, letters of credit and trade or project related syndicated and bi-lateral loan (financing) agreements.

The Group establishes fair value of its trading assets using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument.

At 31 December 2023 and 31 December 2022, the Group used the Risk Free Rates ("RFR") yield curve plus an adequate credit margin spread to discount the trading assets held.

At 31 December 2023, the discount rates used range between 5.20% and 14.47% (2022: between 5.13% and 12.86%).

The effect of a one-percentage point increase/(decrease) in the interest rate on trading assets at 31 December 2023 would increase/(decrease) the Group's equity by approximately USD1,069,133 (2022: USD409,282).

6.4.2.2 Financial investments at fair value through profit or loss

As at 31 December 2023, 'Financial investments at fair value through profit or loss' mainly represent holdings in two sub-funds and a foreign holding company, as follows:

- an unlisted sub-fund of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in the United Kingdom. The sub-fund invests in sustainable energy plants with returns generated throughout the life of each plant.

The fair value is measured by the Group based on periodical net asset valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

The effect of a ten-percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2023 would increase/(decrease) the Bank and Group equity by approximately USD1,694,097 (2022: USD1,574,085).

- an unlisted sub-fund of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in the United Kingdom. The sub-fund invests in a variety of investments, with relative complex structures and limited liquidity.

The fair value is measured by the Group based on periodical net asset valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual assets and the future potential income from each asset.

The effect of a ten-percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2023 would increase/(decrease) the Bank and Group equity by approximately USD169,553 (2022: USD163,245).

- a foreign holding company registered in the State of Kuwait. The fair value is measured by the Group based on a market price quoted by a custodian.

The effect of a ten-percentage point increase/(decrease) in the net asset value of the equity shares at 31 December 2023 would have increased/(decreased) the Bank and Group equity by approximately USD64,099 (2022: USD75,284).

6.4.3 Financial instruments not measured at fair value

At 31 December 2023 and 31 December 2022, the fair value of the below financial assets and liabilities measured at amortised cost is approximately equal to the carrying amount. The approximate fair value is based on the following:

- **'Balances with Central Bank of Malta, treasury bills and cash'**
The majority of these assets reprice or mature in less than one hundred eighty days. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.
- **'Loans and advances to banks' and 'Loans and advances to customers'**
Loans and advances to banks and customers are reported net of allowances to reflect the estimated recoverable amounts as at the financial reporting date. More than 80% of the Group's loans and advances to banks and customers are all repayable within a period of less than 12 months and the interest is re-priced to take into account changes in benchmark rate. As a result, the carrying amount of loans and advances to banks and customers is a reasonable approximation of fair value.
- **'Amounts owed to institutions and banks', 'Amounts owed to customers' and 'Debt securities in issue'**
The majority of these liabilities reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

The Group's 'Debt securities in issue' are subject to fixed and variable interest rates. Interest rates on debt securities are disclosed in Note 36.

7 Classification of financial assets and liabilities

The following tables provide a reconciliation between line items in the Statements of Financial Position and categories of financial instruments.

Group – 31 December 2023

	Mandatorily at fair value through profit or loss USD	Fair value through other comprehensive income USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	353,010,186	353,010,186
Derivative assets held for risk management	715,713	-	-	715,713
Trading assets	374,177,108	-	-	374,177,108
Loans and advances to banks	-	-	152,814,948	152,814,948
Loans and advances to customers	-	-	431,342,074	431,342,074
Financial investments at fair value through profit or loss	19,329,840	-	-	19,329,840
Financial investments at fair value through other comprehensive income	-	140,755,780	-	140,755,780
Financial investments at amortised cost	-	-	28,399,073	28,399,073
Total financial assets	394,222,661	140,755,780	965,566,281	1,500,544,722
Derivative liabilities held for risk management	626,476	-	-	626,476
Amounts owed to institutions and banks	-	-	412,570,931	412,570,931
Amounts owed to customers	-	-	934,738,942	934,738,942
Debt securities in issue	-	-	27,543,864	27,543,864
Total financial liabilities	626,476	-	1,374,853,737	1,375,480,213

Group – 31 December 2022

	Mandatorily at fair value through profit or loss USD	Fair value through other comprehensive income USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	216,867,325	216,867,325
Derivative assets held for risk management	1,610,475	-	-	1,610,475
Trading assets	444,583,661	-	-	444,583,661
Loans and advances to banks	-	-	149,713,926	149,713,926
Loans and advances to customers	-	-	484,528,057	484,528,057
Financial investments at fair value through profit or loss	18,179,220	-	-	18,179,220
Financial investments at fair value through other comprehensive income	-	143,189,022	-	143,189,022
Financial investments at amortised cost	-	-	14,602,008	14,602,008
Total financial assets	464,373,356	143,189,022	865,711,316	1,473,273,694
Derivative liabilities held for risk management	578,779	-	-	578,779
Amounts owed to institutions and banks	-	-	473,295,256	473,295,256
Amounts owed to customers	-	-	876,187,765	876,187,765
Debt securities in issue	-	-	15,451,068	15,451,068
Total financial liabilities	578,779	-	1,364,934,089	1,365,512,868

Bank – 31 December 2023

	Mandatorily at fair value through profit or loss USD	Fair value through other comprehensive income USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	352,997,057	352,997,057
Derivative assets held for risk management	812,609	-	-	812,609
Loans and advances to banks	-	-	114,325,243	114,325,243
Loans and advances to customers	-	-	618,118,225	618,118,225
Financial investments at fair value through profit or loss	19,329,840	-	-	19,329,840
Financial investments at fair value through other comprehensive income	-	140,755,780	-	140,755,780
Financial investments at amortised cost	-	-	28,399,073	28,399,073
Total financial assets	20,142,449	140,755,780	1,113,839,598	1,274,737,827
Derivative liabilities held for risk management	626,476	-	-	626,476
Amounts owed to institutions and banks	-	-	333,498,402	333,498,402
Amounts owed to customers	-	-	951,166,330	951,166,330
Total financial liabilities	626,476	-	1,284,664,732	1,285,291,208

Bank – 31 December 2022

	Mandatorily at fair value through profit or loss USD	Fair value through other comprehensive income USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	216,852,467	216,852,467
Derivative assets held for risk management	1,610,475	-	-	1,610,475
Loans and advances to banks	-	-	125,882,432	125,882,432
Loans and advances to customers	-	-	718,910,427	718,910,427
Financial investments at fair value through profit or loss	18,179,220	-	-	18,179,220
Financial investments at fair value through other comprehensive income	-	143,189,022	-	143,189,022
Financial investments at amortised cost	-	-	14,602,008	14,602,008
Total financial assets	19,789,695	143,189,022	1,076,247,334	1,239,226,051
Derivative liabilities held for risk management	818,031	-	-	818,031
Amounts owed to institutions and banks	-	-	386,787,784	386,787,784
Amounts owed to customers	-	-	869,220,415	869,220,415
Total financial liabilities	818,031	-	1,256,008,199	1,256,826,230

8 Operating segments

The group has five significant reportable segments (trade finance, forfaiting, factoring, real estate and treasury) which are represented by different Group entities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by Executive Management. Segment profit is used to measure performance as Management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In the table below, 'Interest income' is disclosed gross of interest expense since it represents the revenue measure used by Executive Management in assessing the performance of each segment. 'Net interest income' is disclosed in Note 9, including further analysis of its components.

8.1 Information about operating segments

Group – 2023

	Trade finance USD	Forfaiting USD	Factoring USD	Real estate USD	Treasury USD	Total USD
External revenue						
Interest income	8,509,387	39,963,484	26,450,401	5,972,627	14,179,572	95,075,471
Net fee and commission income	787,418	(393,872)	(2,018,806)	266,686	1,426,057	67,483
Net trading results	-	(2,311,622)	-	-	(909,247)	(3,220,869)
Net gain from equity investments measured at fair value through profit or loss	-	-	-	-	768,541	768,541
Dividend income	40,228	-	-	-	-	40,228
	9,337,033	37,257,990	24,431,595	6,239,313	15,464,923	92,730,854
Reportable segment (loss)/profit before income tax	(7,500,796)	5,239,554	(5,334,734)	838,713	5,644,155	(1,113,108)
Reportable segment assets	208,133,452	376,786,416	257,987,873	79,907,966	566,602,064	1,489,417,771
Reportable segment liabilities	67,431,324	85,277,723	39,142,428	-	1,195,844,251	1,387,695,726

Group – 2022

	Trade finance USD	Forfeiting USD	Factoring USD	Real estate USD	Treasury USD	Total USD
External revenue						
Interest income	7,100,578	24,493,445	20,567,718	4,186,652	4,786,057	61,134,450
Net fee and commission income	1,562,924	(1,664,034)	(1,567,919)	378,502	403,027	(887,500)
Net trading results	-	-	-	-	(6,924,935)	(6,924,935)
Net loss from equity investments measured at fair value through profit or loss	-	-	-	-	(337,257)	(337,257)
Dividend income	3,821,545	-	-	-	-	3,821,545
	12,485,047	22,829,411	18,999,799	4,565,154	(2,073,108)	56,806,303
Reportable segment (loss)/profit before income tax	(26,699,125)	(2,392,144)	(6,446,742)	2,820,656	736,079	(31,981,276)
Reportable segment assets	182,627,460	449,275,957	292,223,041	77,270,524	487,167,696	1,488,564,678
Reportable segment liabilities	73,356,379	78,640,525	39,490,526	-	1,182,568,369	1,374,055,799

8.2 Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

The financial position and financial performance of activities not falling within any of the significant reportable segments are grouped as 'other', and these include non-core activities mainly related to the letting of property to third parties and IT solutions.

Group

	2023 USD	2022 USD
Revenues		
Total revenue for reportable segments	92,730,854	56,806,303
Consolidation adjustments	(389,995)	(817,965)
Other revenue	921,017	865,004
Consolidated revenue	93,261,876	56,853,342
Profit or loss		
Total loss for reportable segments	(1,113,108)	(31,981,276)
Other gains	2,117,960	1,712,049
	1,004,852	(30,269,227)
Effect of other consolidation adjustments on segment results	4,789,355	5,554,787
Consolidated profit/(loss) before tax	5,794,207	(24,714,440)

	2023 USD	2022 USD
Assets		
Total assets for reportable segments	1,489,417,771	1,488,564,678
Other assets	71,846,826	74,133,687
	1,561,264,597	1,562,698,365
Effect of other consolidation adjustments on segment financial position	19,419,367	(6,561,712)
Consolidated assets	1,580,683,964	1,556,136,653
Liabilities		
Total liabilities for reportable segments	1,387,695,726	1,374,055,799
Other liabilities	12,849,534	15,137,817
	1,400,545,260	1,389,193,616
Effect of other consolidation adjustments on segment financial position	841,572	(3,567,061)
Consolidated liabilities	1,401,386,832	1,385,626,555

8.3 Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers, and assets are based on the geographical location of the assets – separately disclosing countries which exceed 10% of the total.

Group

	Consolidated revenue	
	2023 USD	2022 USD
Malta	15,204,879	17,664,054
India	12,264,518	9,509,807
Egypt	11,701,172	6,514,887
Other countries (individually less than 10%)	54,091,307	23,164,594
	93,261,876	56,853,342

Group

	Non-current assets	
	2023 USD	2022 USD
Malta	48,060,047	48,532,574
India	647,296	877,226
Egypt	558,072	747,513
Other countries (individually less than 10%)	801,439	1,294,545
	50,066,854	51,451,858

'Non-current assets' include 'Property and equipment', 'Investment property' and 'Intangible assets'.

9 Net interest income

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Interest income				
On balances with the Central Bank of Malta and amounts owed to institutions *	7,820,013	1,382,434	7,820,013	1,382,434
On loans and advances to banks	2,694,747	1,278,124	1,918,045	613,716
On loans and advances to customers	43,142,482	33,116,476	19,314,418	16,360,156
On loans and advances to subsidiary companies	-	-	21,893,224	10,727,694
On trading assets	39,962,687	24,491,993	-	-
On financial investments at fair value through other comprehensive income	702,406	699,457	702,406	699,457
On financial investments at amortised cost	1,170,202	465,178	1,170,202	465,178
	95,492,537	61,433,662	52,818,308	30,248,635
Interest expense				
On balances with the Central Bank of Malta and amounts owed to institutions *	8,680,808	1,958,000	8,680,808	1,958,000
On amounts owed to institutions and banks	9,576,451	7,973,737	3,088,051	4,268,371
On amounts owed to customers	21,304,973	6,934,007	21,304,973	6,934,007
On debt securities in issue	545,041	415,775	-	-
On amounts owed to subsidiary companies	-	-	22,361	1,365
On treasury bills purchased at a premium	1,196	295,264	1,196	295,264
On lease liability owed to third parties (Note 30)	134,203	86,379	45	6,018
On lease liability owed to subsidiary companies (Note 30)	-	-	59,468	46,166
	40,242,672	17,663,162	33,156,902	13,509,191
Net interest income	55,249,865	43,770,500	19,661,406	16,739,444

The Group's interest income recognised on credit-impaired loans and advances to customers during the financial year ended 31 December 2023, which is entirely included in 'Interest income on loans and advances to customers', amounted to USD1,720,738 (2022: USD640,911).

The Banks's interest income recognised on credit-impaired loans and advances to customers during the financial year ended 31 December 2023, which is entirely included in 'Interest income on loans and advances to customers', amounted to USD1,956 (2022: USD209,900).

During the financial year ended 31 December 2023, the Group and Bank reclassified amounts which were previously reported under 'Net fee and commission (expense) / income' to 'Net interest income', given that these form an integral part of the effective interest rate. Refer to Note 4 for a description of the reclassification and the disclosure of the impact on 'Net interest income' reported for the financial years ended 31 December 2023 and 31 December 2022.

' * ' Until 2022, negative interest rates were applicable to 'Balances held with the Central Bank of Malta' and 'Amounts owed to institutions'. In this respect, negative interest payable in respect of balances held with Central Bank of Malta during the financial year ended 31 December 2022 is presented within 'Interest expense on balances with the Central Bank of Malta and amounts owed to institutions'. Similarly, negative interest charged in respect of amounts owed to institutions during the financial year ended 31 December 2022 is presented within 'Interest income on balances with the Central Bank of Malta and amounts owed to institutions'.

Included in the table above are 'Interest income' receivable from and 'Interest expense' payable to the parent company and other related companies (refer to analysis of amounts in Note 44).

10 Net fee and commission (expense)/income

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Fee and commission income				
Business introductions and other services provided to clients of London Forfaiting Company Limited	2,021,134	1,196,527	-	-
Issuance and confirmation of letters of credit	1,663,966	1,390,043	1,663,966	1,390,043
Issuance of guarantees and other fees and commissions receivable in respect of real estate lending	657,666	434,083	662,108	434,083
Payment fees and other bank charges	903,116	978,136	721,538	832,170
Administrative fees on factoring receivables	971	1,269	963	88,698
Issuance of guarantees to subsidiary companies	-	-	67,603	-
	5,246,853	4,000,058	3,116,178	2,744,994
Fee and commission expense				
Commissions paid to correspondent factors	2,320,383	2,441,615	483,958	706,243
Agent fees and other administrative fees in respect of trading assets	2,097,160	1,308,000	-	-
Insurance fees in respect of factoring receivables	774,977	1,436,318	382,658	752,072
Issuance of guarantees and other fees payable in respect of real estate lending	487,456	460,164	135,017	158,163
Bank charges	298,884	348,504	196,990	272,963
Commissions paid to subsidiary companies in respect of services rendered	-	-	-	25,218
Other fees payable	7,570	10,135	7,564	10,135
	5,986,430	6,004,736	1,206,187	1,924,794
Net fee and commission (expense)/income	(739,577)	(2,004,678)	1,909,991	820,200

During the financial year ended 31 December 2023, the Group and Bank reclassified amounts which were previously reported under 'Net fee and commission (expense) / income' to 'Net interest income', given that these form an integral part of the effective interest rate. Refer to Note 4 for a description of the reclassification and the disclosure of the impact on 'Net interest income' reported for the financial years ended 31 December 2023 and 31 December 2022.

