SPARKASSE Bank Malta plc

2024 Annual Report

PRIVATE & CORPORATE BANKING / WEALTH MANAGEMENT / FUND CUSTODY

MISSION STATEMENT

Our vision is to be recognised as a financial institution that supports regulated and business entities that seek relationship banking, investment, custody and other financial services from a bank that truly understands their needs.

Our mission is to create and sustain a successful business in providing financial services and products that meet our customers' requirements, while offering opportunities to our employees to develop their careers and maintain a healthy work-life balance.

GLOSSARY OF ABBREVIATIONS

- AC Amortised Cost
- AR Annual Report
- AVS Anteilsverwaltungssparkasse Schwaz
- BCP Business Continuity Management
- BoD Board of Directors
- CAR Capital Adequacy Ratio
- CBM Central Bank of Malta
- CCR Counterparty Credit Risk
- CET1 Common Equity Tier 1
- CRD Capital Requirements Directive
- CRR Capital Requirements Regulation
- EBA European Banking Authority
- ECL Expected Credit Loss
- FVOCI Fair Value Through Other Comprehensive Income
- FVTPL Fair Value Through Profit or Loss
- IAS International Accounting Standards
- IASB International Accounting Standards Board
- ICAAP Internal Capital Adequacy Assessment Process
- IFRIC International Financial Reporting Interpretations Committee
- IFRS Internal Financial Reporting Standards
- IFSP Institution of Financial Services Practitioners
- ILAAP Internal Liquidity Adequacy Assessment Process
- LCR Liquidity Coverage Ratio
- LSI Less Significant Institution
- NED Non-Executive Director
- MANCO Management Committee
- MFSA Malta Financial Services Authority
- NII Net Interest Income
- NSFR Net Stable Funding Ratio
- ROE Return on Equity
- ROA Return on Assets
- RWA Risk Weighted Assets
- SBM Sparkasse Bank Malta plc
- SEPA Single Euro Payments Area
- SHM Sparkasse (Holdings) Malta Limited
- SIC Standing Interpretations Committee
- SPS Sparkasse Schwaz AG
- T1 Tier 1 Capital
- TIMCO Treasury and Investment Management Committee

CONTENTS

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors of Sparkasse Bank Malta public limited company present their report and the audited annual accounts for the accounting period ended 31 December 2024. The Directors are also presenting the Bank's Pillar 3 disclosures as a separate document to this report.

PRINCIPAL ACTIVITIES

Sparkasse Bank Malta public limited company (the "Bank") is a credit institution established in Malta. The Bank has one (1) branch, established in Dublin, Ireland. It has no subsidiaries.

The Bank is licensed by the Malta Financial Services Authority ("MFSA") to carry out the business of banking in terms of the Banking Act (Chapter 371 of the Laws of Malta), to provide investment services and custody and depositary services in terms of the Investment Services Act (Chapter 370 of the Laws of Malta) and is authorised to act as custodian of retirement schemes in terms of the Retirement Pensions Act (Chapter 514 of the Laws of Malta). In addition, the Bank is authorised by the Central Bank of Ireland to act as depositary to Irish authorised investment funds, through its branch established in Ireland.

The Bank's principal activities comprise:

- Banking: provision of bank accounts and payment services to private and corporate customers in accordance with the Bank's customer acceptance principles.
- Investment services: provision of portfolio accounts to private and corporate customers, including regulated entities, for the purpose of transmission of orders, execution and settlement of trades on the local and international markets.
- Wealth management services: investment advisory services only (the Bank does not currently provide discretionary portfolio management services).
- Depositary and custody services: provision of depositary services under the AIFMD and UCITS Directive and custody services to various types of customers, including retirement schemes, in line with the Bank's customer acceptance principles.

There were no significant changes in the Bank's principal activities in the course of 2024. Having said this, during the first quarter of 2024, the Bank has initiated the application process to obtain authorisation from the MFSA to provide discretionary portfolio management services.

Economic Climate

As inflation rates stabilised during 2024 and moved closer to the 2% target, central banks have started reducing interest rates. In fact, during 2024, the ECB initiated four rate cuts, decreasing the deposit facility rate from 4% as of 20 September 2023 to 3% as of 18 December 2024. Similarly, the Federal Reserve has decreased its funds interest rate from 5.5% as of December 2023 to 4.5% as of December 2024. A similar pattern was followed by the Bank of England, despite the interest rate in the UK remaining rather high at 4.75% by November 2024.

General overview and key notes

2024 was yet another successful year for the Bank in terms of revenue, profitability and customer on boarding. The Bank registered revenue for the year to the tune of EUR30.4million compared to EUR29.9million achieved in the previous year. Such increase is primarily attributable to an increase in net fee income, with the Bank earning total net fee income of EUR8.8million in 2024 when compared to EUR8.2million in 2023. Despite the decrease in market interest rates as highlighted earlier, the Bank has managed to retain high net interest income at EUR19.6million, this being attributable to the increase in the Bank's balance sheet size and the conservative asset allocation strategy whereby more than 60% of the Bank's assets continue to be held in liquid balances with the Central Bank of Malta. In fact, during 2024, the Bank has managed to increase its balance sheet size by circa 8.6%, with total assets as of 31 December 2024, exceeding the EUR1 billion mark. This reflects the Bank's efforts to attract additional customer deposits, which remain the Bank's main source of funding. The Bank has also continued to consolidate its custody and depositary business with total assets under custody and depositary increasing from EU8.6 billion to EUR10.5 billion by the end of December 2024.

DIRECTORS' REPORT *(continued)*

As the Bank's business continues to grow, inevitable administrative expenses are expected to increase accordingly. Employee compensation and benefits remain the highest contributor towards total administrative expenses, as the Bank seeks to retain and attract knowledgeable candidates to support its growing business.

The Bank has maintained its organic growth strategy during the current financial period by distributing a dividend of circa EUR6 million to its immediate parent company, Sparkasse (Holdings) Malta Limited, EUR2 million of which was re-invested in the Bank, increasing the Bank's share capital from EUR46.2 million to EUR48.2 million. The increase in issued share capital from the Bank's immediate parent company was approved by the general meeting on 24 April 2024, and by the MFSA on 20 August 2024. The remaining amount of circa EUR4 million was distributed as a dividend to the Bank's ultimate parent company, Anteilsverwaltungssparkasse Schwaz.

Risk

The Bank classifies its risks into five main categories that it seeks to mitigate through design of processes, business model, internal controls and internal governance. The Bank's approach to risk is documented in its Risk Appetite Statement, the Risk Management Framework and related policies.

In essence, the Bank seeks to protect against the following risk categories: credit, liquidity, market, interest rate and operational risk. With the majority of the Bank's exposures being towards the Central Bank of Malta, supranational organisations and reputable credit institutions, the Bank sees both its credit and liquidity risk as risks that are primarily mitigated as a result of its business model. The Bank is not a lender of funds to the public: credit facilities are granted to customers on an ancillary basis, to complement banking and investment services and represent less than 1% of the Bank's total exposures.

Operational risk is an area of risk the Bank seeks to focus on and mitigate through robust internal controls, automation, training and engaging only in customer relationships that are aligned with its risk appetite.

As a result the Bank is proud to present key ratios for the year showing strong and sustainable profits with a Capital Adequacy Ratio ("CAR") of 42.2%, a Cost to Income Ratio of 51.9%, a Return on Equity ("ROE") of 15.3% and a Return on Assets ('ROA') of 1.1%. These positive figures further confirm the Bank's sound business model and its capability of operating within its key strategic ratios. The table below summarises the main regulatory ratios for the Bank as of 31 December 2024:

Own Funds	EUR69.3million
Common Equity Tier 1 Ratio	42.2%
Total Risk Weighted Assets	EUR164.3million
Leverage Ratio	6.6%
Liquidity Coverage Ratio	391.2%
Net Stable Funding Ratio	478.8%

Throughout the year, the Bank continued to pursue a conservative approach to new business in line with its risk appetite and customer acceptance principles, while continuing to monitor existing relationships and improve its internal controls in an effort to mitigate ICT risk, ML/TF risk and (other) operational risk.