Included in Group and Bank are 'Fee and commission income' receivable from and 'Fee and commission expense' payable to related parties (see Note 44).

11 Net trading results

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Fair value movements on trading assets	(2,311,622)	(7,342,792)	-	-
Fair value movements on derivatives held for risk management	(1,905,241)	(401,130)	(2,265,273)	581,584
Net income from foreign exchange activities	995,994	818,987	1,343,629	829,445
	(3,220,869)	(6,924,935)	(921,644)	1,411,029

'Fair value movements on derivatives held for risk management' include an amount of USD74,484 (2022: USD154,295) payable to subsidiary companies of the Bank. See Note 44 for transactions with other related parties.

12 Net gain/(loss) from equity investments measured at fair value through profit or loss

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Investment securities				
Fair value movements on equity investments at fair value through profit or loss	768,541	(337,257)	768,541	(337,257)
	768,541	(337,257)	768,541	(337,257)

A reconciliation of the movement in the carrying amount of equity investments measured at fair value through profit or loss is presented in Note 6.4.1.

13 Dividend income

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Dividend income from equity investments at fair value through profit or loss	40,228	3,821,545	40,228	3,821,545
Dividend income from subsidiary companies	-	-	12,181,635	6,500,000
	40,228	3,821,545	12,221,863	10,321,545

14 Other operating income

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Rental income from leased property (Note 30)	840,123	834,721	-	51,268
Gain on disposal of property and equipment (Note 28)	31,064	18,519	27,500	355
Other non-trading income	49,830	-	49,830	-
Income receivable from subsidiary companies	-	-	251,000	408,750
Gain on lease modifications (Note 30)	-	11,764	-	106,101
	921,017	865,004	328,330	566,474

Income from subsidiary companies relates to amounts received by the Bank during the financial years ended 31 December 2023 and 31 December 2022 for the provision of IT hosting services to subsidiary companies.

15 Other operating expenses

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Write-off of property and equipment (Note 28)	21,455	-	21,455	-
Fees payable on recoveries	-	364,205	-	364,205
Other expenses	3,076	-	3,076	-
	24,531	364,205	24,531	364,205

16 Administrative expenses

16.1 Administrative expenses incurred during the year are analysed as follows:

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Personnel expenses (Note 16.2)	25,176,736	24,130,665	13,743,575	13,403,083
Professional fees	5,590,505	2,732,707	3,168,599	1,505,412
IT software and hardware maintenance	3,924,983	3,010,896	3,332,988	2,740,378
Regulatory fees	1,844,949	1,716,979	1,621,813	1,612,557
Travel and telecommunication costs	1,021,006	816,182	532,084	475,854
Insurance	532,452	591,439	334,609	376,831
Property and equipment maintenance	521,283	313,758	82,948	79,795
Subscriptions to service providers	409,804	360,255	292,488	268,598
Marketing and advertising expenses	351,807	297,011	228,779	216,766
Recruitment and training	178,902	165,284	108,379	74,757
Expenses relating to short-term leases and leases of low-value assets (Note 30)	501,735	489,673	285,930	216,699
Expenses relating to short-term leases and leases of low-value assets – subsidiary companies (Note 30)	-	-	22,830	-
Recharge of services provided by subsidiary companies	-	-	803,001	951,997
Other administrative expenses	610,103	535,990	266,502	216,525
	40,664,264	35,160,839	24,824,525	22,139,252

See Note 44 for transactions with other related parties.

Included in 'Professional fees' are the following fees charged by the Group and Bank Statutory Auditors in respect of the services provided during the financial years ended 31 December 2023 and 31 December 2022:

Group

	Audit services		Other assurance services		Tax advisory services		Other non-audit services	
	2023 USD	2022 USD	2023 USD	2022 USD	2023 USD	2022 USD	2023 USD	2022 USD
By the auditors of the parent	464,972	456,785	3,259	133,483	-	1,201	125,907	24,398
By the auditors of subsidiary companies	604,282	188,487	34,661	128,095	9,240	12,843	5,154	2,987

Bank

	Audit services		Other assurance services		Tax advisory services		Other non-audit services	
	2023 USD	2022 USD	2023 USD	2022 USD	2023 USD	2022 USD	2023 USD	2022 USD
By the auditors of the parent	325,967	446,779	3,259	133,483	-	-	125,907	24,398

During the current year, fees amounting to USD3,260 have been charged to the Bank by connected undertakings of the Bank's auditor, in respect of other assurance services relating to the Calculation of Contributions to the Single Resolution Fund. In addition, fees amounting to USD1,281,466 have been charged to the Bank by connected undertakings of the Bank's auditor, in respect of regulatory advisory services and compliance services.

All fees are inclusive of indirect taxes.

16.2 Personnel expenses incurred during the year

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Directors' emoluments	388,497	416,359	388,497	416,359
Staff costs:				
- wages, salaries and allowances	23,510,705	22,114,384	12,900,801	12,551,108
- defined contribution costs	1,177,534	1,099,922	454,277	435,616
- end of service compensation (Note 37)	100,000	500,000	-	-
	25,176,736	24,130,665	13,743,575	13,403,083

Defined contribution benefits

The Group and Bank also contribute towards an employee pension plan with no commitment beyond the payment of fixed contributions.

End of service compensation

As part of the Group's strategic initiatives to further improve the operational structure of the subsidiary entities, a provision for USD500,000 was recognised during the financial year ended 31 December 2022 in respect of end of service compensation granted to the Chief Executive Officer of a subsidiary company, reflecting the estimated payments to the affected individual employee. This provision was raised in respect of the planned termination of the employment contract of the above mentioned individual. During the financial year ended 31 December 2023, the Group increased the provision by USD100,000 to reflect ongoing negotiations. This provision was reclassified to 'Other liabilities' by 31 December 2023, in view of the fact that the agreement with the above mentioned individual was finalised and the liability crystallised prior to year-end.

16.3 Average number of employees

The average number of persons employed during the year was as follows:

	Group		Bank	
	2023 No. of employees	2022 No. of employees	2023 No. of employees	2022 No. of employees
Executive and senior managerial	40	40	24	24
Other managerial, supervisory and clerical	274	275	148	150
Other staff	8	8	-	-
	322	323	172	174

16.4 Executive share option schemes

FIMBank

In May 2019, the Annual General Meeting authorised the Board of Directors of the Bank to issue and allot up to a maximum of 10,000,000 Equity Securities over a period of five years limitedly, for the purpose of implementing the Employee Share Award Scheme Rules.

During 2023 and 2022 the Bank has not awarded shares under the Employee Share Award Scheme.

India Factoring

India Factoring has an Employee Stock Option Plan (“ESOP”), under which it has granted 2,844,000 options to the eligible employees of the company on the basis of their service and other eligibility criteria. The ESOP is monitored by India Factoring Employee Welfare Trust, a shareholder of India Factoring. At 31 December 2023, the company had 2,152,800 (31 December 2022: 2,152,800) outstanding share options, at an exercise price of INR10/option (31 December 2022: INR10/option).

During 2023, the entity’s Board of Directors approved the cancellation of the ESOP scheme. The entity has filed an application to the National Company Law Tribunal for permission to cancel the shares held by India Factoring Employee Welfare Trust under ESOP scheme.

In view of the insignificance of the outstanding amount of share options at reporting date, the disclosure requirements emanating from IFRS 2 – Share-based payment are deemed to be immaterial.

17 Taxation

17.1 Amounts recognised in profit or loss

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Current tax	(2,809,884)	(633,297)	(806,755)	(530,755)
Deferred tax	(2,976,649)	(1,324,313)	-	-
Taxation	(5,786,533)	(1,957,610)	(806,755)	(530,755)

17.2 Amounts recognised in other comprehensive income

Group – 31 December 2023

	Before tax USD	Tax (charge) /credit USD	Net of tax USD
Items that will not be reclassified subsequently to profit or loss			
Fair valuation of property	1,314,568	(34,308)	1,280,260
	1,314,568	(34,308)	1,280,260
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations	(621,862)	-	(621,862)
	(621,862)	-	(621,862)
Fair valuation of debt instruments:			
- fair value movement	8,161,730	-	8,161,730
- movement in loss allowance	(42,344)	-	(42,344)
	8,119,386	-	8,119,386
	8,812,092	(34,308)	8,777,784

In view of the assessment performed by Management to determine the recoverability of deferred tax assets in future periods, no additional deferred tax was recognised in respect of foreign currency translation differences for foreign operations during the financial year ended 31 December 2023. Refer to Note 32.2 for further details.

Group – 31 December 2022 (Restated)

	Before tax USD	Tax (charge) /credit USD	Net of tax USD
Items that will not be reclassified subsequently to profit or loss			
Fair valuation of property	-	470,277	470,277
	-	470,277	470,277
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations	(2,840,781)	-	(2,840,781)
	(2,840,781)	-	(2,840,781)
Fair valuation of debt instruments:			
- fair value movement	(23,139,340)	(1,331,704)	(24,471,044)
- movement in loss allowance	43,513	-	43,513
	(23,095,827)	(1,331,704)	(24,427,531)
	(25,936,608)	(861,427)	(26,798,035)

In view of the assessment performed by Management to determine the recoverability of deferred tax assets in future periods, no additional deferred tax was recognised in respect of foreign currency translation differences for foreign operations during the financial year ended 31 December 2022. Refer to Note 32.2 for further details.

In addition, due to the reversal of the reclassification of a portfolio of debt instruments, which resulted in the portfolio being reclassified back to a 'hold-to-collect-and-sell' business model, the fair value movement presented in the table above has been restated to show the unrealised fair value movements in respect of this portfolio. However, the deferred tax charge which was recognised in the prior year has not been restated in view of the decision made by Management not to recognise further deferred tax assets as at 31 December 2022. Refer to Note 32.2 for further details.

Bank – 31 December 2023

	Before tax USD	Tax (charge) /credit USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss			
Fair valuation of debt instruments:			
- fair value movement	8,161,730	-	8,161,730
- movement in loss allowance	(42,344)	-	(42,344)
	8,119,386	-	8,119,386

In view of the assessment performed by Management to determine the recoverability of deferred tax assets in future periods, no additional deferred tax was recognised in respect of the cumulative unrealised fair value losses as at 31 December 2023. Refer to Note 32.2 for further details.

Bank – 31 December 2022 (Restated)

	Before tax USD	Tax (charge) /credit USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss			
Fair valuation of debt instruments:			
- fair value movement	(23,139,340)	(1,331,704)	(24,471,044)
- movement in loss allowance	43,513	-	43,513
	(23,095,827)	(1,331,704)	(24,427,531)

Due to the reversal of the reclassification of a portfolio of debt instruments, which resulted in the portfolio being reclassified back to a 'hold-to-collect-and-sell' business model, the fair value movement presented in the table above has been restated to show the unrealised fair value movements in respect of this portfolio. However, the deferred tax charge which was recognised in the prior year has not been restated in view of the decision made by Management not to recognise further deferred tax assets as at 31 December 2022. Refer to Note 32.2 for further details.

17.3 Reconciliation of effective tax rate

	Group 2023 USD	2022 Restated USD	Bank 2023 USD	2022 Restated USD
Profit/(Loss) before tax	5,794,207	(24,714,440)	3,296,903	(21,479,329)
Tax income using the domestic income tax rate of 35%	(2,027,972)	8,650,054	(1,153,916)	7,517,765
Tax effect of:				
Non-deductible expenses	(126,599)	(89,301)	(3,578)	(1,994)
Non-deductible capital loss	-	(1,837,258)	-	(2,891,538)
Non-taxable income	-	1,337,541	4,263,572	3,612,541
Unrecognised temporary differences	(4,539,628)	(9,731,289)	(3,304,036)	(8,342,904)
Different tax rates in foreign jurisdictions	907,507	(287,700)	(608,797)	(424,625)
Other	159	343	-	-
Taxation	(5,786,533)	(1,957,610)	(806,755)	(530,755)

18 Earnings per share

18.1 Basic earnings per share

The calculation of basic earnings per share has been based on the following results attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

As at 31 December 2023 and 2022, basic and diluted earnings per share are equal.

18.2 Loss attributable to ordinary shareholders

	Group 2023 USD	2022 USD
Loss attributable to the equity holders of the Bank	(30,812)	(26,590,278)

18.3 Weighted average number of ordinary shares

	Group 2023 No. of shares	2022 No. of shares
Weighted average number of ordinary shares at 31 December	522,443,763	522,443,763

19 Balances with the Central Bank of Malta, treasury bills and cash

	Group 2023 USD	2022 Restated USD	Bank 2023 USD	2022 Restated USD
Cash	19,916	24,541	6,787	9,683
Balances with the Central Bank of Malta	221,803,752	91,550,151	221,803,752	91,550,151
Treasury bills	131,270,544	125,410,680	131,270,544	125,410,680
Loss allowance	(84,026)	(118,047)	(84,026)	(118,047)
	353,010,186	216,867,325	352,997,057	216,852,467

'Balances with the Central Bank of Malta' include a minimum reserve deposit requirement of EUR7,598,371 converted to USD8,395,990 using the year-end spot exchange rate (2022: EUR9,249,484 converted to USD9,865,064 using the year-end spot exchange rate) in terms of Regulation (EC) No: 1745/2003 of the European Central Bank. Loss allowance on the reserve deposit amounts to USD7,218 (2022: USD7,564).

At 31 December 2023 and 31 December 2022, all of the Group's and Bank's 'Treasury bills' were pledged in favour of the European Central Bank to secure funding. As at 31 December 2023, 'Treasury bills' with a carrying amount of USD89,327,367 (2022: USD105,313,695) were utilised against these credit lines.

20 Derivatives held for risk management

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Derivative assets held for risk management				
- foreign exchange	715,713	1,610,475	715,713	1,610,475
- interest rate	-	-	96,896	-
	715,713	1,610,475	812,609	1,610,475
Derivative liabilities held for risk management				
- foreign exchange	(626,476)	(578,779)	(626,476)	(723,311)
- interest rate	-	-	-	(94,720)
	(626,476)	(578,779)	(626,476)	(818,031)

See Note 44 for derivatives with related parties.

20.1 Net investment hedge

The Bank has an exposure to Indian Rupees (“INR”) in respect of the investment in India Factoring, which had a carrying amount of USD33.7 million as at 31 December 2023 and 31 December 2022. In this respect, the Bank entered into forward foreign exchange derivative contracts to hedge its exposure to INR. As at 31 December 2023, the notional amount of these derivative contracts amounts to USD30.0 million (2022: USD30.8 million).

The Bank applies hedge accounting in respect of net investment in India Factoring to mitigate the risk of changes in spot exchange rates. Hedging is undertaken using forward foreign exchange contracts where an economic relationship exists between the hedged net investment and hedging instrument due to the foreign currency risk exposure.

	Carrying amount			Amounts recognised in OCI USD	Change in fair value USD	Hedge ineffectiveness recognised in income statement USD
	Derivative assets USD	Derivative liabilities USD	Nominal amount USD			
2023						
Indian rupee denominated foreign exchange	-	98,017	30,024,203	(370,022)	(369,918)	104
2022						
Indian rupee denominated foreign exchange	329,325	-	30,749,974	1,378,685	1,371,469	(7,216)

21 Trading assets

‘Trading assets’ represent forfeiting assets held by London Forfeiting Company Limited and comprise bills of exchange, promissory notes and transferable trade related loans issued by foreign banks and other foreign issuers. These assets are held for short-term trading. None of the trading assets were listed as at 31 December 2023 and 31 December 2022.

At 31 December 2023 and 31 December 2022, there were no ‘Trading assets’ pledged in favour of third parties under reverse-repos or borrowing arrangements.

A reconciliation of the movement in the carrying amount of ‘Trading assets’ is presented in Note 6.4.1.

22 Loans and advances to banks

Group

	31 December 2023 USD	31 December 2022 Restated USD	1 January 2022 Restated USD
Unencumbered loans and advances to banks:			
- Repayable on call and at short notice	51,126,590	16,362,142	35,044,550
- Term loans and advances	76,778,698	35,034,095	22,489,142
Pledged in favour of third parties	25,149,244	98,759,904	141,341,035
Gross loans and advances to banks	153,054,532	150,156,141	198,874,727
Loss allowance	(239,584)	(442,215)	(386,151)
Net loans and advances to banks	152,814,948	149,713,926	198,488,576

Bank

	31 December 2023 USD	31 December 2022 Restated USD	1 January 2022 Restated USD
Unencumbered loans and advances to banks:			
- Repayable on call and at short notice	20,893,167	6,803,553	27,011,814
- Term loans and advances	68,498,510	20,736,746	14,474,062
Pledged in favour of third parties	25,149,244	98,759,904	141,341,035
Gross loans and advances to banks	114,540,921	126,300,203	182,826,911
Loss allowance	(215,678)	(417,771)	(368,363)
Net loans and advances to banks	114,325,243	125,882,432	182,458,548

As at 31 December 2023 and 31 December 2022, loans and advances to banks 'Pledged in favour of third parties' represent amounts pledged in favour of third party banks under borrowing arrangements or under collateral margin agreements in respect of derivatives held for risk management purposes.

See Note 44 for balances due from related parties other than the Bank's subsidiary companies.

23 Loans and advances to customers

Group

	31 December 2023 USD	31 December 2022 Restated USD	1 January 2022 Restated USD
Unencumbered loans and advances to customers:			
- Repayable on call and at short notice	248,664,594	317,248,781	367,827,649
- Term loans and advances	201,313,207	241,994,141	226,756,238
Pledged in favour of third parties	277,566	362,042	120,369
Gross loans and advances to customers	450,255,367	559,604,964	594,704,256
Loss allowance on loans and advances to customers	(18,913,293)	(75,076,907)	(82,784,854)
Net loans and advances to customers	431,342,074	484,528,057	511,919,402

Bank

	31 December 2023 USD	31 December 2022 Restated USD	1 January 2022 Restated USD
Unencumbered loans and advances to customers:			
- Repayable on call and at short notice	61,976,250	152,171,397	183,848,615
- Term loans and advances	201,313,207	241,994,141	226,749,228
Pledged in favour of third parties	277,566	362,042	120,369
Loans and advances to subsidiary companies	367,338,215	392,743,764	383,006,632
Gross loans and advances to customers	630,905,238	787,271,344	793,724,844
Loss allowance on loans and advances to customers	(11,166,753)	(67,711,400)	(68,451,595)
Loss allowance on loans and advances to subsidiary companies	(1,620,260)	(649,517)	(505,391)
Net loans and advances to customers	618,118,225	718,910,427	724,767,858

'Pledged in favour of third parties' is comprised exclusively of assets pledged in favour of third parties under borrowing arrangements.

'Loans and advances to subsidiary companies' include facilities that are unsecured and repayable on demand. The pricing of such facilities is dependent on the currency of funding and market conditions.

See Note 44 for balances due from related parties other than the Bank's subsidiary companies, which amounts are included in the tables above.

24 Financial investments at fair value through profit or loss

At reporting date, the Group and Bank held an investment in two unlisted sub-funds of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in the United Kingdom. At 31 December 2023, the Group's and Bank's FVTPL assets comprise an investment amounting to USD16,940,971 (2022: USD15,740,852) in the Sustainable Investment Fund, a sub-fund that invests in sustainable energy plants with returns generated throughout the life of each plant, and an investment amounting to USD1,695,525 (2022: USD1,632,449) in the Global Opportunities Fund, a sub-fund that invests in a variety of investments (including real estate), with relative complex structures and limited liquidity.

At reporting date, the Group and Bank held more than 50% of the units in Sustainable Investment Fund. However, these shares do not carry any voting rights in relation to management and control of the sub-fund. The Group and Bank do not have the power to direct the relevant activities of the sub-fund or to affect the amount of own returns. As a result, the Group and Bank is not consolidating the investment and is measuring it at fair value through profit or loss.

At reporting date, the Group and Bank held USD640,987 (2022: USD752,843) of equity shares in a foreign holding company, Tawazun Holding Company (KSC), which were acquired through a debt settlement agreement in 2021.

At 31 December 2023, the Group and Bank held an investment in other unlisted equity shares with a fair value of USD52,357 (2022: USD53,076).

A reconciliation of the movement in the carrying amount of equity investments measured at fair value through profit or loss is presented in Note 6.3.1.

25 Financial investments at fair value through other comprehensive income

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Debt instruments:				
- issued by the Government of Malta	35,947,692	32,338,352	35,947,692	32,338,352
- issued by foreign sovereigns	55,328,079	53,636,259	55,328,079	53,636,259
- issued by foreign corporates	49,480,009	57,214,411	49,480,009	57,214,411
	140,755,780	143,189,022	140,755,780	143,189,022
Loss allowance	(83,233)	(125,577)	(83,233)	(125,577)

At 31 December 2023 and 31 December 2022, all of the Group's and Bank's 'Financial investments at fair value through other comprehensive income' were pledged in favour of the European Central Bank to secure funding. As at 31 December 2023, debt instruments with a carrying amount of USD104,218,777 (2022: USD89,456,976) were utilised against these credit lines.

All financial investments at fair value through other comprehensive income were listed as at 31 December 2023 and 31 December 2022. An analysis of credit risk in respect of these instruments is presented in Note 5 of these financial statements.

25.1 Reconciliation of carrying amount

	Group 2023 USD	2022 Restated USD	Bank 2023 USD	2022 Restated USD
Opening balance	143,189,022	162,408,542	143,189,022	162,408,542
Acquisitions	-	25,549,207	-	25,549,207
Redemptions	(13,745,002)	(13,000,000)	(13,745,002)	(13,000,000)
Changes in fair value	8,972,322	(23,242,963)	8,972,322	(23,242,963)
Amortisation of premium or discount	(1,050,827)	(1,190,114)	(1,050,827)	(1,190,114)
Effects of movement in exchange rate	3,390,265	(7,335,650)	3,390,265	(7,335,650)
Closing balance	140,755,780	143,189,022	140,755,780	143,189,022

25.2 IFRS 9 – Reclassification of long-term debt securities

During the financial year ended 31 December 2022, the Group and Bank changed the business model for its long-term debt securities from 'hold-to-collect-and-sell' to 'hold-to-collect', leading to the reclassification of this portfolio from 'Financial investments at fair value through other comprehensive income' to 'Financial investments at amortised cost'. The reclassification was done to reflect a change in the business model for managing these long-term securities, such as sovereign bonds, corporate bonds, and Malta Government Bonds, to a held-to-collect business model in terms of IFRS 9. The Group and Bank based its decision on professional advice, industry practice and information available at the time. In this respect, 'Financial investments at fair value through other comprehensive income' amounting to USD161,611,818 were reclassified to 'Investments at amortised cost' on 1 January 2022.

During the financial year ended 31 December 2023, this position was reconsidered by Management in the context of developments in market interpretations of IFRS 9 requirements in relation to reclassifications of financial instruments between different classification and measurement categories. In this respect, Management reperformed the assessment relating to the reclassification of this portfolio of financial instruments in the context of these developments. Based on this assessment, the Group and Bank concluded that the reclassification criteria emanating from IFRS 9 are no longer deemed to have been met during the financial year ended 31 December 2022. Accordingly, Management has decided to reverse the effects of the reclassification on the Group's and Bank's Financial Positions. The comparative financial information presented within these Financial Statements is being restated to apply this reversal retrospectively.

The effect of the reversal of the reclassification effected in 2022 on the Financial Statements of both the Group and Bank is summarised below:

	31 December 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	31 December 2022 as restated USD
Statements of financial position				
Assets				
Financial investments at amortised cost:				
- debt investments at amortised cost	182,756,964	(168,132,745)	-	14,624,219
- interest accrued on debt investments at amortised cost	701,166	(683,690)	-	17,476
- loss allowance on debt investments at amortised cost	(165,264)	125,577	-	(39,687)
Financial investments at fair value through other comprehensive income:				
- debt investments measured at FVOCI	-	168,132,745	(25,627,413)	142,505,332
- interest accrued on debt investments measured at FVOCI	-	683,690	-	683,690
Equity				
Fair value reserve:				
- valuation loss on debt investments measured at FVOCI	-	-	(25,627,413)	(25,627,413)
- loss allowance on debt investments measured at FVOCI	-	125,577	-	125,577
Statements of profit or loss for the financial year ended 31 December 2022 (as restated)				
Net movement in expected credit losses and other credit impairment charges:				
- loss allowance on debt investments at measured amortised cost	(107,642)	125,577	-	17,935
- loss allowance on debt investments measured at FVOCI	82,064	(125,577)	-	(43,513)

	1 January 2022 as previously reported USD	Impact of reclassification USD	Impact of remeasurement USD	1 January 2022 as restated USD
Statements of financial position				
Assets				
Financial investments at amortised cost:				
- Debt investments at amortised cost	172,685,542	(162,768,187)	-	9,917,355
- Interest accrued on debt investments at amortised cost	851,745	(796,724)	-	55,021
- Loss allowance on debt investments at amortised cost	(139,687)	82,064	-	(57,622)
Financial investments at fair value through other comprehensive income:				
- Debt investments measured at FVOCI	-	162,768,187	(1,156,369)	161,611,818
- Interest accrued on debt investments measured at FVOCI	-	796,724	-	796,724
Equity				
Fair value reserve:				
- Valuation loss on debt investments measured at FVOCI	-	-	(1,156,369)	(1,156,369)
- Loss allowance on debt investments measured at FVOCI	-	82,064	-	82,064

The impact of the reclassification on the 'Fair value reserve' is presented in the statements of changes in equity for the financial year ended 31 December 2022, including the impact of the reclassification on the opening equity balances as at 1 January 2022.

26 Financial investments at amortised cost

	Group 2023	2022 Restated	Bank 2023	2022 Restated
	USD	USD	USD	USD
Debt instruments:				
- issued by foreign sovereigns	7,667,576	-	7,667,576	-
- issued by foreign corporates	20,862,658	14,641,695	20,862,658	14,641,695
Loss allowance	(131,161)	(39,687)	(131,161)	(39,687)
	28,399,073	14,602,008	28,399,073	14,602,008

During the financial year ended 31 December 2023, the Group and Bank reversed the decision to reclassify a portfolio of debt instruments, which was presented and measured as financial investments measured at amortised cost as at 31 December 2022. In this respect, this portfolio was reclassified back to financial investments measured at fair value through other comprehensive income, as described in further detail in Note 25.

At 31 December 2023 and 31 December 2022, all of the Group's and Bank's 'Financial investments at amortised cost' were pledged in favour of the European Central Bank to secure funding. As at 31 December 2023, debt instruments with a carrying amount of USD10,813,735 were utilised against these credit lines. As at 31 December 2022, no balances were outstanding against this collateral.

See Note 44 for financial investments issued by related parties.

All financial investments at amortised cost were listed as at 31 December 2023 and 31 December 2022, except for a debt instrument issued by the ultimate parent entity of the Group. An analysis of credit risk in respect of these instruments is presented in Note 5 of these financial statements.

26.1 Reconciliation of carrying amount

	Group 2023	2022 Restated	Bank 2023	2022 Restated
	USD	USD	USD	USD
Opening balance	14,602,008	9,914,754	14,602,008	9,914,754
Acquisitions	13,440,236	14,569,219	13,440,236	14,569,219
Redemptions	-	(9,800,719)	-	(9,800,719)
Amortisation of premium or discount	470,755	17,455	470,755	17,455
Effects of movement in exchange rate	(22,452)	(116,636)	(22,452)	(116,636)
Movement in loss allowance	(91,474)	17,935	(91,474)	17,935
Closing balance	28,399,073	14,602,008	28,399,073	14,602,008

27 Investments in subsidiaries

27.1 Material subsidiaries

Name of company	Country of incorporation	Nature of business	Equity interest		Bank	
			2023 %	2022 %	2023 USD	2022 USD
FIM Business Solutions Limited	Malta	IT services provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property management	100	100	1,006,000	1,006,000
London Forfaiting Company Limited	United Kingdom	Forfaiting	100	100	112,966,435	107,966,435
The Egyptian Company for Factoring S.A.E.	Egypt	Factoring	100	100	10,023,448	10,023,448
FIMFactors B.V.	Netherlands	Holding company	100	100	33,686,690	33,686,690
					157,687,573	152,687,573

The carrying amount of the 'Investments in subsidiaries' is stated net of impairment, amounting to USD66,144,660 (2022: USD66,144,660), in relation to FIMFactors B.V. and The Egyptian Company for Factoring S.A.E ("Egypt Factors").

The Bank, indirectly through FIMFactors B.V., controls India Factoring and Finance Solutions Private Limited ("India Factoring"), incorporated in India, to carry out the business of factoring in India. As at December 2023, the Bank held 88.16% (2022: 88.16%) shareholding.

The Bank, indirectly through London Forfaiting Company Limited, controls London Forfaiting International Limited, a holding company incorporated in the United Kingdom. As at December 2023, the Bank held 100% (2022: 100%) shareholding.

In turn, London Forfaiting International Limited controls the following subsidiaries:

Name of company	Country of incorporation	Nature of business	Equity interest	
			2023 %	2022 %
London Forfaiting Americas Inc.	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda.	Brazil	Marketing	100	100

See Note 44 for related party balances and transactions.

27.2 Movement in carrying amount

	Bank	
	2023 USD	2022 USD
At 1 January	152,687,573	159,448,858
Additional investment in London Forfaiting Company Limited	5,000,000	1,500,000
Additional investment in FIM Property Investment Limited	-	252
Impairment of investments in subsidiaries (refer to Note 27.3)	-	(8,261,536)
Write-off of FIM Holdings (Chile) S.p.A.	-	(1)
At 31 December	157,687,573	152,687,573

During the financial year ended 31 December 2023, the Bank was paid a scrip dividend amounting to USD5,000,000 (2022: USD1,500,000) by London Forfaiting Company Limited, through the issue of 5,000,000 (2022: 1,500,000) bonus shares at USD1 per share.

27.3 Impairment assessment

At each reporting date, the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in subsidiaries and determines the possibility of an impairment loss. The recoverable amount of the investment in subsidiaries is determined based on the higher of 'fair value less cost of disposal' and 'value-in-use'. No impairment losses were recognised during the financial year ended 31 December 2023 (2022: USD8,261,536).

The recoverable amounts of the cash generating units ("CGUs") fall in their entirety under Level 3 fair value hierarchy, as they are based on valuation techniques that include unobservable inputs that have a significant effect on the valuation of the CGUs.

No impairment indicators were identified by the Bank in respect of its investment in London Forfaiting Company Limited and FIM Property Investment Limited, whereas an impairment assessment was performed in respect of the Bank's investment in India Factoring and Egypt Factors, as disclosed in further detail hereunder.

27.3.1 India Factoring and Finance Solutions Private Limited

27.3.1.1 Impairment assessment as at 31 December 2023

As at 31 December 2023, the recoverable amount of this CGU is based on its 'value-in-use' in accordance with the requirements of IAS 36. This approach provides an estimate of the present value of the monetary benefits expected to flow to the owners of the business. It requires projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. The value of the business, or recoverable amount, is the sum of the discounted cash flows.

At reporting date, the recoverable amount is determined to be higher than the carrying amount of the CGU and therefore the carrying amount is deemed to be appropriate.

The key assumptions used in the estimation of the recoverable amount using the 'value-in-use' approach applied in 2023 are as follows:

Financial projections

The financial projections for a ten-year period form the basis for the discounted cash flow analysis used to determine 'value-in-use'. These projections are based on expectations of future outcomes, taking into account past experience adjusted for the anticipated revenue cumulative annual growth rate of 19.2%. Revenue growth is projected taking into account the updated business model of the entity and the estimated growth over the projection period. Management has approved the forecasts, relating to the business carried out by India Factoring, which are based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment.

Terminal value

The terminal value or the value attributed to the CGU beyond the explicit forecast period is estimated using a 'Gordon Growth Model'. This determination assumes a long-term growth rate of 5.0%, which is considered appropriate considering the industry and economy growth estimates.

Discount rate

The 'value-in-use' estimate requires the application of an appropriate discount rate that reflects the risks of the cash flows. As the valuation discounts cash flows available to equity holders, the valuation model adopts the 'cost of equity' as the discount rate.