Focus and resources were invested in the implementation of more automated processes, strengthening of controls at the first line of defence, training and developing the Bank's organisational structure in a manner that is conducive to functionality, effectiveness and control.

As technology continues to play a significant role in banking, the Board has continued to support further investment in this area, both in terms of infrastructure, as well as with the recruitment of further expertise for its IT Department. The Board continues to identify its IT capabilities and security as critical for the Bank's growth and sustainability. Investment in this area has reached circa 14% of total costs.

DIRECTORS' REPORT *(continued)*

Internal Governance

The key responsibilities of the Bank's Board of Directors consist of setting, approving and overseeing the implementation of the overall business strategy and key policies of the Bank, its overall risk strategy and internal governance and internal control framework.

The Bank continued to focus and strengthen its overall internal governance in 2024, through various policies and changes to its management committees while continuing to perfect its overall organisational structure.

The Audit Committee and Risk Committee continued supporting the Board in its oversight function.

Senior management, vested in the Managing Director (CEO), Chief Technology Officer ('CTO') and the Chief Legal and Governance Officer ('CLGO') appointed as of 22nd November 2024, is responsible for the implementation of the strategies and policies set by the Board of Directors and is accountable to the Board of Directors for the day-to-day running of the Bank. Senior management is supported in this task by management committees and sub-committees, with the aim to ensure effective communication, coordination and continuity between senior management and the departments, units and functions within the Bank, top-down and bottom-up, as well as between the various departments, units and functions themselves. The management committees referred to are:-

- The Management Committee in Malta and its four (4) permanent sub-committees, namely the Credit Review Committee, the Treasury and Investment Management Committee, the Customer Evaluation Committee and the Business Committee;
- The Ireland Branch Committee and its two (2) permanent sub-committees, namely, the On-boarding Committee for the approval of new customers of the Ireland Branch, and the Depositary Committee for the internal evaluation of the Branch's depositary function.

In addition to the management committees above, the Bank established a Regulatory Steering Committee with the objective to support and assist the Managing Director in (i) managing and coordinating projects and initiatives to ensure compliance with regulatory and supervisory requirements and expectations across various departments and functions, (ii) managing and coordinating the Bank's internal resolution planning and resolvability work programme, and (iii) facilitating the supervisory review and evaluation process (SREP) and resolution planning process conducted by the MFSA. This committee replaced and absorbed the functions of the Bank's SREP team and Resolution Committee.

The Bank's internal control framework is based on the "three lines of defence" model for risk management:

- The business units act as a first line of defence: they take risks and are responsible for their operational management on a day-to-day basis.
- The risk management function (including the information security function) and compliance functions (regulatory compliance and financial crime compliance) form the second line of defence. The risk management function facilitates the implementation of the Bank's risk management framework and has responsibility for further identifying, monitoring, measuring, managing and reporting on risks and forming a holistic view on all risks. The compliance function monitors compliance with legal and regulatory requirements and internal policies and provides advice on compliance to the Board of Directors and staff. This function is also responsible for establishing policies and processes to manage compliance risks and to ensure compliance.
- Internal Audit acts as the third line of defence. The internal audit function conducts risk-based and general audits and is in charge of the independent review of the first two lines of defence.

The Bank is organised so that the internal control functions (second and third lines of defence) are independent from the business and support units they control, with an appropriate segregation of duties and reporting lines.

DIRECTORS' REPORT *(continued)*

The composition of the Board of Directors during the accounting period under review was as follows:

– Harald Wanke	Chair of the Board of Directors
– Paul Mifsud	Managing Director
– James Bonello	Independent Non-Executive Director
– Serge D'Orazio	Independent Non-Executive Director
– Mark Curmi	Independent Non-Executive Director and Chair of the Risk Committee
– Conor Molloy	Independent Non-Executive Director and Chairperson of the Audit Committee (appointed with effect from 22nd March 2023; resigned effective from 23rd February 2024)
– Hilary Galea Lauri	Independent Non-Executive Director and Chair of the Audit Committee (appointed with effect from 30th July 2024)
– Mario Micheli	Independent Non-Executive Director (appointed with effect from 27th August 2024)

Attendance of the Directors at Board meetings held in 2024 was 96%: only one (1) of the Directors was excused at two (2) of the nine (9) Board meetings held. Attendance of the members of the Board Committees was 100%: all members of the relevant Committee attended three (3) meetings of the Audit Committee and five (5) meetings of the Risk Committee in 2024.

Capital – Dividends and Reserves

In line with the Bank's dividend policy and capitalisation of profits, the Bank will continue with its strategy to strengthen the Bank by reinvesting its profits for the year, subject to MFSA approval.

During 2024, the Bank paid out a dividend of EUR5,999,994 in relation to financial year ended 31 December 2023, reflecting a dividend of EUR129.87 per ordinary share. This dividend distribution was recommended by the Board of Directors and approved during the Annual General Meeting held on 24 April 2024, and subsequently approved by the MFSA on 20th August 2024. Following this dividend distribution, the Bank's immediate parent company, Sparkasse (Holdings) Malta Limited, increased its investment in the Bank by an additional EUR2 million, increasing the Bank's share capital from EUR46.2million to EUR48.2million. The remaining amount of EUR3,999,960 was distributed as dividend to the Bank's ultimate parent company, Anteilsverwaltungssparkasse Schwaz.

In respect of the current financial year ended 31 December 2024, the Board of Directors is proposing a final dividend of EUR15,365,400, composed of EUR13,100,00 in bonus shares and EUR2,265,400 in cash dividend. The bonus share issue will comprise 13,100 shares of EUR1,000 each, distributed equally between Ordinary A and Ordinary B shares. The cash dividend amounts to EUR47 per share. The bonus share issue is subject to MFSA approval. A final dividend of EUR3,800,000, amounting to EUR211.11 per share, will also be distributed to the Bank's ultimate parent company.

This additional capital demonstrates the shareholder's commitment to the Bank and will provide the Bank with additional capital to support and continue to develop its business locally.

Environment, Social and Governance (ESG) and Corporate Social Responsibility (CSR)

In line with EBA guidelines on ESG and sustainable financing, the Bank has introduced and adopted processes and updated its policies to include ESG considerations in risk mitigation and customer on-boarding. The primary focus for the Bank, however, has been mainly to identify where this sub-set of risk could expose it to financial loss, focusing on the possible effects to its business model, physical presence and exposures to the Bank's portfolio of financial investments. An initial assessment has resulted in a low exposure mainly due to the Bank's low volume of loans and advances to customers and a business model that is resilient to climate change due to the very nature of the underlying business models of the customers the Bank chooses to service.

With regards to the Bank's own footprint and contributing factors to ESG ,the Bank has reassessed its list of ''prohibited'' business and adopted a review of its financial investments to avoid exposures to issuers that have low ESG scores.

DIRECTORS' REPORT *(continued)*

Corporate Social Responsibility ('CSR') also continues to play an important part in the Bank's overall approach to ESG. As part of the Bank's CSR programme, the Bank continues to support the local heritage in Malta through sponsorship programs offered by "Din L-Art Helwa" for the restoration of Maltese heritage and culture.

The Bank also supports several other initiatives of a cultural and charitable nature and local NGOs and is seeking to do more in this space.