IAS 36 requires pre-tax cash flows to be discounted using pre-tax discount rate. The pre-tax and post-tax discount rate for the CGU were 18.1% and 15.0% respectively. The post-tax discount rate (representing the cost of equity) applied on valuation date is based on the rate of 10-year government bonds issued by the Government in India and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific entity.

27.3.1.2 Impairment assessment as at 31 December 2022

As at 31 December 2022, the recoverable amount of this CGU was based on its 'fair value less cost to dispose', estimated using a market comparison technique. In establishing the 'fair value less cost to dispose' of the CGU, Management estimated the cash flows that would flow to the Bank in the event of a disposal of the CGU. In determining the 'fair value less cost to dispose', Management identified the cash flows that they believe the CGU had the potential to generate in an orderly transaction with independent market participants using a market multiple, within a short timeframe. Management has also taken into consideration other cash flows including recoveries of non-performing assets and costs to dispose. As at 31 December 2022, the 'fair value less cost to dispose' was higher than the investment's 'value-in-use'.

Based on the assessment performed by Management, an impairment loss amounting to USD6,620,000 was recognised in respect of the Bank's investment in India Factoring as at 31 December 2022.

The key assumptions used in the estimation of the recoverable amount using the 'fair value less cost to dispose' approach applied in December 2022 were as follows:

Market multiple

The valuation model was based on market multiples derived from quoted prices of companies comparable to the CGU. Management deemed it appropriate to determine a price to book multiple from within a range of multiples of comparable companies. The selection of the appropriate multiple in arriving at the recoverable amount from within the range required judgement, considering qualitative and quantitative factors specific to the measurement.

In this respect, Management concluded on a derived multiple of 1.0x as being the appropriate price to book ratio. At this multiple, the recoverable amount was determined to be lower than the carrying amount of the CGU resulting in an impairment charge amounting to USD6,620,000.

27.3.1.3 Valuation risks

The key assumptions described above may change as economic, political and market conditions change. Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Bank will recover the investment in the CGU.

27.3.2 Egypt Factors

The recoverable amount of this CGU is based on its 'value-in-use' in accordance with the requirements of IAS 36. This approach provides an estimate of the present value of the monetary benefits expected to flow to the owners of the business. It requires projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. The value of the business, or recoverable amount, is the sum of the discounted cash flows.

At reporting date, the recoverable amount is determined to be higher than the carrying amount of the CGU and therefore the carrying amount is deemed to be appropriate. Based on the assessment performed by Management, an impairment loss amounting to USD1,641,536 was recognised in respect of the Bank's investment in Egypt Factors as at 31 December 2022.

Financial projections

Financial projections for a five-year period form the basis for discounted cash flow analysis used to determine 'value-in-use'. These projections are based on expectations of future outcomes based on past experience, adjusted for a revenue cumulative annual growth rate of 3.8% (2022: 14.2%). Revenue growth is projected by taking into consideration the updated business model of the entity and the estimated growth over the projection period. Management has approved the forecasts, relating to the business carried out by Egypt Factors, which are based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment.

Terminal value

The terminal value, or the value attributed to the CGU beyond the explicit forecast period, is estimated using a 'Gordon Growth Model'. This determination assumes a long-term growth rate of 3.0% as at 31 December 2023 (2022: 3.0%), which is considered appropriate considering the industry and economy growth estimates.

Discount rate

The 'value-in-use' estimate requires the application of an appropriate discount rate that reflects the risks of the cash flows. As the valuation discounts cash flows available to equity holders, the valuation model adopts the 'cost of equity' as the discount rate. IAS 36 requires pre-tax cash flows to be discounted using pre-tax discount rate.

As at 31 December 2023, the discount rate for the CGU is 21.46% (2022: 19.10%). The discount rate (representing the cost of equity) applied on valuation date is based on the rate of 20-year US Government bonds representing the functional currency and equity of the company, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific entity. In 2022, the discount rate used was based on the rate of 10-year US Government bonds.

Valuation risks

The key assumptions described above may change as economic, political and market conditions change. Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Bank will recover the investment in the CGU.

28 Property and equipment

28.1 Reconciliation of carrying amount

Group

	Freehold land USD	Buildings USD	Right-of-use assets USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost							
At 1 January 2022	7,493,576	22,742,639	4,613,871	1,357,642	4,598,455	3,026,833	43,833,016
Reclassification of land and buildings to investment property	(1,011,055)	(4,158,209)	-	-	-	-	(5,169,264)
Additions	-	23,351	689,363	-	882,633	207,466	1,802,813
Disposals	-	-	-	-	(2,221)	(92,775)	(94,996)
Lease modifications that increase the scope of the lease	-	-	818,861	-	-	-	818,861
Lease modifications that decrease the scope of the lease	-	-	(94,720)	-	-	-	(94,720)
Derecognition of right-of-use asset upon termination of lease	-	-	(1,619,141)	-	-	-	(1,619,141)
Effect of movement in exchange rates	-	-	(61,366)	(24,574)	(24,175)	(15,473)	(125,588)
At 31 December 2022	6,482,521	18,607,781	4,346,868	1,333,068	5,454,692	3,126,051	39,350,981
At 1 January 2023	6,482,521	18,607,781	4,346,868	1,333,068	5,454,692	3,126,051	39,350,981
Reclassification of land and buildings to investment property	(299,423)	(724,151)	-	-	-	-	(1,023,574)
Fair Value Movement	(952,938)	(2,114,168)	-	-	-	-	(3,067,106)
Additions	-	28,314	74,604	1,863	70,684	53,985	229,450
Disposals	-	-	-	-	-	(85,639)	(85,639)
Write-offs	-	-	-	(181,347)	(2,970,474)	(336,720)	(3,488,541)
Derecognition of right-of-use asset upon termination of lease	-	-	(41,120)	-	-	-	(41,120)
Effect of movement in exchange rates	233,218	668,645	8,812	(858)	794	9,825	920,436
At 31 December 2023	5,463,378	16,466,421	4,389,164	1,152,726	2,555,696	2,767,502	32,794,887

Group

	Freehold land USD	Buildings USD	Right-of-use assets USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Depreciation							
At 1 January 2022	-	2,889,245	2,450,144	835,505	3,982,128	2,765,540	12,922,562
Reclassification of buildings to investment property	-	(756,019)	-	-	-	-	(756,019)
Charge for the year	-	756,057	704,919	135,119	370,539	142,368	2,109,002
Release on disposals	-	-	-	-	(2,221)	(91,565)	(93,786)
Lease modifications that decrease the scope of the lease	-	-	(83,170)	-	-	-	(83,170)
Derecognition of right-of-use asset upon termination of lease	-	-	(1,341,722)	-	-	-	(1,341,722)
Effects of movement in exchange rates	-	-	(61,323)	(22,819)	(23,527)	(16,156)	(123,825)
At 31 December 2022	-	2,889,283	1,668,848	947,805	4,326,919	2,800,187	12,633,042
At 1 January 2023	-	2,889,283	1,668,848	947,805	4,326,919	2,800,187	12,633,042
Reclassification of buildings to investment property	-	217,536	-	-	-	-	217,536
Charge for the year	-	660,267	769,270	131,643	435,605	216,252	2,213,037
Release on disposals	-	-	-	-	-	(85,639)	(85,639)
Write-offs	-	-	-	(160,686)	(2,970,474)	(335,926)	(3,467,086)
Derecognition of right-of-use asset upon termination of lease	-	-	(41,120)	-	-	-	(41,120)
Derecognition of depreciation upon revaluation of asset	-	(3,867,931)	-	-	-	-	(3,867,931)
Effects of movement in exchange rates	-	100,845	1,147	(879)	(7,955)	(85,360)	7,798
At 31 December 2023	-	-	2,398,145	917,883	1,784,095	2,509,514	7,609,637
Carrying amounts							
At 1 January 2022	7,493,576	19,853,394	2,163,727	522,137	616,327	261,293	30,910,454
At 31 December 2022	6,482,521	15,718,498	2,678,020	385,263	1,127,773	325,864	26,717,939
At 31 December 2023	5,463,378	16,466,421	1,991,019	234,843	771,601	257,988	25,185,250
Carrying amount had the assets been carried at cost							
At 31 December 2023	3,540,684	11,721,100	1,991,019	234,843	769,750	248,358	18,505,754

Group

During the financial year ended 31 December 2023, the Group reclassified land and buildings with a net carrying amount of USD1,241,110 (31 December 2022: USD4,413,245) to 'Investment property' to reflect a change in the use of part of the Group's property which was leased out to third parties.

During 2023, equipment which was fully depreciated was disposed of, giving rise to a gain on disposal amounting to USD31,064 recognised within 'Other operating income'. In addition, during the financial year ended 31 December 2022, equipment with a net carrying amount of USD1,210 was disposed of, giving rise to a gain on disposal amounting to USD18,519 recognised within 'Other operating income'.

In addition, property and equipment with a net carrying amount of USD21,455 were written off during the financial year ended 31 December 2023 given that these assets are no longer in use. No amounts were written off during the financial year ended 31 December 2022.

As at 31 December 2023, the Group's right-of-use assets with a net carrying amount of USD1,991,019 (2022: USD2,678,020) relates to the lease of office premises (see Note 30).

Bank

	Right-of-use assets USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost					
At 1 January 2022	5,914,995	710,821	3,733,495	2,021,950	12,381,261
Additions	4,009,002	-	855,307	61,313	4,925,622
Release on disposals	-	-	(2,221)	(42,948)	(45,169)
Lease modifications that decrease the scope of the lease	(94,720)	-	-	-	(94,720)
Derecognition of right-of-use asset upon termination of lease	(5,638,486)	-	-	-	(5,638,486)
At 31 December 2022	4,190,791	710,821	4,586,581	2,040,315	11,528,508
At 1 January 2023	4,190,791	710,821	4,586,581	2,040,315	11,528,508
Additions	74,512	1,863	14,633	18,376	109,384
Disposals	-	-	-	(55,568)	(55,568)
Write-offs	-	(181,347)	(2,970,474)	(336,720)	(3,488,541)
At 31 December 2023	4,265,303	531,337	1,630,740	1,666,403	8,093,783
Depreciation					
At 1 January 2022	4,835,155	442,238	3,216,753	1,921,866	10,416,012
Charge for the year	1,420,098	42,080	314,016	42,706	1,818,900
Release on disposals	-	-	(2,221)	(41,738)	(43,959)
Lease modifications that decrease the scope of the lease	(83,170)	-	-	-	(83,170)
Derecognition of right-of-use asset upon termination of lease	(5,349,516)	-	-	-	(5,349,516)
At 31 December 2022	822,567	484,318	3,528,548	1,922,834	6,758,267
At 1 January 2023	822,567	484,318	3,528,548	1,922,834	6,758,267
Charge for the year	1,409,743	40,641	376,874	36,128	1,863,386
Release on disposals	-	-	-	(55,568)	(55,568)
Write-offs	-	(160,686)	(2,970,474)	(335,926)	(3,467,086)
At 31 December 2023	2,232,310	364,273	934,948	1,567,468	5,098,999
Carrying amounts					
At 1 January 2022	1,079,840	268,583	516,742	100,084	1,965,249
At 31 December 2022	3,368,224	226,503	1,058,033	117,481	4,770,241
At 31 December 2023	2,032,993	167,064	695,792	98,935	2,994,784

Bank

During 2023, equipment which was fully depreciated was disposed of, giving rise to a gain on disposal amounting to USD27,500 recognised within 'Other operating income'. In addition, during the financial year ended 31 December 2022, equipment with a net carrying amount of USD1,210 was disposed of, giving rise to a gain on disposal amounting to USD355 recognised within 'Other operating income'.

In addition, property and equipment with a net carrying amount of USD21,455 were written off during the financial year ended 31 December 2023 given that these assets are no longer in use. No amounts were written off during the financial year ended 31 December 2022.

None of the Bank's assets classified in 'Property and equipment' are measured at fair value.

As at 31 December 2023, the Bank's right-of-use assets with a net carrying amount of USD2,032,993 (2022: USD3,368,224) relates to the lease of office premises (see Note 30).

28.2 Measurement of fair value

Land and buildings are revalued by an independent, professionally qualified architect in accordance with Accounting Policy 3.12. Valuations of land and buildings are done using the 'investment income approach' whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is based on actual rental income as per current lease agreements. To determine the reasonableness of the actual rates being used, a comparison is then drawn between the actual rates and rental rates of other properties, taking cognisance of the location, size, layout, and planning and energy performance considerations.

The land and premises were revalued on 31 December 2023.

The fair value measurement of property is classified as Level 3. Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs per annum	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€286 to €553 (2022: €288 to €476)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.25% (2022: 6.0%)	The higher the capitalisation rate the lower the fair value
Parking space	Investment income approach	Rental value per square metre	€82 to €233 (2022: €85 to €210)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	7.0% (2022: 7.5%)	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€64 to €200 (2022: €60 to €170)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.0% (2022: 9.0%)	The higher the capitalisation rate the lower the fair value

29 Investment property

29.1 Reconciliation of carrying amount

	Group 2023 USD	2022 USD
At 1 January	21,637,065	17,223,820
Reclassification from 'Property and equipment'	1,241,110	4,413,245
Fair value movement	(1,398,978)	-
Effect of movement in exchange rates	778,420	-
At 31 December	22,257,617	21,637,065
Carrying amount		
Cost	15,207,960	13,966,850
Cumulative fair value movements	7,049,657	7,670,215
Carrying amount	22,257,617	21,637,065

'Investment property' comprises a number of areas within the Group Head Office building in St. Julian's, Malta which are available for rent to third parties. The Group applies the fair value model to determine the carrying amount of investment property at reporting date.

During the financial year ended 31 December 2023, the Group reclassified land and buildings with a net carrying amount of USD1,241,110 (financial year ended 31 December 2022: USD4,413,245) to 'Investment property' to reflect a change in the use of part of the Group's property which was leased out to third parties.

Commitments in respect of investment property which were authorised but not yet contracted as at 31 December 2023 and 31 December 2022 are disclosed in Note 45. In addition, the Group has not capitalised any expenditure in relation to the investment property.

29.2 Measurement of fair value

Investment property is revalued by an independent professionally qualified architect in accordance with Accounting Policy 3.14. The valuation of investment property is prepared using the 'investment income approach', whilst the 'comparative value approach' is only considered as a validation technique.

Under the 'investment income approach', the market value is derived by capitalising at an appropriate yield rate, the annual income produced should the property be leased out to third parties. The income is based on actual rental income as per current lease agreements. To determine the reasonableness of the actual rates being used a comparison is then drawn between the actual rates and rental rates of other properties, taking cognisance of the location, size, layout, and planning and energy performance considerations.

The investment property was last revalued on 31 December 2023.

The fair value measurement of investment property is classified as Level 3 in the fair value hierarchy. Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs per annum	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€286 to €553 (2022: €288 to €476)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.25% (2022: 6.0%)	The higher the capitalisation rate the lower the fair value
Retail space	Investment income approach	Rental value per square metre	€237 to €365 (2022: €85 to €210)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.75% (2022: 7.50%)	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€64 to €200 (2022: €60 to €170)	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	8.0% (2022: 9.0%)	The higher the capitalisation rate the lower the fair value

30 Leases

30.1 Leases as lessee

The Group leases office premises accounted for in accordance with IFRS 16 provisions. The leases run for a period ranging from two to sixteen years. Some leases have an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases some other office premises, motor vehicles and IT equipment, which are low in value and/or short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

30.1.1 Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within 'Property and equipment' (see Note 28).

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Balance at 1 January	2,678,020	2,163,727	3,368,224	1,079,840
Depreciation charge for the year	(769,270)	(704,919)	(1,409,743)	(1,420,098)
Additions	74,604	689,363	74,512	4,009,002
Lease modifications that increase the scope of the lease	-	818,861	-	-
Lease modifications that decrease the scope of the lease	-	(11,550)	-	(11,550)
Derecognition of right-of-use asset upon termination of lease	-	(277,419)	-	(288,970)
Effect of movement in exchange rates	7,665	(43)	-	-
Balance at 31 December	1,991,019	2,678,020	2,032,993	3,368,224

The Bank's right-of-use assets include the lease of office premises from a subsidiary. There were no sub-leases of right-of-use assets during the financial years ended 31 December 2023 and 31 December 2022.

30.1.2 Lease liabilities

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Balance at 1 January	2,704,717	2,224,450	3,490,312	1,128,593
Additions	74,604	1,508,224	74,512	4,009,002
Lease modifications that decrease the scope of the lease	-	(300,733)	-	(406,621)
Interest expense	134,203	86,379	59,513	52,184
Payments	(830,369)	(700,703)	(1,450,567)	(1,330,082)
Effect of movement in exchange rates	35,408	(112,900)	112,356	37,236
Balance at 31 December	2,118,563	2,704,717	2,286,126	3,490,312

The Bank's lease liabilities include the lease of office premises from a subsidiary. No variable lease payments are applicable to the Group's and Bank's liabilities in respect of the leased office premises.

30.1.3 Amounts recognised in profit or loss

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Interest on lease liabilities (Note 9)	134,203	86,379	59,513	52,184
Gains on lease modifications (Note 14)	-	11,764	-	106,101
Expenses relating to short-term leases (Note 16)	494,121	461,064	307,621	193,124
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (Note 16)	7,614	28,609	1,139	23,575

Extension options

Some leases of office premises contain extension options exercisable by the Group up to twelve months before the end of the non-cancellable contract period. Some extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

30.2 Leases as lessor

30.2.1 Operating lease

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 29 sets out information about the operating leases of investment property. Rental income recognised by the Group during the year ended 31 December 2023 was USD0.8 million (2022: USD0.8 million) (refer to Note 14).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	Group	
	2023 USD	2022 USD
Less than one year	614,380	513,964
Between one and five years	1,540,060	1,193,351
Total	2,154,440	1,707,315

31 Intangible assets and goodwill

31.1 Reconciliation of carrying amount

Group

	Goodwill USD	Software USD	Total USD
Cost			
At 1 January 2022	14,423,542	11,784,465	26,208,007
Additions	-	318,308	318,308
Write-offs	(13,163,836)	-	(13,163,836)
Effects of movement in exchange rates	(1,259,706)	(3,895)	(1,263,601)
At 31 December 2022	-	12,098,878	12,098,878
At 1 January 2023	-	12,098,878	12,098,878
Additions	-	490,433	490,433
Write-offs	-	(2,844,202)	(2,844,202)
Effects of movement in exchange rates	-	277	277
At 31 December 2023	-	9,745,386	9,745,386
Accumulated amortisation and impairment losses			
At 1 January 2022	8,818,192	8,013,220	16,831,412
Charge for the year	-	992,582	992,582
Write-offs	(13,163,836)	-	(13,163,836)
Impairment loss	5,249,307	-	5,249,307
Effects of movement in exchange rates	(903,663)	(3,778)	(907,441)
At 31 December 2022	-	9,002,024	9,002,024
At 1 January 2023	-	9,002,024	9,002,024
Charge for the year	-	963,300	963,300
Write-offs	-	(2,844,202)	(2,844,202)
Effects of movement in exchange rates	-	277	277
At 31 December 2023	-	7,121,399	7,121,399
Carrying amounts			
At 1 January 2022	5,605,350	3,771,245	9,376,595
At 31 December 2022	-	3,096,854	3,096,854
At 31 December 2023	-	2,623,987	2,623,987

During the financial year ended 31 December 2023, the Group and Bank wrote off intangible assets which were fully amortised given that this 'Software' is no longer in use. No write-offs were effected during the financial year ended 31 December 2022 in respect of 'Software'.

BankSoftware
USD**Cost**

At 1 January 2022	11,711,496
Additions	318,308
At 31 December 2022	12,029,804

At 1 January 2023	12,029,804
Additions	490,433
Write-offs	(2,844,202)
At 31 December 2023	9,676,035

Accumulated amortisation

At 1 January 2022	7,937,181
Charge for the year	992,770
At 31 December 2022	8,929,951

At 1 January 2023	8,929,951
Charge for the year	965,550
Write-offs	(2,844,202)
At 31 December 2023	7,051,299

Carrying amounts

At 1 January 2022	3,774,315
At 31 December 2022	3,099,853
At 31 December 2023	2,624,736

31.2 Impairment testing for CGUs containing goodwill

The Group wrote off any remaining goodwill during the financial year ended 31 December 2022 following an impairment assessment in respect of its cash generating units (refer to Note 27 for further details in respect of the impairment assessment of India Factoring and Egypt Factors). No additional goodwill was recognised by the Group during the financial year ended 31 December 2023.

For the purposes of impairment testing, goodwill was allocated to the Group's cash generating units ("CGUs") as follows:

	Group 2023 USD	2022 USD
India Factoring		
- cost, net of exchange differences	-	12,292,542
- accumulated impairment, net of exchange differences	-	(12,292,542)
	-	-
Egypt Factors		
- cost	-	2,131,000
- accumulated impairment	-	(2,131,000)
	-	-

32 Deferred taxation

32.1 Analysis of deferred taxation

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Deferred tax assets				
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(512,806)	(680,857)	(562,820)	(735,325)
- expected credit loss allowances	7,643,657	8,932,627	4,021,841	6,896,077
- changes in fair value of financial instruments	76,463	76,463	76,463	76,463
- unabsorbed capital allowances	622,026	622,026	622,026	622,026
- unabsorbed tax losses	11,168,547	13,051,158	10,758,727	8,145,593
- lease liabilities	374,928	2,218,747	800,144	597,709
- right-of-use assets	(372,336)	(2,218,747)	(711,547)	(597,709)
Total deferred tax assets	19,000,479	22,001,417	15,004,834	15,004,834
Deferred tax liabilities				
Tax effect of temporary differences relating to:				
- fair valuation of property and equipment	2,486,352	2,366,893	-	-
- fair valuation of investment property	1,780,609	1,730,965	-	-
Total deferred tax liabilities	4,266,961	4,097,858	-	-

Deferred taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been substantively enacted by the end of the reporting period. The principal tax rate used is 35% (2022: 35%), with the exception of:

- deferred taxation on the fair valuation of non-depreciable property, which is computed on the basis applicable to disposals of immovable property mainly giving rise to a tax effect of 8% of the transfer value (2022: 8%);
- deferred taxation on unabsorbed tax losses and expected credit loss allowances relating to India Factoring, which is computed using the applicable tax rate of 25.168% (2022: 25.168%); and
- deferred taxation on right-of-use assets and lease liabilities relating to London Forfaiting Company Limited, which is computed using the applicable tax rate of 25% (2022: 19%).

The Group and Bank have concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets.

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

The losses can be carried forward indefinitely and have no expiry date, with the exception of tax losses arising in respect of India Factoring, which expire within 8 years from the end of the financial year in which they arise.

32.2 Unrecognised deferred taxation

At financial reporting date, the Bank had unutilised tax losses and temporary differences in respect of which deferred taxation was unrecognised, amounting to USD143.7 million (2022: USD134.0 million). In addition, other Group entities had unutilised and unrecognised tax losses amounting to USD38.8 million (2022: USD34.0 million). Unrecognised unabsorbed tax losses amounting to USD14.8 million carried in a Group entity, have an expiry period ranging between 31 March 2024 to 31 March 2025.

32.3 Movements in temporary differences during the year

32.3.1 Deferred tax assets

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Closing balance USD
2023					
Excess of capital allowances over depreciation	(680,857)	-	168,240	(189)	(512,806)
Expected credit loss allowances	8,932,627	-	(1,270,510)	(18,460)	7,643,657
Changes in fair values of financial instruments	76,463	-	-	-	76,463
Unabsorbed capital allowances	622,026	-	-	-	622,026
Unabsorbed tax losses	13,051,158	-	(1,888,237)	5,626	11,168,547
Lease liabilities	2,266,262	-	(1,892,389)	1,055	374,928
Right-of-use assets	(2,266,262)	-	1,894,912	(986)	(372,336)
	22,001,417	-	(2,987,984)	(12,954)	19,000,479
2022 (Restated)					
Excess of capital allowances over depreciation	(665,157)	-	(8,971)	(6,729)	(680,857)
Expected credit loss allowances	10,059,105	-	(841,197)	(285,281)	8,932,627
Changes in fair values of financial instruments	1,408,167	(1,331,704)	-	-	76,463
Unabsorbed capital allowances	622,026	-	-	-	622,026
Unabsorbed tax losses	13,410,430	-	(35,129)	(324,143)	13,051,158
Lease liabilities	2,274,845	-	(56,098)	-	2,218,747
Right-of-use assets	(2,218,747)	-	-	-	(2,218,747)
Other temporary differences	29,858	-	(29,858)	-	-
	24,920,527	(1,331,704)	(971,253)	(616,153)	22,001,417

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Closing balance USD
2023					
Excess of capital allowances over depreciation	(735,325)	-	172,505	-	(562,820)
Expected credit loss allowances	6,896,077	-	(2,874,236)	-	4,021,841
Changes in fair values of financial instruments	76,463	-	-	-	76,463
Unabsorbed capital allowances	622,026	-	-	-	622,026
Unabsorbed tax losses	8,145,593	-	2,613,134	-	10,758,727
Lease liabilities	597,709	-	202,435	-	800,144
Right-of-use assets	(597,709)	-	(113,838)	-	(711,547)
	15,004,834	-	-	-	15,004,834
2022 (Restated)					
Excess of capital allowances over depreciation	(735,325)	-	-	-	(735,325)
Expected credit loss allowances	6,810,121	-	85,956	-	6,896,077
Changes in fair values of financial instruments	1,408,167	(1,331,704)	-	-	76,463
Unabsorbed capital allowances	622,026	-	-	-	622,026
Unabsorbed tax losses	8,145,593	-	-	-	8,145,593
Lease liabilities	653,807	-	(56,098)	-	597,709
Right-of-use assets	(597,709)	-	-	-	(597,709)
Other temporary differences	29,858	-	(29,858)	-	-
	16,336,538	(1,331,704)	-	-	15,004,834

32.3.2 Deferred tax liabilities

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates	Closing balance USD
2023					
Changes in fair value of investment property and property and equipment	(4,097,858)	(34,308)	12,911	(147,706)	(4,266,961)
2022					
Changes in fair value of investment property and property and equipment	(4,215,075)	470,277	(353,060)	-	(4,097,858)

33 Other assets

	Group		Bank	
	2023	2022 Restated	2023	2022 Restated
	USD	USD	USD	USD
Accounts receivable and prepayments	5,273,208	5,001,366	4,004,424	3,999,635
Accrued income	167,308	80,962	68,901	54,619
Indirect taxation receivable	210,013	223,532	160,427	171,732
Cash pledged in favour of the Depositor Compensation Scheme	2,811,005	2,149,970	2,811,005	2,149,970
Cash pledged in favour of the Single Resolution Fund	445,474	388,680	445,474	388,680
Other assets	254,052	66,980	256,879	65,648
	9,161,060	7,911,490	7,747,110	6,830,284

'Accounts receivable and prepayments' includes an amount of USD758,925 (2022: USD1,106,078) related to subsidiary companies of the Bank.

Cash amounting to USD2,811,005 (2022: USD2,149,970) has been pledged in favour of the Depositor Compensation Scheme. In addition, cash amounting to USD445,474 (2022: USD388,680) has been pledged taking into account the Single Resolution Fund as an Irrevocable Payment Commitment ("IPC") in terms of the Recovery and Resolution Regulations (refer to Note 41).

See Note 44 for balances with related parties.

34 Amounts owed to institutions and banks

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Term loans and deposits	343,559,071	389,266,657	264,486,542	302,759,185
Repayable on demand	69,011,860	84,028,599	69,011,860	84,028,599
	412,570,931	473,295,256	333,498,402	386,787,784

The Group and Bank participate in Targeted Longer Term Refinancing Operations (“TLTROs”) and other liquidity providing operations with the European Central Bank. In this respect, and as disclosed in the respective notes, ‘Treasury bills’, ‘Financial investments measured at fair value through other comprehensive income’ and ‘Financial investments measured at amortised cost’ are pledged in favour of the Central Bank of Malta as collateral in respect of these funding operations. As at 31 December 2023, the Group’s and Bank’s outstanding amounts in respect of TLTROs and other liquidity providing operations are USD22,638,502 (2022: USD20,974,225) and USD148,252,792 (2022: USD98,325,205), respectively. These amounts are included within term loans and deposits in the table above.

‘Amounts owed to institutions and banks’ include balances amounting to USD35,667,488 (2022: USD21,296,527) which are held as collateral in respect of term loans and advances to banks. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

See Note 44 for balances due to related parties.

35 Amounts owed to customers

Group

	31 December 2023	31 December 2022	1 January 2022
	USD	Restated USD	Restated USD
Term deposits	814,978,653	732,574,374	679,438,958
Repayable on demand	119,760,289	143,613,391	142,735,821
	934,738,942	876,187,765	822,174,779

Bank

	31 December 2023	31 December 2022	1 January 2022
	USD	Restated USD	Restated USD
Term deposits	814,978,653	732,574,374	679,438,958
Repayable on demand	114,172,044	135,778,190	135,975,523
Amounts owed to subsidiary companies	22,015,633	867,851	7,536,357
	951,166,330	869,220,415	822,950,838

As at 31 December 2023, the Group and the Bank have customer deposits amounting to USD21,740,772 (2022: USD62,486,402) and USD21,740,772 (2022: USD62,479,541), respectively, which are pledged in favour of the Group and Bank as collateral for loans and advances to customers. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

‘Amounts owed to subsidiary companies’ include facilities that are interest-free, unsecured and repayable on demand, with the exception of deposits amounting to USD2,226,354 (2022: USD110,355) which bear interest at a fixed rate of 2.5% - 3.9% (2022: 1.4% - 3.9%) per annum.

See Note 44 for balances due to related parties.

36 Debt securities in issue

	Group 2023 USD	2022 USD
Opening balance	15,451,068	45,345,575
Drawdowns	38,142,327	72,331,491
Repayments	(26,893,950)	(99,499,621)
Movement in accrued interest	288,991	(87,889)
Effects of movement in exchange rate	555,428	(2,638,488)
Closing balance	27,543,864	15,451,068

'Debt securities in issue' as at 31 December 2023 and 31 December 2022 comprise of unsecured promissory notes with a tenor of less than one year. One of the promissory notes is subject to a fixed interest rate, whereas the remaining three promissory notes are subject to a floating interest rate (linked to 3-month or 6-month Secured Overnight Financing Rate ("SOFR")). The effective interest rate in respect of 'Debt securities in issue' ranges between 5.3% and 6.085% (2022: 3.475% and 3.69%). In respect of two of the promissory notes, the Group has an early repayment option. However, in view of the short-term maturity horizon of the promissory notes, the potential impact of the Group exercising the option is deemed to be immaterial.

37 Provision for liabilities and charges

	Group		Bank	
	2023 USD	2022 USD	2023 USD	2022 USD
Expected credit loss provision on guarantees	7,551	43,775	7,551	43,777
Expected credit loss provision on guarantees - subsidiary companies	-	-	277	31,647
Expected credit loss provision on commitments	82,307	277,120	82,307	44,551
Expected credit loss provision on commitments - subsidiary companies	-	-	-	1,234
Provision for end of service compensation	-	500,000	-	-
Provision for restoration costs	92,093	86,860	-	-
Other provisions	54,263	-	-	-
	236,214	907,755	90,135	121,209

Expected credit loss in respect of off-balance sheet instruments

Provisions for liabilities and other charges comprises the recognition of expected credit losses in respect of off-balance sheet financial guarantee contracts and commitments where the Group and Bank has become party to an irrevocable commitment, as defined under IFRS 9 'Financial Instruments'. The movement in expected credit losses in respect of such instruments is disclosed within Note 5.

End of service compensation

As part of the Group's strategic initiatives to further improve the operational structure of the subsidiary entities, a provision for USD500,000 was recognised during the financial year ended 31 December 2022 in respect of end of service compensation granted to the Chief Executive Officer of a subsidiary company, reflecting the estimated payments to the affected individual employee. This provision was raised in respect of the planned termination of the employment contract of the above mentioned individual. During the financial year ended 31 December 2023, the Group increased the provision by USD100,000 to reflect ongoing negotiations. This provision was reclassified to 'Other liabilities' by 31 December 2023, in view of the fact that the agreement with the above mentioned individual was finalised and the liability crystallised prior to year-end.