Projects and Going Forward

The Bank remains committed to its business in Malta and Ireland and the development and strengthening of its business model. In so doing, the Bank intends to continue investing in its staff complement and the scalability of its IT infrastructure.

During the first quarter of 2024, the Bank initiated the application process to obtain the MFSA's authorisation to extend its investment services to discretionary portfolio management, which service will help the Bank to provide a more comprehensive service offering to its existing client base, as well as in attracting new customers.

Standard License Conditions

Under applicable Rules issued by the MFSA, the Bank is required to include a statement regarding breaches of standard licence conditions (SLCs) or other regulatory requirements which occurred during the reporting period and which were subject to an administrative penalty or other regulatory sanction.

In this respect the Bank declares that it did not receive any notification of such breaches in 2024.

Country-by-country reporting

In compliance with Banking Rule BR/07 on the Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act, the Bank presents the following information for its branch operating in Ireland for the year ended 31 December 2024:

1. Name, Nature of Activities, and Geographical Location

Name: Ireland Branch
Nature of activities: Independent depositary services for Irish domiciled funds regulated by the Central Bank of Ireland
Geographical location: Dublin, Ireland

2. Turnover

The branch reported a turnover of EUR1,143,949
Turnover comprises net fee and commission income and other operating income.

3. Number of employees on a full-time equivalent basis:

The average number of employees during the year was 6 on a full-time equivalent basis.

4 Profit or Loss before Tax

The profit before tax from the branch was EUR103,749.

5. Tax on Profit or Loss

Income tax expense for the year amounted to EUR1,223.

This represents taxes paid or payable in respect of the reported profit.

6. Public Subsidies Received

The branch did not receive any public subsidies during the reporting period.

DIRECTORS' REPORT *(continued)*

Auditors

PwC Malta was appointed as statutory auditor for the financial year ending 2024 at the annual general meeting held on 24 April 2024.

Approved by the Board of Directors on the 25 April 2025 and signed on its behalf by its Directors:

Harald Wanke	**Paul Mifsud**
Chairman of the Board	Managing Director

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Harald Wanke, Chairman of the Board / Audit & Risk Committee Member

Was born and resides in Austria. He graduated in economics after which he joined the bank of Sparkasse Schwaz AG as a senior manager within the Marketing Department. He was then appointed member of the Managing Board, a post he retained until 1988. Prior to his election as Chairman on the board of Sparkasse Schwaz he held the post of Assistant Chairman for a number of years. In 2000, Sparkasse Bank Malta plc started its operation and Mr. Wanke has been Chairman on the local board ever since. During this time, he widened his experience in numerous other functions including manager and later Chairman of the board of various investment funds in Luxembourg, member of the Supervisory Board of S Bausparkasse and S-Insurance, President of Landesverband TuV, member of the Board of the Austrian Savings Banks Association, President of the Regional Savings Banks in Austria, Spokesman of Banks and Insurances in Tirol.

Paul Mifsud, Managing Director

Attended Downside School, a Benedictine school in Bath (UK). Gained his experience in finance through his education at the Centre International De Glion, in Switzerland where he graduated in Management and Finance. He furthered his education in securities from The Chartered Institute for Securities & Investment in London. In 2015, he completed his Masters as a Chartered Banker from Bangor University, Wales.

Joined the Bank in 2006 as Managing Director after the acquisition of Quest Investment Services – a company he was a Senior Partner in, performing Investment Advisory Services. Mr. Mifsud is responsible for the implementation of company strategy and overall management of the Bank’s business. He was instrumental in developing the Bank’s business and presence in Malta, developing the investment services and wealth management division at the Bank, as well as steering the Bank to becoming a major player in fund custody in Malta. His areas of expertise are securities related, including trading, settlements, advisory, custody and Fund depositary services (AIFs and UCITs).

Hilary Galea-Lauri, Non-Executive Director / Audit Committee Chairman

As a former Senior Audit Partner and Head of Audit at KPMG, Mr Hilary Galea-Lauri specialised in the audits of banks, insurance and treasury companies operating both locally and overseas. Within the KPMG network, Mr. Galea-Lauri sat on the Audit Executive Committee and Audit Quality Council of the KPMG Islands Group (KIG), a sub-region within EMA. Along with being the firm’s lead technical partner on the KPMG Audit Methodology, he headed the team implementing audit quality initiatives, and carried out audit quality performance reviews across the KPMG network of which he was also responsible as one of its IFRS Liaison Partners.

Forming part of the Council of the Malta Institute of Accountants for almost two decades, Mr Galea-Lauri also chaired its Accounting and Auditing Technical Committees, while contributing to the work of the Accounting Working Party of the Fédération des Experts Comptables Européens (now Accountancy Europe, based in Brussels) which focuses on IASB-related work. Aside from being an active member of the Institute’s Ethics Committee, Mr. Galea-Lauri is a court expert in the field of accounting. Sharing his extensive knowledge in his field, Mr. Galea-Lauri lectured Advanced Financial Accounting and was a lead examiner for 10 years. Mr Galea-Lauri is a Non-executive Director and chairs a number of Audit Committees of financial institutions.

Serge D’Orazio, Non-Executive Director / Audit & Risk Committee Member

Was born and resides in Luxembourg. He graduated in Economics at Panthéon Sorbonne in Paris after which he joined the KBL European Private Bankers in Luxembourg, working within the securities, depositary and fund business.

Between 1997 and 2015, he held positions as Head of Relationship Management of Institutional Clients and Head of Investment Funds & Global Custody Services. From January 2015 to December 2017, he held the position of General Manager of Institutional & Professional Services (Luxembourg), directly reporting to the Bank’s Executive Committee.

After retiring from KBL, he was appointed as Non-Executive Director at Sparkasse Bank Malta plc while also holding other independent directorships with various other Investment Funds and Fund Management Companies, all domiciled in Luxembourg.

Mr. D’Orazio also sat on the Board of Directors of EFA (European Fund Administration), a leading service provider of central administration and transfer agent services in Luxembourg. Mr. D’Orazio was formerly a member of various working groups and committees within the Luxembourg financial centre (ALFI, ABBL) and the coordinator of ALFI’s Conferences Advisory Committee. He was also a visiting Professor at the Université de Liège in Belgium.

BOARD OF DIRECTORS *(continued)*

James Bonello, Non-Executive Director

Mr. Bonello was appointed to the Board of Directors in July 2020.

He started his banking career with Barclays Bank D.C.O. in 1965, and held various senior management positions within Mid-Med Bank Ltd, which took over the business of Barclays Bank in Malta in 1975. Between 1989 and 1993, he was seconded by the bank to the Malta International Business Authority (now the Malta Financial Services Authority) where he served as Chief Executive. In 1998, he resumed his duties within the bank and was appointed General Manager Operations with responsibility for Credit and Finance.

Upon HSBC's acquisition of Mid-Med Bank in 1999, Mr Bonello was appointed Head of Commercial Banking within HSBC Bank Malta p.l.c. He was also appointed Executive Director on the bank's Board in 2002. In 2004, he retired from the bank and took over as Secretary General of the Malta Bankers' Association, which position he held until his retirement in 2018.

Mr. Bonello is a Fellow of the Institute of Financial Services, Malta, and served for ten years on the Institute's Council, the last two years as President.

Mark Curmi, Non-Executive Director/ Risk Committee Chairman

Mr. Curmi is an experienced banking, risk and regulatory advisory services professional, holding in excess of eighteen years of experience in the Banking, Payment Services and FinTech/PayTech sectors, locally and internationally.