38 Other liabilities

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Creditors and accruals	15,299,353	10,815,857	7,322,316	6,500,079
Deferred fee income	1,124,775	1,052,870	442,924	277,566
Indirect taxation payable	46,752	53,391	-	375
Lease liabilities (Note 30)	2,118,563	2,704,717	2,286,126	3,490,312
Other liabilities	1,182,172	230,615	582,172	230,616
	19,771,615	14,857,450	10,633,538	10,498,948

'Other liabilities' include end of service compensation payable to an individual employee as at 31 December 2023 (2022: Nil), as described in further detail in Note 37.

'Deferred fee income' include USD2,664 (2022: Nil) payable to subsidiary companies of the Bank. 'Lease liabilities' include USD2,211,725 (2022: USD3,372,506) payable to subsidiary companies of the Bank.

See Note 44 for balances due to related parties.

39 Equity

39.1 Share capital

	Group and Bank			
	2023		2022	
	Shares of 50 US cents Shares	USD	Shares of 50 US cents Shares	USD
Authorised				
Ordinary shares at 31 December	1,000,000,000	500,000,000	1,000,000,000	500,000,000
Issued and fully paid up				
Ordinary shares at 31 December	522,443,763	261,221,882	522,443,763	261,221,882

	Group and Bank Ordinary shares	
	2023 No of shares	2022 No of shares
On issue at 1 January	522,443,763	522,443,763
On issue at 31 December	522,443,763	522,443,763

39.2 Share premium

The share premium represents the excess, net of issue costs, over the nominal value of shares, received through a number of capital raising initiatives including new equity from strategic shareholders, rights issues, scrip dividend and allotment of shares under the executive share option schemes. This reserve is non-distributable.

39.3 Reserve for general banking risks

The reserve for general banking risks was a regulatory reserve created by virtue of Banking Rule 9 - Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act 1994. Under this Rule, banks were required to calculate a regulatory allocation which was equal to their level of non-performing exposures (gross of any collateral but reduced for suspended interest) reduced by the specific impairment allowance as calculated and disclosed in these Financial Statements. An amount ranging between 2.5% and 5.0% of the regulatory allocation was then appropriated to the 'Reserve for general banking risks'. Following revisions to Banking Rule 9, banks are no longer required to hold this reserve and, as a result, the amounts which were previously recognised within this reserve were reclassified to 'Accumulated losses' as at 31 December 2022.

39.4 Currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations and the fair value changes on the hedging of net investment in foreign operations.

39.5 Fair value reserve

The fair value reserve comprises:

- the cumulative change in the fair value of revalued property, net of income taxes; and
- the cumulative change in the fair value of debt securities measured at fair value through other comprehensive income until the assets are derecognised or reclassified, net of income taxes and loss allowances.

39.6 Other reserve

The reserve consists of amounts representing the difference between the net proceeds received on the sale of own shares, net of the relative acquisition costs, and the share issue costs by a subsidiary undertaking.

39.7 Dividends

No dividends were declared or paid in respect of the financial years ended 31 December 2023 and 31 December 2022. As none of the reserves are available for distribution, the Board of Directors will not be recommending the payment of a dividend for the financial year ended 31 December 2023.

40 Non-controlling interests

The following table summarises the information relating to the subsidiary that has a material non-controlling interest ("NCI"), before any intra-group eliminations:

31 December 2023

Acquisition date	India Factoring 31 March 2014
NCI percentage	11.84%
	USD
Total assets	129,328,698
Total liabilities	(91,715,879)
Net assets	37,612,819
Carrying amount of NCI	519,162
Net revenue for the year	5,853,429
Net revenue for the year allocated to NCI	693,046
Profit for the year	325,047
Profit allocated to NCI	38,486
Net increase in cash and cash equivalents	11,156,992

31 December 2022

Acquisition date	India Factoring 31 March 2014
NCI percentage	11.84%
	USD
Total assets	222,968,423
Total liabilities	(185,531,925)
Net assets	37,436,498
Carrying amount of NCI	482,593
Net revenue for the year	5,631,462
Net revenue for the year allocated to NCI	666,765
Loss for the year	(690,648)
Loss allocated to NCI	(81,772)
Net decrease in cash and cash equivalents	(11,683,713)

41 Contingent liabilities

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Payment commitments to the Depositor Compensation Scheme	2,811,005	2,149,970	2,811,005	2,149,970
Payment commitments to the Single Resolution Fund	445,474	388,680	445,474	388,680
Guarantees issued to banks	14,687,080	4,518,391	14,687,080	4,518,391
Guarantees issued to customers	13,338,194	7,616,051	13,338,194	7,609,191
Guarantees issued to subsidiary companies	-	-	11,049,724	24,004,301
	31,281,753	14,673,092	42,331,477	38,670,533

As at December 2023, an expected credit loss allowance, determined in accordance with IFRS 9, amounting to USD7,551 (2022: USD43,775) for the Group and USD7,828 (2022: USD75,424) for the Bank, was recognised and presented within 'Provision for liabilities and charges' in respect of guarantees issued by the Group and Bank.

Payment commitments to the Depositor Compensation Scheme ("DCS") and the Single Resolution Fund ("SRF") relate to possible future contributions payable to the DCS and the SRF. The DCS provides compensation, up to certain limits, to eligible customers of credit institutions that are unable, or likely to be unable, to pay claims against them. The DCS may impose a further contribution on the Group and Bank to the extent the contributions imposed to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate contribution to the industry as a result of a collapse cannot be estimated reliably. It is dependent on various uncertain factors including the potential recovery of assets by the DCS, changes in the level of protected products (including deposits and investments) and the population of DCS members at the time. At 31 December 2023, assets pledged in favour of the DCS comprised of cash collateral amounting to USD2,811,005 (2022: USD2,149,970). The cash collateral is classified within 'Other assets' in the statement of financial position. A contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

In addition, in accordance with article 70(3) of Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010, the available financial means of the SRF may include irrevocable payment commitments which are fully backed by unencumbered collateral of low-risk assets. The share of irrevocable payment commitments cannot exceed 30% of the total amount of contributions. At 31 December 2023, irrevocable payment commitments to the SRF amounted to USD445,474 (2022: USD388,680). The cash collateral is classified within 'Other assets' in the statement of financial position. In addition, a contingent liability for an identical amount is disclosed in the table above to reflect the possibility that this commitment becomes payable.

42 Commitments

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Commitments to purchase assets				
Undrawn credit facilities	72,943,304	60,774,694	72,943,304	60,774,694
Confirmed letters of credit	10,217,120	21,083,250	10,217,120	19,448,466
Documentary credits	17,059,663	6,389,064	17,059,663	6,389,064
Risk participations	-	4,802,199	-	4,802,199
Commitment to purchase assets	77,003,510	6,952,256	-	-
Commitments to sell assets				
Commitment to sell assets	(29,419,890)	-	-	-
	147,803,707	100,001,463	100,220,087	91,414,423

The Group has total sanctioned limits to customers amounting to USD1,824,476,886 (2022: USD1,793,981,647). As at 31 December 2023, the Bank had no confirmed documentary credits in favour of subsidiary companies (2022: USD552,716). As at 31 December 2023, an expected credit loss allowance, determined in accordance with IFRS 9, amounting to USD82,307 (2022: USD277,120) for the Group and USD82,307 (2022: USD45,785) for the Bank, was recognised and presented within 'Provision for liabilities and charges'.

In this respect, this disclosure presents information required by IFRS 7 – Financial Instruments: Disclosures in relation to credit related commitments.

43 Cash and cash equivalents

Balances of cash and cash equivalents as shown on the Statements of Financial Position are analysed as follows:

	Group		Bank	
	2023	2022	2023	2022
	USD	Restated USD	USD	Restated USD
Balances with the Central Bank of Malta, treasury bills and cash	221,812,510	91,573,516	221,799,380	91,558,657
Loans and advances to banks	53,246,027	20,977,354	18,200,076	11,418,767
Amounts owed to institutions and banks	(162,015,093)	(156,470,539)	(112,269,724)	(93,365,526)
Cash and cash equivalents at end of year	113,043,444	(43,919,669)	127,729,732	9,611,898
Adjustment to reflect balances with contractual maturity of more than three months	(19,789,241)	(62,794,336)	6,094,166	(53,664,783)
As per statements of financial position	93,254,203	(106,714,005)	133,823,898	(44,052,885)
Analysed as follows:				
Balances with the Central Bank of Malta, treasury bills and cash	353,010,186	216,867,325	352,997,057	216,852,467
Loans and advances to banks	152,814,948	149,713,926	114,325,243	125,882,432
Amounts owed to institutions and banks	(412,570,931)	(473,295,256)	(333,498,402)	(386,787,784)
	93,254,203	(106,714,005)	133,823,898	(44,052,885)

44 Related parties

44.1 Identification of related parties

The majority shareholding of the Bank is held by United Gulf Holding Company B.S.C. ("UGH"), a subsidiary of Kuwait Projects Company (Holding) K.S.C.P. ("KIPCO") headquartered in Kuwait. All entities which are ultimately controlled by KIPCO, together with the other minority shareholders and entities controlled by them, are considered to be related parties.

Key Management personnel of the Bank, being the Bank's Directors and Executive Officers, and close family members of Key Management personnel are also considered to be related parties. The Executive Officers, which form part of the Bank's Executive Committee, are referred to within the Statement of Compliance with the Principles of Good Corporate Governance.

44.2 Parent, shareholder having significant influence and other related companies

The aggregate values of transactions and outstanding balances related to the parent and subsidiary companies of the parent company were as follows:

	Ultimate and immediate parent companies *		Subsidiaries of immediate parent company **	
	2023 USD	2022 USD	2023 USD	2022 USD
Assets				
Loans and advances to customers	21,917,150	39,915,398	-	-
Financial investments at amortised cost	9,771,244	9,805,955	-	-
Liabilities				
Derivative liabilities held for risk management	-	-	-	44,026
Amounts owed to institutions and banks	-	-	270,647	48,335
Amounts owed to customers	30,830	47,294,349	2,433	2,508
Statements of profit or loss				
Interest income	2,704,809	1,803,585	-	-
Interest expense	(8,389)	(2,083)	-	(2,194)
Fee and commission income	85	78	7,349	8,042
Fee and commission expense	(3,046)	(6,957)	-	-
Net trading results	-	-	144,018	(26,311)
Administrative expenses	-	-	(313,312)	(60,897)

'*' Amounts presented in these columns represent balances and transactions with KIPCO and UGH

'**' Amounts presented in these columns represent balances and transactions with subsidiary companies of UGH

As at 31 December 2022, from the total in 'Amounts owed to customers' related to the parent, USD40,000,000 were held as collateral against loans and advances to customers with a related company.

The aggregate values of transactions and outstanding balances related to the shareholder having significant influence, subsidiary of shareholder having significant influence and other related companies were as follows:

	Shareholder having significant influence		Subsidiary of shareholder having significant influence		Other related companies	
	2023	2022	2023	2022	2023	2022
	USD	USD	USD	USD	USD	USD
Assets						
Loans and advances to banks	350,751	96,550	-	-	-	-
Loans and advances to customers	-	-	-	-	30,000	40,414,656
Other assets	-	-	-	-	1,431	-
Liabilities						
Amounts owed to customers	-	-	-	-	22,092	17,111
Other liabilities	-	-	-	-	712	687
Statements of profit or loss						
Interest income	-	-	-	-	145,040	1,517,135
Interest expense	-	(197,384)	-	(99,783)	-	-
Fee and commission income	-	-	-	-	20	42,590
Fee and commission expense	-	-	-	(51,268)	(15,829)	(4,738)
Administrative expenses	(11,596)	-	-	-	-	-

44.3 Transactions with key management personnel

	Directors		Executive officers	
	2023	2022	2023	2022
	USD	USD	USD	USD
Liabilities				
Amounts owed to customers	853,071	732,829	49,567	336,545
Other liabilities	-	-	-	1,920
Statements of profit or loss				
Interest income	-	-	-	1
Interest expense	(14,075)	(8,752)	(719)	(1,227)
Fee and commission income	240	240	16	-
Administrative expenses - remuneration	(388,106)	(415,959)	(2,705,353)	(2,648,004)
Administrative expenses - other long-term benefits	(391)	(400)	(579,460)	(520,801)
Administrative expenses - short-term benefits	-	-	(15,113)	-
Administrative expenses - others	(18,366)	(39,444)	(59,175)	(48,534)

Directors of the Group control less than 1 per cent of the voting shares of the Bank (2022: less than one per cent).

44.4 Other related party transactions

	Other related parties	
	2023	2022
	USD	USD
Liabilities		
Amounts owed to customers	468,100	342,901
Statements of profit or loss		
Interest expense	(8,252)	(5,199)

Other related party transactions relate to family members of Directors of the Group.

44.5 Transaction and balances with the Bank's subsidiary companies

Information on amounts related to subsidiary companies are reported in Notes 9, 10, 11, 13, 14, 16, 20, 23, 27, 33, 35, 37, 38, 41 and 42 of these Financial Statements.

45 Capital commitments

'Capital commitments' refer to expenditure of a capital nature that were authorised by the Group and Bank but not yet incurred or payable. In this respect, this disclosure presents information required by IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets.

At financial reporting date, the Group and Bank had the following commitments:

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Authorised and contracted	205,395	170,382	200,000	120,000
Authorised but not contracted	1,052,983	91,596	90,000	15,998
	1,258,378	261,978	290,000	135,998

46 Other commitments

'Other commitments' refer to expenditure of an administrative nature that the Group and the Bank have authorised but have not yet incurred since these relate to services which will be received subsequent to year end and therefore relate to future financial periods.

At financial reporting date, the Group and Bank had the following commitments:

	Group		Bank	
	2023	2022	2023	2022
	USD	USD	USD	USD
Authorised and contracted	6,028,022	6,107,754	5,664,108	5,346,202
Authorised but not contracted	678,127	1,076,717	670,116	1,068,985
	6,706,149	7,184,471	6,334,224	6,415,187

47 Subsequent events

47.1 Merger

On 25 January 2024, the Bank issued a Company Announcement, announcing that as part of a streamlining initiative and corporate restructuring exercise, the Bank's Board of Directors has resolved to approve a merger by acquisition between the Bank, as the acquiring company, and FIM Business Solutions Limited as the company being acquired (the "Merger").

FIM Business Solutions Limited, is a company incorporated under the Laws of Malta, bearing company registration number C 36423 and having its registered address at Mercury Tower, the Exchange Financial & Business Centre, Elia Zammit Street, San Giljan, STJ3155.

The Bank has obtained regulatory approval from the Malta Financial Services Authority in relation to the proposed Merger, which shall in turn be carried out in accordance with the provisions of Part VIII, Title II of the Companies Act (Chapter 386 of the Laws of Malta). Upon the Merger taking effect, the Bank shall succeed to all the assets, rights, liabilities, and obligations of FIM Business Solutions Limited, which in turn, shall cease to exist.

The Board of Directors believes that the Merger is in the best interest of the Bank and renders the structure of the Group more effective and efficient. The impact of the Merger on the financial position and financial performance of the Bank is deemed to be insignificant.

47.2 Dividends received

In March 2024, the Bank received a cash dividend of USD2.0 million from its wholly owned subsidiary London Forfaiting Company Limited.

The Group has no other subsequent events to report.

48 Ultimate parent company

The ultimate parent company of FIMBank p.l.c. is Kuwait Projects Company (Holding) K.S.C.P. ("KIPCO") a company registered in Kuwait. The registered address is KIPCO Tower, Khalid Bin Al Waleed Street, Sharq, Kuwait City.

The immediate parent company is United Gulf Holding Company B.S.C. ("UGH"), a holding company licensed by the Ministry of Industry, Commerce and Tourism in Bahrain. The registered address is PO Box 5565, Diplomatic Area, UGB Tower, Manama, Kingdom of Bahrain.

Statement by the directors pursuant to Capital Markets Rule 5.68

For the year ended 31 December 2023

We, the undersigned, declare that to the best of our knowledge, the Financial Statements set out on pages 40 to 193 prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 24 April 2024 as per Director's Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Financial Statements 2023.