Mr. Curmi is a former Director at KPMG Malta, responsible for the firm's Banking and Fintech Regulatory Advisory services arm of the Malta practice. He was one of the firm's first cross-functional financial services industry specialists responsible for commercials, business development and regulatory compliance mandates. His portfolio of clients included Significant and Less-Significant (including high-priority) credit institutions as well as the large payment services players operating in Malta.

Amongst other key roles, Mr. Curmi sat on the KPMG ECB Office Team (Frankfurt) and the KPMG Global DLT Working Group. He also co-led the firm's EmTech and FinTech regulatory teams. Prior to joining KPMG, Mr. Curmi spent nine years in the Commercial and Corporate Banking Units for the global Significant Credit Institution, HSBC Bank.

Mr. Curmi holds the post of Chief Risk Officer at an international financial technology firm and holds a number of advisory roles to Corporates and MMEs operating in Malta. Mr. Curmi is a Member of the Institute of Financial Services Practitioners, is a Board Member of the Financial Institution Malta Association, and is a Member of the Malta Chamber of Commerce and the Malta Chamber of SMEs.

Mr Mario Micheli, Non-Executive Director

Mr. Micheli was born and resides in Austria. Moving to Vienna he graduated in business administration with a focus on accounting and finance at Vienna University of Economics and Business. He joined an Austrian leading bank auditing firm, where he has gained valuable knowledge and experience through his leadership and involvements in bank audits for multiple Austrian Saving Banks (Erste Group Bank AG and Sparkassen) and private foundations. In his additional role as a specialist in banking supervision laws and regulatory affairs, Mr. Micheli executed several regulatory projects for Sparkassen-Group, along with the coordination of regulatory matters with Erste Group Bank AG as leading institute bank for Sparkassen-Group.

Mr. Micheli is the managing partner and owner of MM LagoAchen Vienna Holding GmbH. In addition to these responsibilities, he manages a tourism business enterprise.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORT

The Companies Act (Cap. 386) (the "Act") requires the directors of Sparkasse Bank Malta plc (the "Bank") to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period. In preparing the financial statements, the Directors are responsible for:

- Ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;
- Selecting appropriate accounting policies and applying them consistently;
- Making accounting judgments and estimates that are reasonable in the circumstances;
- Ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act (Cap.386) and the Banking Act (Cap. 371). They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

After reviewing the Bank's plans for the coming financial years, the Directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in the financial statements.

The Directors, through oversight of management, are responsible to ensure that the Bank establishes and maintains 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 objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement in order to prevent and detect fraud, Management considers the risks that the financial statements may be materially misstated as a result of fraud.

AUDITOR’S REPORT

Independent auditor's report

To the Shareholders of Sparkasse Bank Malta plc

Report on the audit of the financial statements

Our opinion

In our opinion:

- The financial statements give a true and fair view of the financial position of Sparkasse Bank Malta plc (the "Bank") as at 31 December 2024, and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386).

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

What we have audited

Sparkasse Bank Malta plc's financial statements, set out on pages 33 to 121, comprise:

- the statement of comprehensive income for the year ended 31 December 2024;
- the statement of financial position as at 31 December 2024;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in Malta and that we have not provided non-audit services that are prohibited under Article 18A of the Accountancy Profession Act (Cap. 281).

The non-audit services that we have provided to the Bank, in the period from 1 January 2024 to 31 December 2024, are disclosed in Note 13 to the financial statements.

Our audit approach

Overview

Materiality	Overall materiality: €862,000, which represents approximately 5% of profit before tax adjusted for non-recurring items
Key audit matters	Credit loss allowances in respect of loans and advances to customers

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

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

Materiality

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

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

Overall materiality	€862,000
How we determined it	Approximately 5% of profit before tax adjusted for non-recurring items
Rationale for the materiality benchmark applied	We chose the profit before tax adjusted for non-recurring items as the benchmark because in our view it is the benchmark against which the performance of the Bank is most commonly measured by users and is a generally accepted benchmark. We chose 5% which is within the range of quantitative materiality thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €43,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditor's report - continued

To the Shareholders of Sparkasse Bank Malta plc

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Credit loss allowances in respect of loans and advances to customers	
Credit loss allowances in respect of loans and advances to customers represent management's best estimate of expected credit losses ('ECLs') within this portfolio at the balance sheet date. Loans and advances to customers principally comprise settlement lines and overdraft facilities offered to licenced entities for the financing of acquisition of financial instruments or discharging obligations in respect of foreign exchange forward transactions, as well as loans and overdraft facilities offered to private banking clients. In general, the Bank 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 Bank is exposed to credit risk. Credit loss allowances relating to loans and advances to customers are determined at an instrument level. For non-defaulted (Stages 1 and 2) exposures, PDs are determined by reference to historical market default data sourced from external credit rating agencies, taking into consideration the nature and seniority of the facility, as well as the industry in which the borrower operates.	During our audit of the financial statements for the year ended 31 December 2024, we focused on the key drivers of the estimation of ECL. In this respect, we evaluated and tested the appropriateness of policies, methodologies, management assumptions and key parameters used in the estimation of ECLs on loans and advances to customers. Substantive procedures were performed as follows: • Tested a sample of exposures classified within loans and advances to customers 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 key data inputs utilised for the purposes of the year end ECL calculation. • Reviewed and assessed the appropriateness of assumptions, inputs and formulas used in the ECL calculation. This included assessing the appropriateness of the methodology used to derive PDs. • Assessed reasonableness of PDs by reference to publicly available market data. • Obtained evidence of pledged collateral by agreeing collateral details with signed agreements.

Key audit matter	How our audit addressed the key audit matter
Loans and advances to customers are primarily secured by pledges over cash balances and portfolios of liquid securities. The LGD used for secured loans and advances to customers is driven by the fair value of the pledged collateral adjusted for market value haircuts. In view of the elevated level of collateralisation, no ECL is typically attributed to secured loans and advances to customers, whereas a LGD of 100% is attributed to unsecured loans and advances to customers. Defaulted (Stage 3) loans and advances to customers are typically fully provided for. The Bank's internal credit risk management framework designed to identify significant increase in credit risk ('SICR') or unlikeliness-to-pay ('UTP') events in respect of loans and advances to customers is based on credit risk assessments performed at individual borrower level. In this respect, staging of loans and advances to customers is determined by reference to delinquency status and, for unauthorised facilities (overdrawn deposit facilities), the number of times when the facility was overdrawn during the previous 12 months. The Bank also performs borrower-specific credit risk assessments by reference to the customer's financial performance and financial position. Judgement is required to determine a) whether a SICR has occurred since initial recognition of the instrument; or b) when a default has occurred. Under IFRS 9, the Bank is also required to formulate and incorporate multiple forward-looking economic conditions, reflecting management's view of potential future economic variables, into the ECL estimates.	• Assessed reasonableness of haircuts applied to pledged collateral. • Performed a recalculation of the ECL for a sample of exposures. Our testing did not highlight material differences. Based on the evidence obtained, we found that the assumptions and data used within the ECL calculation are reasonable.

Key audit matter	How our audit addressed the key audit matter
The current macroeconomic environment, highly characterised by a slowdown in economic growth, with lower levels of private consumption as a result of a steep rise in commodity prices, as well as subdued investment, increased the uncertainty around judgements made in determining macroeconomic forecasts. However, given the short-term nature of the Bank's lending facilities, the impact of forward-looking information on the estimation of ECL in respect of these exposures is not deemed to be significant. Since the estimation of ECLs is subjective in nature and inherently judgemental, the application of IFRS 9 impairment requirements is deemed to be an area of focus. Relevant references in the financial statements: • Material accounting policies: Note 4.2; • Credit risk management: Note 5.3; • Judgements applied in the determination of accounting estimates and sources of estimation uncertainty: Note 6; • Note on Changes in expected credit losses and other credit impairment charges: Note 10; and • Note on Loans and advances to customers: Note 19.	

Other information

The directors are responsible for the other information. The other information comprises all of the information presented in the Annual Report 2024 (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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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 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.

Independent auditor's report - *continued*

To the Shareholders of Sparkasse Bank Malta plc

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

The *Annual Report 2024* contains other areas required by legislation or regulation on which we are required to report. The Directors are responsible for these other areas.

The table below sets out these areas presented within the Annual Report, our related responsibilities and reporting, in addition to our responsibilities and reporting reflected in the *Other information* section of our report. Except as outlined in the table, we have not provided an audit opinion or any form of assurance.

Area of the *Annual Report 2024* and the related Directors' responsibilities	Our responsibilities	Our reporting
Directors' report (on pages 8 to 13) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors' report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.	In our opinion: • the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and • the Directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the *Other information* section.

Area of the *Annual Report 2024* and the related Directors' responsibilities	Our responsibilities	Our reporting
	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the Bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.	In our opinion: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the Bank, so far as appears from our examination of those books; • the Bank's financial statements are in agreement with the books of account; and • to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

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

Appointment

We were first appointed as auditors of the Bank on 21 April 2022. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 3 years.

Fabio Axisa
Principal

For and on behalf of
PricewaterhouseCoopers
78, Mill Street
Zone 5, Central Business District
Qormi
Malta

25 April 2025

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2024 EUR	2023 EUR
Interest and similar income	7	25,044,364	22,920,765
Interest expense	7	(5,474,520)	(2,764,853)
Net interest income		19,569,844	20,155,912
Fee and commission income	8	10,422,720	9,441,561
Fee and commission expense	8	(1,610,233)	(1,273,411)
Net fee and commission income		8,812,487	8,168,150
Net trading income	0	1,888,492	1,334,610
Changes in expected credit losses and other credit impairment charges	10	65,023	81,466
Other operating income	11	23,211	180,364
		1,976,726	1,596,440
Operating income		30,359,057	29,920,502
Employee compensation and benefits	12	(8,161,867)	(6,885,058)
Other operating costs	13	(3,764,701)	(3,629,281)
Depreciation of property, plant and equipment and right-of-use assets	23,24	(889,339)	(929,428)
Amortisation and write-off of intangible assets	26	(2,941,578)	(367,494)
		(15,757,485)	(11,811,261)
Profit before income tax		14,601,572	18,109,241
Income tax expense	14	(3,606,464)	(4,971,360)
Profit for the year		10,995,108	13,137,881
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property			
- surplus arising during the year	30	-	1,292,886
- income taxes thereon		-	(452,510)
Other comprehensive income (net of income tax)		-	840,376
Total comprehensive income for the year		10,995,108	13,978,257
Earnings per share	15	234	312

STATEMENT OF FINANCIAL POSITION

	Notes	2024 EUR	2023 EUR
Assets			
Cash and Balances held with Central Bank of Malta	17	636,569,236	530,577,834
Loans and advances to banks	18	75,560,762	61,704,110
Loans and advances to customers	19	6,245,493	8,855,664
Financial investments measured at amortised cost	20	279,763,860	317,709,569
Financial investments measured at fair value through profit or loss	20	96,480	93,120
Derivative financial assets	21	1,474,912	995,334
Prepayments and accrued income	22	1,692,060	1,588,341
Right-of-use assets	23	123,782	310,342
Property, plant and equipment	24	10,592,700	11,068,642
Investment property	25	2,421,377	-
Intangible assets	26	2,394,418	4,609,805
Deferred tax assets	27	882,613	-
Other assets	28	34,443	22,727
Total assets		1,017,852,136	937,535,488
Equity and liabilities			
Equity			
Called up issued share capital	29	48,200,000	46,200,000
Property revaluation reserve	30	4,667,069	4,667,069
Retained earnings		18,816,456	13,821,342
Total equity		71,683,525	64,688,411
Liabilities			
Amounts owed to banks	31	368,070	2,461,220
Amounts owed to customers	32	933,057,935	859,864,838
Derivative financial liabilities	21	1,474,682	995,334
Current tax liabilities		4,224,391	2,763,378
Accruals and deferred income	33	753,416	708,183
Lease liabilities	34	99,964	293,709
Provisions	35	3,027,621	2,233,157
Deferred tax liabilities	27	2,513,037	2,558,592
Other liabilities	36	649,495	968,666
Total liabilities		946,168,611	872,847,077
Total equity and liabilities		1,017,852,136	937,535,488
Memorandum items			
Contingent liabilities	37	15,358,603	15,965,580
Commitments	38	21,875,403	31,831,244

The accounting policies from pages 40 to 58 and the notes from pages 38 to 121 are an integral part of these financial statements. The financial statements from pages 33 to 121 were approved and authorised for issue by the Board of Directors on 25 April 2025 and signed on its behalf by:

Harald Wanke
Chairman of the Board

Paul Mifsud
Managing Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital	Property revaluation reserve	Retained earnings	Total
		EUR	EUR	EUR	EUR
At 1 January 2023		40,200,000	3,826,693	5,683,537	49,710,230
Comprehensive income					
Profit for the year		-	-	13,137,881	13,137,881
Other comprehensive income					
Surplus arising on revaluation of property, net of income tax	30	-	840,376	-	840,376
Total comprehensive income for the year		-	840,376	13,137,881	13,978,257
Transactions with owners					
Dividends paid	16	-	-	(5,000,076)	(5,000,076)
Issue of ordinary shares	29	6,000,000	-	-	6,000,000
Total transactions with owners recognised directly in equity		6,000,000	-	(5,000,076)	999,924
At 31 December 2023		46,200,000	4,667,069	13,821,342	64,688,411
At 1 January 2024		**46,200,000**	**4,667,069**	**13,821,342**	**64,688,411**
Comprehensive income					
Profit for the year		**-**	**-**	**10,995,108**	**10,995,108**
Total comprehensive income for the year		**-**	**-**	**10,995,108**	**10,995,108**
Transactions with owners					
Dividends paid	16	**-**	**-**	**(5,999,994)**	**(5,999,994)**
Issue of ordinary shares	29	**2,000,000**	**-**	**-**	**2,000,000**
Total transactions with owners recognised directly in equity		**2,000,000**	**-**	**(5,999,994)**	**(3,999,994)**
At 31 December 2024		**48,200,000**	**4,667,069**	**18,816,456**	**71,683,525**

The accounting policies from pages 40 to 58 and the notes from pages 38 to 121 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	2024 EUR	2023 EUR
Cash flows from operating activities:			
Operating profit before working capital changes	39	18,115,114	19,027,228
Movement in operating assets and liabilities			
Amounts owed to banks		(2,093,150)	(1,568,822)
Amounts owed to customers		73,193,097	21,457,370
Balances held with Central Bank of Malta		5,055,777	23,575,487
Loans and advances to customers		2,594,619	(4,059,508)
Other assets		(102,963)	(34,332)
Other liabilities		519,537	2,016,530
		79,166,917	41,386,725
Cash flows generated from operating activities before tax		97,282,031	60,413,953
Taxation paid		(3,073,619)	(2,255,728)
Net cash generated from operating activities		94,208,412	58,158,225
Cash flows from investing activities:			
Redemption and disposals of securities	20	40,000,000	26,788,372
Purchase of securities	20	-	(300,000)
Disposal of tangible assets	24	100	1,784
Purchase of tangible assets	24	(211,937)	(117,348)
Purchase of investment property	25	(2,421,377)	-
Additions of intangible assets	26	(726,570)	(1,015,533)
Net cash generated from investing activities		36,640,216	25,357,275
Cash flows from financing activities:			
Lease liability payments	34	(231,274)	(189,154)
Issue of ordinary shares	29	2,000,000	6,000,000
Dividends paid	16	(5,999,994)	(5,000,076)
Net cash (used in)/ generated from financing activities		(4,231,268)	810,770
Movement in cash and cash equivalents		126,617,360	84,326,270
Cash and cash equivalents at beginning of year		577,315,956	492,028,827
Effects of exchange rate changes on cash and cash equivalents		(1,769,855)	960,859
Cash and cash equivalents at end of year	40	702,163,461	577,315,956

The accounting policies from pages 40 to 58 and the notes from pages 38 to 121 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

Sparkasse Bank Malta plc (the "Bank") is a public limited company incorporated and domiciled in Malta, whose shares are not publicly listed. The principal activities of the Bank are disclosed on the Directors' Report on page 7.