Schedule I

Statements of profit or loss

Five-year summary – Bank

	2023	2022	2021	2020	2019
	USD	Restated USD	USD	USD	USD
Interest income	52,818,308	30,248,635	19,588,232	22,721,724	30,311,233
Interest expense	(33,156,902)	(13,509,191)	(10,457,006)	(11,482,001)	(14,037,860)
Net interest income	19,661,406	16,739,444	9,131,226	11,239,723	16,273,373
Fee and commission income	3,116,178	2,744,994	4,940,843	5,366,867	7,753,143
Fee and commission expense	(1,206,187)	(1,924,794)	(2,165,538)	(2,552,278)	(3,078,283)
Net fee and commission income	1,909,991	820,200	2,775,305	2,814,589	4,674,860
Net trading results	(921,644)	1,411,029	542,868	(554,107)	3,107,935
Net gain/(loss) from equity instruments measured at fair value	768,541	(337,257)	-	-	-
Dividend income	12,221,863	10,321,545	16,989,049	7,240,817	43,591,794
Other operating income	328,330	566,474	133,940	120,725	118,904
Other operating expenses	(24,531)	(364,205)	(155,943)	-	-
Operating income before net impairment	33,943,956	29,157,230	29,416,445	20,861,747	67,766,866
Net impairment charge on financial assets	(2,993,592)	(17,424,101)	(3,699,557)	(34,272,400)	(14,210,257)
Impairment of investments in subsidiaries	-	(8,261,536)	(87,356)	(9,314,000)	-
Operating income	30,950,364	3,471,593	25,629,532	(22,724,653)	53,556,609
Administrative expenses	(24,824,525)	(22,139,252)	(23,213,366)	(23,722,803)	(20,305,701)
Depreciation and amortisation	(2,828,936)	(2,811,670)	(2,965,967)	(2,962,370)	(2,896,531)
Total operating expenses	(27,653,461)	(24,950,922)	(26,179,333)	(26,685,173)	(23,202,232)
Profit/(Loss) before tax	3,296,903	(21,479,329)	(549,801)	(49,409,826)	30,354,377
Taxation	(806,755)	(530,755)	(113,418)	(6,566,776)	(765,433)
Profit/(Loss) for the year	2,490,148	(22,010,084)	(663,219)	(55,976,602)	29,588,944

Schedule II

Statements of financial position

Five-year summary – Bank

	2023	2022	2021	2020	2019
	USD	Restated USD	Restated USD	USD	USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	352,997,057	216,852,467	239,982,048	319,267,749	208,259,407
Derivative assets held for risk management	812,609	1,610,475	841,688	1,019,288	96,285
Loans and advances to banks	114,325,243	125,882,432	182,458,548	179,364,067	232,351,750
Loans and advances to customers	618,118,225	718,910,427	745,564,139	779,834,360	811,152,849
Financial investments at fair value through profit or loss	19,329,840	18,179,220	19,966,163	20,385,323	125,342,798
Financial investments at fair value through other comprehensive income	140,755,780	143,189,022	162,408,542	153,327,686	79,367,556
Financial investments at amortised cost	28,399,073	14,602,008	9,914,754	9,839,457	9,785,496
Investments in subsidiaries	157,687,573	152,687,573	159,448,858	147,436,214	147,948,385
Property and equipment	2,994,784	4,770,241	1,965,249	3,507,509	5,229,059
Intangible assets	2,624,736	3,099,853	3,774,315	4,008,725	4,647,642
Current tax assets	-	-	66,667	76,225	226,886
Deferred tax assets	15,004,834	15,004,834	16,336,538	15,590,954	22,011,162
Other assets	7,747,110	6,830,284	3,848,321	5,570,563	8,824,153
Total assets	1,460,796,864	1,421,618,836	1,546,575,830	1,639,228,120	1,655,243,428
Liabilities and equity					
Liabilities					
Derivative liabilities held for risk management	626,476	818,031	1,533,556	1,629,434	193,691
Amounts owed to institutions and banks	333,498,402	386,787,784	497,633,356	387,900,641	405,072,025
Amounts owed to customers	951,166,330	869,220,415	838,675,598	1,037,118,337	978,134,002
Provision for liabilities and charges	90,135	121,209	201,775	173,051	85,159
Other liabilities	10,633,538	10,498,948	7,921,481	7,645,488	13,077,128
Total liabilities	1,296,014,881	1,267,446,387	1,345,965,766	1,434,466,951	1,396,562,005
Equity					
Share capital	261,221,882	261,221,882	261,221,882	261,221,882	261,221,882
Share premium	858,885	858,885	858,885	858,885	858,885
Reserve for general banking risks	-	-	2,218,995	3,358,738	2,323,486
Fair value reserve	(17,382,450)	(25,501,836)	(1,074,305)	2,413,581	357,233
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Accumulated losses	(82,597,375)	(85,087,523)	(65,296,434)	(65,772,958)	(8,761,104)
Total equity	164,781,983	154,172,449	200,610,064	204,761,169	258,681,423
Total liabilities and equity	1,460,796,864	1,421,618,836	1,546,575,830	1,639,228,120	1,655,243,428
Memorandum items					
Contingent liabilities	42,331,477	38,670,533	39,327,362	44,246,902	61,628,654
Commitments	100,220,087	91,414,423	107,469,111	105,245,766	143,026,427

Schedule III

Cash flow statements

Five-year summary – Bank

	2023 USD	2022 USD	2021 USD	2020 USD	2019 USD
Net cash flows generated from/(used in) operating activities	111,619,035	26,554,154	(118,733,012)	61,848,191	28,447,866
Cash flows from investing activities					
Payments to acquire financial investments at fair value through profit or loss	-	-	-	-	(2,469,245)
Payments to acquire financial investments at fair value through other comprehensive income	-	(25,549,207)	(74,874,050)	(109,616,706)	(84,984,922)
Payments to acquire financial investments at amortised cost	(13,440,236)	(14,569,219)	-	-	-
Payments to acquire treasury bills at amortised cost	(288,263,020)	(429,590,021)	-	-	-
Payments to acquire shares in subsidiary companies	-	(252)	-	(1,801,829)	(5,352,772)
Payments to acquire shares in other investments	-	-	-	-	-
Payments to acquire property and equipment	(34,872)	(916,620)	(399,511)	(142,744)	(372,658)
Payments to acquire intangible assets	(490,433)	(318,308)	(779,881)	(393,096)	(951,219)
Proceeds on disposal of financial investments at fair value through profit or loss	249,464	127,493	160,770	105,639,259	50,000,000
Proceeds on disposal of financial investments at fair value through other comprehensive income	13,745,002	13,000,000	50,918,619	49,246,582	93,035,159
Proceeds on disposal of financial investments at amortised cost	-	9,800,719	-	-	-
Proceeds on disposal of treasury bills at amortised cost	288,934,098	296,265,806	-	-	-
Proceeds on disposal of property and equipment	27,500	1,565	9,751	-	3,551
Receipt of dividend	7,221,863	8,821,545	4,889,049	240,817	4,628,411
Net cash flows generated from/(used in) investing activities	7,949,366	(142,926,499)	(20,075,253)	43,172,283	53,536,305
Cash flows from financing activities					
Issue of share capital	-	-	-	-	84,887
Net movement in debt securities	-	-	-	-	(14,834,943)
Payment of lease liabilities	(1,450,567)	(1,330,082)	(1,787,096)	(997,729)	(2,354,026)
Net cash flows used in financing activities	(1,450,567)	(1,330,082)	(1,787,096)	(997,729)	(17,104,082)
Increase/(Decrease) in cash and cash equivalents	118,117,834	(117,702,427)	(140,595,361)	104,022,745	64,880,089
Cash and cash equivalents at beginning of year	9,611,898	127,314,325	267,909,686	163,886,941	99,006,852
Cash and cash equivalents at end of year	127,729,732	9,611,898	127,314,325	267,909,686	163,886,941

Schedule IV

Accounting ratios

Five-year summary – Bank

	2023 %	2022 %	2021 %	2020 %	2019 %
Net interest income and other operating income to total assets	1.37	2.21	2.05	1.43	4.28
Operating expenses to total assets	(1.89)	(1.76)	(1.69)	(1.63)	(1.40)
Profit/(Loss) before tax to total assets	0.23	(1.51)	(0.04)	(3.01)	1.83
Pre-tax return on capital employed	2.00	(13.93)	(0.27)	(24.13)	11.73
Profit/(Loss) after tax to equity	1.51	(14.28)	(0.33)	(27.34)	11.44
	2023	2022	2021	2020	2019
Weighted average number of shares in issue (000's)	522,444	522,444	522,444	522,444	514,568
Net assets per share (US cents)	31.54	29.51	38.40	39.19	50.27
Basic earnings per share (US cents)	0.48	(4.21)	(0.13)	(10.71)	5.75

Directors and executive management

Board of Directors

John C. Grech (Chairman)
 Masaud M.J. Hayat (Vice Chairman)
 Edmond Brincat
 Erich Schumacher
 Hussain Abdul Aziz Lalani
 Mohammed Louhab
 Rabih Soukarieh
 Sunny Bhatia

Company Secretary

Andrea Batelli

Registered Address

Mercury Tower
 The Exchange Financial and Business Centre
 Elia Zammit Street
 St. Julian's STJ 3155
 MALTA

Contact Number

Tel: +356 2132 2100

Executive Management

FIMBank p.l.c.

Group Chief Executive Officer

Mohammed Louhab

First Executive Vice President

Simon Lay

Deputy Chief Executive Officer

Executive Vice Presidents

Adrian A. Gostuski
 Andrea Batelli

Advisor to the CEO (Resigned on 6 April 2024)
 Group General Counsel,
 Head of Investor Relations & Company Secretary
 Group Chief Human Resources Officer
 Group Chief Financial Officer
 Group Chief Risk Officer
 Advisor to the GCEO
 Group Chief Compliance Officer & MLRO

Christine Coleiro
 Juraj Beno
 Modesto Luengo
 Ronald Haverkorn
 Thomas Dodd

London Forfaiting Company Limited

Chief Executive Officer

Simon Lay

Company Secretary

William Ramzan

Chief Financial Officer

India Factoring and Finance Solutions (Private) Limited

Chief Executive Officer

Ravi Valecha

Company Secretary

Swati Zawar

Manager – Compliance

The Egyptian Company for Factoring S.A.E.

Chief Executive Officer

Ahmed Shaheen

Company Secretary

Mohamed Gamaleldien

Head of Legal



Independent auditor's report

To the Shareholders of FIMBank p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- The Group financial statements and the Parent Company (“the Bank”) financial statements (the “financial statements”) of FIMBank p.l.c. give a true and fair view of the Group and the Parent Company’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 Committee.

What we have audited

FIMBank 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 statements of profit or loss and statements of other 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

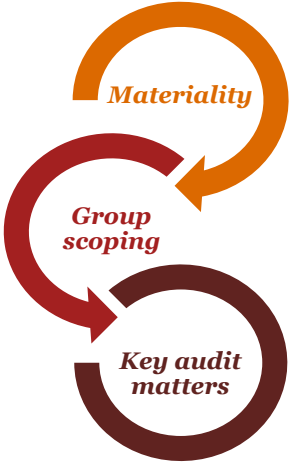
We are independent of the Group and the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the 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 16 to the financial statements.

Our audit approach

Overview

	<ul style="list-style-type: none">• Overall group materiality: USD1,793,000, which represents 1% of net assets.• The group audit engagement team performed a full scope audit on the financial statements of the Bank and FIM Property Investment Limited, which is one of the Bank's subsidiaries, and performed specified audit procedures on certain account balances of London Forfaiting Company Limited.• The other two significant components, namely FIMFactors B.V. (and its subsidiary India Factoring and Finance Solutions Private Ltd) and The Egyptian Company for Factoring S.A.E., were audited by other auditors.• The group audit engagement team performed oversight procedures on the work of other auditors.• Credit loss allowances in respect of loans and advances to customers of the Group and Bank• Valuation of the Group's trading assets measured at fair value• Recoverability of deferred tax assets of the Group and Bank
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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	USD1,793,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	<p>We chose net assets as the benchmark in view of the volatility of the Group's profit before tax over the past five years. Moreover, in our view, the actual return attributable to equity holders is dependent on the adequacy of the Group's capitalisation in view of the regulatory restrictions in respect of dividend distributions, while also being a generally accepted benchmark. In this respect, we considered net assets to be more reflective of the financial position and financial performance of the Group.</p> <p>We chose 1% which is within the range of quantitative materiality thresholds that we consider acceptable.</p>

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above USD89,650 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
<p>Credit loss allowances in respect of loans and advances to customers of the Group and Bank</p> <p>Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within the loan portfolios at the balance sheet date.</p>	<p>During our audit of the financial statements for the year ended 31 December 2023, we focused on the key drivers of the estimation of ECL. In this respect, we evaluated and tested the appropriateness of management assumptions and key parameters.</p>

The Group has four lending portfolios:

- the Local Corporate Lending portfolio, predominantly comprising loans to entities within the real estate sector in Malta;
- the Factoring Receivables portfolio, consisting of factored receivables (both on a non-recourse and recourse basis) originated in Europe, India and the Middle East;
- the Trade Finance portfolio, comprising import and export finance facilities originated in Europe; and
- a portfolio of other facilities including syndicated senior secured facilities to international corporates and shipping finance facilities.

The measurement of ECLs in respect of loans and advances to customers requires a considerable level of judgement since the determination of ECLs is subject to a high degree of estimation uncertainty. In this respect, it is considered a key area of focus.

The level of estimation uncertainty surrounding the measurement of ECLs in respect of the Group's lending portfolios remained elevated during the financial year ended 31 December 2023 in view of the inflationary pressures and interest rate environment experienced internationally, as well as the geopolitical tensions as a result of the ongoing military conflict in Eastern Europe and escalation of hostility within the Middle East. This affected a number of components forming part of the ECL calculation, including the determination of staging, the modelling of expected default levels and loss severities, and the determination of forward-looking scenarios giving rise to heightened subjectivity requiring a higher level of expert judgement.

Credit loss allowances relating to all loans and advances to customers are determined at an instrument level.

Significant judgement is required in the development and/or calibration of the models designed to estimate ECLs on loans measured at amortised cost in accordance with the requirements of IFRS 9, which has become more pronounced due to the macroeconomic conditions being experienced and the

Discussions with the Audit Committee included:

- the appropriateness of staging determined in respect of exposures that experienced credit deterioration during the year;
- the final ECL for Stage 1 and 2 exposures estimated by the vendor's model;
- observations in respect of the methodology applied by the Group to estimate ECLs in accordance with the requirements emanating from IFRS 9, including the appropriateness of the models and staging criteria used by the Group as part of the ECL calculation; and
- impairment allowances in respect of exposures classified as Stage 3.

In respect of the Group's ECL models used for estimating credit loss allowances attributable to non-defaulted exposures, the appropriateness of the modelling methodology used was independently assessed by reference to the requirements of IFRS 9. In addition, the appropriateness of the key assumptions used in, and the conceptual soundness of, the adapted discounted cash flow model utilised for the estimation of credit loss allowances attributable to defaulted exposures were similarly assessed, particularly the methodology used to determine forecasted operating cash flows.

ECL calculation for non-defaulted exposures

We understood and critically assessed the model used by the Group to measure expected credit loss allowances on exposures classified within Stages 1 and 2.

Our audit approach focused specifically on:

- obtaining comfort over the accuracy and completeness of model inputs, with the updating process being largely manual;
- assessing the reasonableness of the staging criteria applied by the Group, as well as the macroeconomic modelling aspect within the ECL model, especially in respect of the calibration of forward-looking economic scenarios within the ECL model; and
- backtesting the ECL outcome against publicly available information on observed default levels and expected default levels in the short-to-medium term.

For the purpose of obtaining comfort on the credit loss allowances for Stage 1 and 2 exposures within the

complexities in the modelling aspects of the ECL calculation.

In general, the Group calculates ECL by using the following key inputs: probability of default (PD), loss given default (LGD) and exposure at default (EAD).