2. Parent and ultimate parent company

Sparkasse (Holdings) Malta Limited, a company registered in Malta (C 35408), owns 99.99% of the issued share capital of the Bank. The ultimate parent company is Anteilsverwaltungssparkasse Schwaz which owns 99.99% of Sparkasse (Holdings) Malta Limited. Sparkasse (Holdings) Malta Limited prepares consolidated financial statements.

3. Basis of preparation

3.1 Basis of measurement

The financial statements have been prepared on a historical cost basis, except for the following:

a. Financial investments measured at fair value through profit or loss and derivative financial assets and liabilities – measured at fair value;
b. Property within property, plant and equipment – measured at revalued amount; and
c. Investment property – measured at fair value.

3.2 Statement of compliance with IFRSs as adopted by the EU

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to International Accounting Standards ('IAS'), International Financial Reporting Standards ('IFRS') or Standing Interpretations Committee ('SIC') / International Financial Reporting interpretations Committee ('IFRIC') interpretations refer to those adopted by the EU. The financial statements have also been drawn up in accordance with the provisions of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), to the extent that such provisions do not conflict with the applicable framework.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires the Directors to exercise their judgment in the process of applying the Bank's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Notes 5.9 and 6.

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

	Issued on	Effective from financial years beginning on or after
Amendments to IAS 1 Presentation of Financial Statements: • Classification of Liabilities as Current or Non-current • Non-current Liabilities with Covenants	19/12/2023	01/01/2024
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	20/11/2023	01/01/2024
Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements	25/05/2023	01/01/2024

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Basis of preparation *(continued)*

3.2 Statement of compliance with IFRSs as adopted by the EU *(continued)*

The applications of these new standards and amendments have had no material impact on the amounts recognised or disclosures in the Bank's financial statements.

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

The following new standards, interpretations and amendments, which have not been applied in these financial statements, are not expected to have an effect on the Bank's future financial statements:

	Issued on	Effective from financial years beginning on or after
Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability	15/08/2023	01/01/2025

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

	Issued on	Effective from financial years beginning on or after
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7	30/05/2024	01/01/2026
IFRS 19 Subsidiaries without Public Accountability: Disclosures	09/05/2024	01/01/2027

The Bank has not early adopted the revisions to the requirements of IFRSs referred to above and the Bank's management is of the opinion that there are no requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

<u>IFRS 18 'Presentation and Disclosure in Financial Statements'</u>

In April 2024, the IASB issued IFRS 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. However, IFRS 18 has not yet been endorsed by the EU as at the date of authorisation for issue of these financial statements. The new standard aims to give users of financial statements more transparent and comparable information about an entity's financial performance. It will replace IAS 1 'Presentation of Financial Statements' but carries over many requirements from that standard. In addition, there are new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information. While IFRS 18 will not change recognition criteria or measurement bases, it may have a significant impact on presenting information in the financial statements, in particular the income statement and the cash flow statement. The Bank will be assessing the detailed implications of applying the new standard on the Bank's financial statements, subsequent to endorsement by the EU.

3.5 Functional and presentation currency

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

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Basis of preparation *(continued)*

3.5 Functional and presentation currency (continued)

Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency using the exchange rate as at reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the 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 exchange rate at the date of the transaction.

3.6 Going concern

The financial statements are prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources. These considerations include stressed scenarios that reflect the increasing uncertainty that the current macroeconomic environment, characterised by a decreasing yet still elevated interest rate environment, has had on the Bank’s operations, as well as considering potential impacts on profitability, capital, and liquidity.

4. Material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

4.1 Financial assets

Initial recognition and measurement

The Bank initially recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Bank commits to purchase or sell the asset. Loans and advances to customers are initially recognised on the date on which they are originated.

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

Immediately after initial recognition, an allowance for expected credit losses (‘ECL’) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (‘FVOCI’), which results in a loss being recognised in profit or loss when an asset is newly originated.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.1 Financial assets *(continued)*

Classification and subsequent measurement

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

a. Financial assets measured at fair value through profit or loss ('FVTPL');
b. Financial assets measured at fair value through other comprehensive income ('FVOCI'); and
c. Financial assets measured at amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government or corporate bonds. Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any allowance for ECL recognised and measured as described in Note 20. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instruments' amortised cost, which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Other operating income'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt instrument that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises.

Business model assessment: The business model reflects how the Bank manages the assets in order to generate cash flows, that is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, such as in the case of financial assets held for trading purposes, the financial assets are measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement. 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, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL. In making the assessment, the Bank considers:

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

The Bank reclassifies debt instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the financial years ended 31 December 2024 and 31 December 2023.

Debt instruments measured at amortised cost

The Bank classifies financial assets at amortised cost if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

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

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

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

The Bank invests its excess liquidity in a portfolio of debt securities which it holds until maturity. Accordingly, these are classified at amortised cost.

Debt instruments measured at fair value through other comprehensive income

On the other hand, the Bank classifies its debt securities at FVOCI if both of the following conditions are met:

- the asset is held within a business model with an objective to collect contractual cash flows and sell financial assets; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

As at 31 December 2024 and 31 December 2023, the Bank did not hold any debt instruments that are classified and measured at fair value through other comprehensive income.

Debt instruments measured at fair value through profit or loss

Debt instruments that do not meet the criteria for amortised cost or FVOCI are automatically classified and measured at FVTPL. The Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

As at 31 December 2024 and 31 December 2023, the Bank did not hold any debt instruments that are classified and measured at fair value through profit or loss.

Equity instruments

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

The Bank subsequently measures all equity investments at FVTPL, except where management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Bank's policy is to designate equity investments as FVOCI when those instruments are held for purposes other than to generate investment returns. When this election is used, fair value gains or losses are recognised in other comprehensive income and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Gains or losses on equity investments measured at FVTPL are included in 'Net trading income' line item in the statement of comprehensive income.

The Bank invests in units in collective investment undertakings, all of which are redeemable. Accordingly, these instruments meet the definition of a puttable instrument in accordance with IAS 32, meaning that the Bank cannot avail itself of the irrevocable election allowable under IFRS 9 to classify and measure equity instruments at FVOCI upon initial recognition.

The Bank classifies and measures all its equity investments at FVTPL.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the contractual rights have been transferred and either (i) substantially all the risks and rewards of ownership of the financial asset are transferred, or (ii) the Bank neither transfers nor retains substantially all risks and rewards of ownership nor does it 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 transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed), and any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

The Bank 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. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of the financial asset and it retains control over the asset, the Bank 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 Bank 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, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

<u>Modification of terms</u>

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

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

Impairment

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

- Loans and advances to banks;
- Financial investments measured at amortised cost; and
- Loans and advances to customers.

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

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

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

Balances held with the Central Bank of Malta and other credit institutions in reputable jurisdictions classified within 'Loans and advances to banks', as well as debt securities measured at amortised cost are considered to have low credit risk when the financial instrument is assigned an 'investment-grade' credit risk rating. The Bank does not apply the low credit risk exemption to any other financial instrument.

Refer to Note 5 for further detail in respect of the Bank's impairment loss methodology for each category of financial assets.

Staging

On initial recognition, an allowance for ECL (or provision in the case of loan commitments and financial guarantees) is estimated, representing the lifetime cash shortfalls resulting from default events that are possible in the next 12 months, or less assuming that the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk since initial recognition, an allowance for ECL (or provision) is estimated, representing the lifetime cash shortfalls resulting from all possible default events over the expected life of the financial instruments ('lifetime ECL'). Financial assets where 12-month ECL is recognised are classified as 'Stage 1' financial assets, while financial assets which are considered as having experienced a significant increase in credit risk and for which lifetime ECL is recognised, are classified as 'Stage 2' financial assets. Financial assets for which there is objective evidence of impairment and which are considered to be in default, or otherwise credit-impaired, are classified as 'Stage 3'.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

Stage 1 – Unimpaired and without significant increase in credit risk

ECL resulting from default events that are possible within the next 12-months are recognised for financial instruments that are classified in Stage 1.

Stage 2 – Significant increase in credit risk

IFRS 9 requires institutions to assess whether there has been a significant increase in credit risk since initial recognition, at least at each reporting date. This is done by considering the change in the risk of default over the remaining life of a financial instrument. This assessment compares the risk of default occurring at the reporting date with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. Amongst other criteria, the Bank considers the following as representing a significant increase in credit risk:

- actual or expected significant adverse change in the financial position and/or financial performance of the borrower;
- signs of cash flow or liquidity problems; and
- significant credit risk downgrades for rated exposures.

All financial assets which are more than 30 days past due are deemed to have suffered a significant increase in credit risk.

Stage 3 – Credit-impaired

The Bank considers financial instruments as being credit-impaired when the borrower is considered as unlikely to pay. When an exposure is more than 90 days past due, it is considered as being credit-impaired.

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it 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.

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

- the market's assessment of creditworthiness as reflected in bond yields;
- the rating agencies' assessments of creditworthiness, if available; or
- the issuer's ability to access the capital markets for new debt issuance.

Transfers between stages

Financial assets can be transferred between different staging categories. Financial assets are transferred out of Stage 2 and into Stage 1 if their credit risk is no longer considered to be significantly increased when compared to initial recognition. Financial assets are transferred out of Stage 3 when they are no longer considered as credit-impaired.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.2 Financial assets *(continued)*

Renegotiation and forbearance

A loan is defined as renegotiated or forborne where the contractual payment terms have been renegotiated or modified due to significant concerns about the borrower's ability to meet the contractual payments when due. Renegotiated loans are classified as credit-impaired, unless derecognised, until there is sufficient evidence to demonstrate a significant decrease in the risk of non-payment of future cash flows. Renegotiated loans could be transferred out of Stage 3 and into Stage 2 or Stage 1 in line with the Bank's staging mechanism described above, by comparing the risk of default occurring at the reporting date based on the modified contractual terms, with the risk of default occurring at initial recognition, based on the original contractual terms.

A renegotiated loan is derecognised if the existing agreement is cancelled and a new agreement entered into, the latter made on substantially different terms. The renegotiated loan is also derecognised if the same agreement is maintained but the modified contractual terms are such that the renegotiated loan is a substantially different financial instrument. Loans that arise following derecognition events may be considered as purchased or originated credit impaired.

Purchased or originated credit impaired ('POCI')

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. POCI assets include the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty, where the Bank's assessment is such that the repayments according to the modified contractual terms are still doubtful.

Write-off policy

Financial assets (and related impairment allowances) are normally written off, either partially or in full, when there is no reasonable prospect of recovery. Where loans are secured, this is generally after the receipt of any proceeds from the realisation of the collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Recoveries of amounts previously written off are presented within 'Change in expected credit losses and other credit impairment charges' in profit or loss.

4.3 Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as currency forwards or interest rate swaps. Derivatives are initially recognised at fair value on the date at which the derivative contract is entered into and are subsequently measured at their fair value, with changes in fair value recognised in profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Fair values of derivatives are determined by reference to the forward exchange rates at the end of the reporting period. The Bank enters into short-term contracts and therefore the time value of money does not have a significant effect on the fair value of these instruments. Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

As at 31 December 2024 and 31 December 2023, derivatives comprise forward foreign exchange contracts entered into with the Bank's customers, which are hedged through the use of mirror trades with other counterparties. In this respect, a derivative asset would result in a corresponding derivative liability.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.4 Financial liabilities

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

The Bank classifies its financial liabilities, other than derivative liabilities, financial guarantees and loan commitments, as subsequently measured at amortised cost. Financial liabilities measured at amortised cost comprise principally amounts owed to banks, amounts owed to customers, and accruals.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. In addition, the Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. 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 original financial liability, the amortised cost of the financial liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

4.5 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, unrestricted balances held with banks or financial institutions, as well as highly liquid financial assets, which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position and comprise:

- cash in hand and deposits repayable on demand or with a contractual period to maturity of less than ninety days, with any bank or financial institution;
- short term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period to maturity of less than three months, such as treasury bills;
- loans and advances from banks repayable within three months from the date of the advance.

4.6 Leases

At the inception of a contract, the Bank assesses whether a contract is or contains a lease. IFRS 16 states that 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 a consideration. In making such an assessment, a contract is considered as conveying the right to control the use of an identified asset, if the Bank has both of the following:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.6 Leases *(continued)*

An asset is identified either by being explicitly specified in the contract or implicitly identified at the time the asset is made available for use by the Bank. Despite an asset being specified, the Bank is only considered as having the right to use an identified asset if the supplier does not have the substantive right to substitute the asset throughout the period of use. In addition, the Bank has the right to direct the use of the identified asset only if:

- It has the right to direct how and for what purpose the asset is used, or
- The relevant decisions about how and for what purpose the asset is used are predetermined and the Bank has the right to operate the asset without interference from the supplier or the Bank has designed the asset in a way that predetermines how and for what purpose the asset shall be used.

At the inception of the contract, the Bank is required to separate lease components from non-lease components and account for them separately.

<u>As a lessee</u>

At the commencement date of the lease, the Bank recognises a right-of-use asset and a lease liability. Upon initial recognition, the right-of-use asset is measured at cost, which comprises:

- The amount of the initial measurement of the lease liability;
- Lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs incurred by the Bank as the lessee; and
- An estimate of the costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequent to initial measurement, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term.

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

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate. The lease liability is therefore increased to reflect the interest thereto and reduced to reflect lease payments made. The lease liability is remeasured to reflect any reassessment or lease modifications. In the event that the lease liability is remeasured, any adjustments are set off against the carrying amount of the right-of-use asset, with any excess over the carrying amount of the right-of-use asset being accounted for in profit or loss.

The Bank has elected to apply the recognition exemptions as outlined in IFRS 16 for short-term leases with a lease term of 12 months or less. Accordingly, the Bank recognises lease payments in respect of such leases as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.6 Leases *(continued)*

The sections below summarise the lease agreements applicable for the year ended 31 December 2024.

Lease of property

The Bank leases various offices for its own use, in Malta, Austria and the Republic of Ireland. The Bank recognises right-of-use assets and lease liabilities in the statement of financial position in respect of these lease agreements, as well as depreciation and interest expense in the statement of comprehensive income.