The maximum period considered when measuring ECL is the maximum period over which the Group is exposed to credit risk. In this respect, the EAD for exposures within the Group's portfolios is based on contractual maturity.

For non-defaulted (Stages 1 and 2) exposures, the Group uses a model developed by an external vendor in which key risk parameters, including both PDs and LGDs, are estimated using statistical models mainly by benchmarking exposure-specific characteristics against an underlying dataset. Specifically, the PDs and LGDs attributable to financial assets within the Group's lending portfolios are determined by reference to the default and loss history of comparable borrowers with similar characteristics in terms of size, industry, country of operation and financial soundness of the borrower.

PDs are computed taking cognisance of quantitative and qualitative model inputs, which are used to generate a borrower-specific credit score. For exposures classified within the Local Corporate Lending portfolio, the credit score is determined by reference to inputs related to the project being financed, such as the property type, property valuation upon completion, project costs and project complexity, whereas the credit scores for exposures classified within the Trade Finance portfolio, as well as syndicated and shipping finance loans, are determined by reference to financial statement inputs and other qualitative inputs, comprising the entity's competitive position in the market and customer concentration level. Similarly, credit scores for exposures classified within the Factoring Receivables portfolio are computed using internally developed scorecards taking into account quantitative (for instance sales growth and net worth of the entity) and qualitative (such as industry and market conditions) inputs.

Group's lending portfolios, emanating from a vendor model, we carried out the following substantive procedures:

- Performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Group's portfolio, risk profile, credit risk management practices and the macroeconomic environment.
- Tested a sample of exposures classified within the Local Corporate Lending portfolio, as well as syndicated and shipping finance facilities, to independently review the borrower's financial performance and ability to meet loan repayments, and assess the appropriateness of the internal credit rating assigned by management.
- Challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.
- Tested the completeness and accuracy of certain instrument-specific model data inputs utilised within the models for the purposes of the year end ECL calculation.
- Performed backtesting to obtain comfort on the level of ECL allowances for each specific portfolio by benchmarking ECL coverage against publicly available information for peer market participants.
- Benchmarked LGDs estimated by the model in respect of exposures classified within the Factoring Receivables and Trade Finance portfolios, as well as syndicated and shipping finance facilities, against publicly available information reflecting the loss experience in the market for instruments with comparable seniority within a borrower's debt structure.
- For exposures classified within the Local Corporate Lending portfolio, we tested the accuracy of property valuations against source data and assessed the reasonableness of market value haircuts used as inputs to modelled LGDs on a sample basis. We also tested the accuracy of the Group's data in respect of the status of perfection of collateral on a sample basis.

Credit scores are then mapped to a rating scale, on the basis of which a Through-The-Cycle ("TTC") PD is assigned to each borrower. The rating scale to PD matrix is calibrated by reference to historical market default data sourced from external credit rating agencies. Accordingly, the Group's ECL model estimates TTC PDs at a borrower level by benchmarking model inputs against those attributable to peers with similar credit risk characteristics and operating in the same industry. TTC PDs are then adjusted using a macroeconomic modelling tool to first reflect current macroeconomic conditions (deriving an unconditional Point-in-Time or PiT PD) and then to simulate the PD under multiple macroeconomic forecasts developed by the external vendor (deriving a conditional PiT PD).

Similarly, the unsecured LGD is estimated at a facility level by benchmarking facility-specific model inputs against observed losses for facilities which are similar in nature. In this respect, the model is principally driven by the nature of the exposure (term vs. revolver), the relative ranking of the facility in the borrower's capital structure, the country and industry in which the borrower operates, together with the borrower-specific PD.

Secured loans and advances to customers are primarily secured by residential and/or commercial real estate, as well as cash pledges and, in the case of certain exposures within the Factoring Receivables portfolio, credit insurance cover purchased from foreign third party underwriters which provide cover in respect of losses up to a pre-determined percentage of each eligible receivable. In this respect, the secured LGD is derived through the application of adjustments to the unsecured LGD to reflect the collateral value after taking into consideration pre-determined haircuts.

The same macroeconomic modelling elements used to transform TTC PDs to PiT PDs are then used to convert the TTC LGDs to conditional PiT LGDs. In this regard, macroeconomic conditioning is applied to the LGD term structure through a modelled correlation between PD and LGD term structures.

Estimation uncertainty is particularly relevant in relation to the level of subjectivity and expert judgement required to develop macroeconomic

- For Factoring Receivables which are collateralised by credit insurance cover, we assessed the reasonableness of the LGD determined by reference to the terms of the credit insurance arrangement with third party underwriters.
- Performed a recalculation of the ECL for a sample of exposures across portfolios.
- For a sample of Factoring Receivables facilities which were past due by more than 90 days as at 31 December 2023, performed procedures to assess the recoverability of such exposures.
- Assessed the reasonableness of the multiple macroeconomic scenarios and variables. Specifically, we challenged the reasonableness of the severity of the multiple forward-looking macroeconomic scenarios used in the ECL calculation, as well as the appropriateness of the assigned probability weightings.

ECL calculation for defaulted exposures

For Stage 3 exposures, the appropriateness of provisioning methodologies and policies was independently assessed.

For Stage 3 loans, we performed tests of detail to review and challenge the Group's estimate of credit loss allowances, in light of the latest information on the borrower, together with the appropriateness of key parameters used. An independent view was formed on the level of credit loss allowances recorded based on the detailed loan and customer information available.

Substantive procedures were performed on defaulted exposures in respect of the estimation of the size of the respective ECL provisions, as follows:

- Reviewed the credit files of loans and advances classified within stage 3 to understand the latest developments at the level of the borrower and the basis of measuring the ECL provisions and considered whether key judgements (such as the appropriateness of the timing and level of expected cash flows by reference to the current status of litigation / liquidation

forecasts to capture the potential movement in default levels and loss severities under multiple forward-looking scenarios. Specifically, the Group applies three macroeconomic scenarios to capture the current economic environment, reflecting management's view of the range of potential outcomes. In this respect, the current economic conditions induce additional elements of complexity in determining the severity and likelihood of macroeconomic forecasts used in the Group's ECL calculation across different countries and the extent to which these potential scenarios will impact PiT PD and LGD parameters.

Staging is determined based on a combination of quantitative and qualitative criteria.

Quantitative criteria comprise a comparison of model-calculated PDs/implied ratings as at reporting date with the calculated PDs/implied ratings upon origination.

For exposures classified within the Local Corporate Lending portfolio as well as syndicated and shipping finance facilities, qualitative criteria for staging purposes are based on aspects such as the regular monitoring of the financial performance of borrowers and developments affecting the borrowers' future abilities to repay.

Factored receivables and Trade Finance facilities are not managed on a credit by credit basis due to the high volume of homogeneous exposures. In this respect, the Group's internal credit risk management framework designed to identify Significant Increase in Credit Risk ('SICR') and Unlikeliness-to-Pay ('UTP') events in respect of such exposures is primarily based on delinquency.

The Group applies a set of SICR and UTP criteria to determine staging on a qualitative basis, which require a significant element of judgement.

For loans which are classified as Stage 3 (defaulted) exposures, judgement is required to estimate the expected future cash flows related to that loan. In this regard, the ECL calculation for defaulted exposures is driven by a process based on an internally developed discounted cash flow methodology.

The measurement of ECLs for Stage 3 exposures is therefore dependent on parameters and

proceedings) were appropriate given the borrowers' circumstances.

- Assessed the discount rate used to determine the present value of discounted cash flows.
- Challenged the appropriateness of the Group's methodology in respect of scenarios applied for the exposures referred to above, particularly in respect of the extent to which the Group considers multiple scenarios in determining the recoverability of stage 3 loans, by forming an independent view of the recoverability of stage 3 loans under different scenarios.
- Tested the accuracy of key inputs and reperformed the impairment calculation used to derive expected cash flows under different scenarios.
- Reviewed the perfection of collateral in line with the Group's policy, where the exposure is secured by immovable property.

Based on the evidence obtained, we formed a different view from that of management on the level of credit loss allowances recorded by management in respect of defaulted and non-defaulted exposures, but in our view the differences were within a reasonable range of outcomes.

assumptions including the estimation of cash flows under multiple scenarios, the determination of borrower-specific discount rates, and the weighting assigned to each scenario.

Estimated future cash flows are generally based on parameters or assumptions around borrowers' operating cash flows, judgements around the possible outcome of litigation and/or liquidation proceedings and out-of-court settlements, and recoveries through the sale or repossession of collateral to determine a probability weighted recoverable amount of the loan.

In view of the above matters, the risk of misstatement in the estimation of ECLs in respect of Stage 3 loans and advances to customers, which is subjective in nature and inherently judgemental in respect of both timing of recognition of impairment and the estimation of the size of any such impairment, remains high.

Accordingly, summarising the key areas relevant to the Group's measurement of ECLs would include:

- Allocation of exposures 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 macroeconomic scenarios; and
- Measurements of individually assessed provisions including the assessment of multiple scenarios.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: Note 3.9;
- Note on Net movement in expected credit losses and other credit impairment charges: Note 5;
- Credit risk: Note 5.2; and
- Note on Loans and advances to customers: Note 23.

Valuation of the Group's trading assets measured at fair value

At 31 December 2023, the Group's assets included trading assets measured at fair value through profit or loss amounting to \$374.2 million. These assets are not actively traded and, as such, are not quoted in an established market.

The fair valuation of trading assets is determined through the application of an internally developed valuation model that involves the exercise of judgement and the use of assumptions based on limited observable market data.

Key inputs used in the valuation methodology to discount expected future cash flows comprise:

- instrument specific characteristics used to determine credit spreads, including counterparty creditworthiness and transaction currency; and
- market risk-free rates determined by reference to contractual terms as well as interest rates observed in the market at reporting date.

The Group's trading assets are classified as Level 3 instruments in the fair value hierarchy given that their fair value is determined by reference to significant unobservable inputs.

In this respect, the valuation of trading assets is deemed to represent a key audit matter.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: Note 3.9; and
- Note on Trading assets: Note 21.

We involved our valuation experts, as appropriate, in performing our procedures in relation to the trading assets. As part of those procedures:

- we evaluated the appropriateness of the valuation methodology used by the Group to determine the fair value of the trading assets;
- we assessed the reasonableness of discount rates applied in the internally developed discounted cash flow model to determine the fair value of trading assets at reporting date. Specifically:
 - we assessed whether the instrument-specific credit spreads were within an appropriate range by reference to movements in instrument-specific external ratings (where available) and country external ratings on a sample basis;
 - we tested the appropriateness of market risk-free rates applied by the Group for the determination of discount rates to be used for the fair valuation of trading assets at reporting date across the portfolio; and
- we tested the accuracy of inputs used in the discounted cash flow model at reporting date for a sample of assets by agreeing key inputs to contractual agreements; and
- we determined the fair value of a sample of trading assets independently by reference to the discount rates assessed as outlined previously.

In addition to the above, we also:

- assessed the reasonableness of the Group's valuation methodology by performing backtesting by reference to realised gains or losses on disposals of trading assets during the financial year ended 31 December 2023; and
- recomputed realised fair value gains/losses for a sample of disposals.

We also reviewed the appropriateness of the disclosures in respect of fair values of the trading assets in accordance with the requirements of IFRS 13.

Based on the work performed, the valuation methodology as well as the assumptions and inputs used in the fair valuation of trading assets appear to be reasonable. In addition, the related disclosures are deemed to be appropriate.

Recoverability of deferred tax assets of the Group and Bank

At 31 December 2023, the Group and Bank had recognised deferred tax assets amounting to \$19.0 million and \$15.0 million respectively. The deferred tax assets are predominantly related to unutilised tax losses attributable to the Bank and one of its subsidiaries, India Factoring and Finance Solutions Private Ltd.

In accordance with the requirements of IFRSs as adopted by the EU, deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available, against which these tax benefits can be utilised. The recognition of deferred tax assets therefore requires significant judgement in estimating future taxable profits based on profit forecasts drawn up by management at the reporting date. The amount of deferred tax assets recognised in the financial statements is expected to be recovered within the foreseeable future.

Such estimation uncertainty might lead to material differences between the projected period for utilisation of tax losses compared to actual timing of utilisation. In this respect, this area has been deemed to represent a key audit matter.

Relevant references in the Annual Report and Financial Statements:

- Accounting policy: Note 3.8; and
- Note on Deferred taxation: Note 32.

As part of our audit procedures:

- we reviewed the profitability projections prepared by management and evaluated the assumptions utilised in the preparation of taxable profit forecasts at the reporting date with reference to our understanding of the Group's and Bank's business, historical trends, and relevant documentation on the Group's and Bank's business strategy over the foreseeable future;
- we reviewed the computation of taxable profits within the projections on the basis of tax laws (and tax rates) enacted by the reporting date and the expected utilisation of tax losses, and assessed whether these tax losses are expected to be utilised within a reasonable timeframe; and
- we evaluated the adequacy of disclosures made in Notes 17 and 32 to the financial statements, including those regarding key assumptions.

Based on the work performed, the carrying amount of deferred tax assets, as well as the related disclosures, appear to be consistent with the explanations and evidence obtained.

How we tailored our group audit scope

The Group is composed of six components: FIMBank p.l.c. (the "Parent Company" or "Bank"), and its subsidiaries FIM Property Investment Limited, London Forfaiting Company Ltd, FIMFactors B.V. (and its subsidiary India Factoring and Finance Solutions Private Ltd) and The Egyptian Company for Factoring S.A.E., which are determined to be financially significant entities. The figures of FIM Business Solutions Limited are deemed to be immaterial in the context of the Group results.

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

The group audit engagement team carried out a full scope audit on the Bank and one of the Bank's subsidiaries located in Malta, namely FIM Property Investment Limited. The group audit engagement team also performed specified audit procedures on certain account balances of another financially significant component, namely London Forfaiting Company Limited.

The financial statements of FIMFactors B.V. (and its subsidiary India Factoring and Finance Solutions Private Ltd) and The Egyptian Company for Factoring S.A.E. (the remaining subsidiaries within the Group), predominantly based in India and Egypt respectively, were audited by other auditors. In this respect, we issued instructions to the other auditors auditing these two components.

In establishing the overall audit approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit engagement team, or by other auditors. For the work performed by other auditors operating under our instructions, we determined the level of involvement we needed to have in the audit work at those locations to be satisfied that sufficient audit evidence had been obtained for the purposes of our opinion. We ensured that our involvement in the work of other auditors, together with the additional procedures performed at the Group level, were sufficient to allow us to conclude on our opinion on the Group's consolidated financial statements as a whole.

The audit engagement team of the Group performed all of this work by applying the overall materiality at the level of the Group's consolidated financial statements, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the consolidated financial statements as a whole.

Other information

The directors are responsible for the other information. The other information comprises all of the information presented 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 express any form of assurance conclusion thereon except as explicitly stated within the *Report on other legal and regulatory requirements*.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, the directors are responsible for assessing the 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 FIMBank 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 <i>Annual Report and Financial Statements 2023</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report</p> <p>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.</p>	<p>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.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> 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). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>
<p>Statement of compliance with the principles of good corporate governance</p> <p>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</p>	<p>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 Bank and its environment obtained in the course of the audit, we have identified any material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 and 5.97.5, giving an indication of the nature of any such misstatements.</p> <p>We are also required to assess whether the Statement of Compliance includes all the other</p>	<p>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.</p> <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>

<p>determined by reference to Capital Markets Rule 5.97. The Statement provides explanations as to how the Bank has complied with the provisions of the Code, presenting the extent to which the Bank has adopted the Code and the effective measures that the Board has taken to ensure compliance throughout the accounting period with those Principles.</p>	<p>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 Bank's corporate governance procedures or its risk and control procedures.</p>	
<p>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.</p>	<p>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.</p>	<p>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.</p>
	<p>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:</p> <ul style="list-style-type: none"> • 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. 	<p>In our opinion:</p> <ul style="list-style-type: none"> • 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.

	<p>Other matters on which we are required to report by exception</p> <p>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.</p> <p>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.</p>	<p>We have nothing to report to you in respect of these responsibilities.</p>
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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 Group and Bank by a directors’ resolution on 17 January 2024 for the year ended 31 December 2023.

Fabio Axisa
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

24 April 2024