In Malta, the Bank leases out one office which it uses as an emergency off-site office space as part of its Business Continuity Plan ("BCP") and a car park for its staff personnel. The BCP lease agreement was renewed during 2023 for an additional lease term of three years.

The Bank also leases floor space in a warehouse which it uses as an archive and a four-car garage. For both these assets, the lease term is for a period of 12 months, and therefore the Bank applies the recognition exemption and accounts for the lease payments on a straight-line basis over the lease term. The Bank also applies the recognition exemption in respect of the office located in Austria for the development of the self-developed software since the lease term is for a period of 12 months and the rental expense of such an office space is capitalised.

In the Republic of Ireland, the Bank rents out the office premises used for the Branch operations, which lease was subject to a ten-year lease term under the lease agreement which was terminated during 2023, subject to a rent review after the lapse of the first five years. The new lease agreement has a two-year lease term, with no applicable extension options. In this respect, the Bank accounts for such leases by recognising a right-of-use asset, which asset is depreciated over the lease term. The Bank also recognises a corresponding lease liability and the related interest expense.

Finally, the Bank also rents an apartment in the Republic of Ireland which serves as accommodation for the Republic of Ireland Branch staff. Given that the lease term for this apartment spans for 12 months, the Bank has elected to apply the recognition exemption and recognise the lease payments as an expense in profit or loss.

Lease of equipment

The Bank leases photocopiers from third parties, the lease term of which varies from three to five years. The lease agreements contain a lease component, whereby the Bank leases the photocopier for a fixed consideration, as well as a non-lease component, whereby the supplier agrees to charge the Bank a fixed price for each print, as agreed in the lease agreement. The Bank has decided to separate the lease and non-lease components and account for these separately.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.7 Property, plant and equipment

Property, plant and equipment is initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Freehold premises are subsequently measured at revalued amount, based on periodic valuations carried out by independent professional valuers, less accumulated depreciation.

Valuations are carried out on a regular basis such that the carrying amount of freehold premises does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is subsequently stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset, previously recognised in profit or loss. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the property revaluation reserve. All other decreases are charged to profit or loss. Upon disposal of the premises, the realised portion of the revaluation reserve is released and transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on a straight-line basis, to allocate the cost or revalued amounts of the assets to their residual values over their estimated useful lives, as follows:

- Freehold Premises — 25 years (4% per annum)
- Furniture, fixtures and fittings — 10 years (10% per annum)
- Air conditioning — 5 years (20% per annum)
- Office equipment — 5 years (20% per annum)
- Computer equipment — 4 years (25% per annum)
- Motor vehicles — 5 years (20% per annum)

In the year of acquisition, the charge is calculated on a monthly basis. Land is not depreciated as it is deemed to have an indefinite useful life. Assets in the course of construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. On disposal of a tangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognised in other operating income in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.8 Investment property

Investment property includes property that is held by the Bank for long-term rental yields or for capital appreciation or both, and that is not occupied by the Bank.

Investment property is measured initially at its cost, including related transactions costs. Investment property is subsequently measured at fair value, based on periodic valuations carried out by independent professional valuers, with changes in fair value being recognised directly in profit or loss in the period in which they arise.

Valuations are carried out on a regular basis such that the carrying amount of investment property does not differ materially from that which would be determined using fair values at the end of the reporting period.

A property is transferred to / from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment. Its fair value at the date of the reclassification is deemed to represent its cost for subsequent accounting purposes.

Rental income is credited to 'Other operating income' within profit or loss on a straight line basis.

An investment property is derecognised on disposal or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are charged or credited to profit or loss within 'Other operating income' in the period of the retirement or disposal.

When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in a revaluation reserve is transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.9 Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives, from the date on which they are available for use.

The significant intangibles recognised by the Bank and their useful economic lives are as follows:

• Bavaria Banken Software	2 years (50% per annum) – the remaining life
• Self-developed software	10 years (10% per annum)
• Other software	4 years (25% per annum)

In the year of acquisition, the amortisation charge is calculated on a monthly basis. On disposal of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in "other operating income" in the statement of comprehensive income.

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

The Bank had initiated a project entailing the development of core banking and related software built in-house by specially hired I.T. employees. The Board of Directors determined that, in accordance with IAS 38, all assets bought by the Bank and any expenses incurred for the development of the software are capitalised and added to the value of the intangible asset. This will also include the depreciation of any fixed assets acquired immediately for the sole purpose of the generation of the said software. Such intangible assets will only start being amortised in line with the Bank's accounting policies described above once the software goes live, allowing the Bank to start generating income from such an investment. Subsequently, any expenses incurred by the Bank due to the maintenance of the software will not be capitalised but charged to profit or loss.

4.10 Impairment of non-financial assets

Non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

4.11 Provisions

A provision is recognised if, as a result of a past event, the Bank 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 measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.
A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.12 Share capital and dividends

Financial instruments issued by the Bank are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Bank's ordinary shares are classified as equity instruments. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

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

4.13 Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to 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 or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the credit loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Loan commitments provided by the Bank are measured as the amount of the credit loss allowance.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. Material accounting policies *(continued)*

4.14 Interest income and expense

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 the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all 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 liability. Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on financial assets at fair value through other comprehensive income; and
- interest expense on lease liabilities.

4.15 Fee and commission income and expense

<u>Net fee and commission income</u>

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

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

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with the customer. The Bank recognises revenue when it transfers control over a service to a customer. The table below provides information about the nature, timing of satisfaction of the performance obligations and significant payment terms of contracts with customers.

Service line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Custody & Depositary Services	The Bank provides custody and depositary services primarily to Alternative Investment Funds, Professional Investor Funds and UCITS. When acting as custodian, the Bank holds in custody the financial instruments that can be held in custody for its customers through its custody network. When acting as depositary, the Bank will perform the prescribed depositary functions including ensuring that the fund’s cash flows are properly monitored, safekeeping the assets of the Fund and the related oversight duties. Custody and depositary fees are levied on a quarterly basis based on the average monthly closing balance for the quarter.	Custody and depositary fees are recognised over time, as the services are provided.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.15 Fee and commission income and expense (continued)

Service line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Payments	The Bank offers payment services to its customers including SWIFT transfers, SEPA and Target 2 payments. Fees for payment services are charged when the payment is affected, either at a flat fee or as a percentage of the payment amount.	Fees for payment services are recognised at a point in time when the transaction takes place.
Securities	The Bank offers a variety of investment services to individual and institutional customers including receipts and transmission and execution services, settlement services (only to institutional customers), as well as transition services. The Bank also offers the services of corporate actions whereby it communicates corporate event details to the customer in respect of an entity issuing a corporate action. Transaction fees for the purchase, sale or transfer of securities are charged by the Bank when the transaction takes place and are levied either at a flat fee per transaction or as a percentage of the market value. The Bank charges safekeeping fees at a percentage of the total value of the portfolio per annum, with fees levied quarterly.	Transaction fees are recognised at a point in time, when the transaction takes place. Safekeeping fees are recognised over time as the services are provided.
Account On-Boarding	The Bank charges its customers a quarterly account administration fee payable quarterly in arrears. Fees are fixed per account depending on the type of customer (that is individuals versus corporate customers) and customer typology.	Account administration fees are recognised over time, as the account service is provided.
Ad hoc fees	Customers are charged a fixed fee for specific requests including statements and advice, bank references, bank reports for audit purposes and changes requiring updates for due diligence purposes. Fees are charged once a request takes place.	Fees charged for requests made by the customer are recognised at a point in time, when the request is initiated.

IFRS 15 requires entities to disclose information on transaction price allocated to the remaining performance obligations. However, as at year end, the Bank has applied the practical expedient in IFRS 15, since the Bank's contracts with customers all have an original maturity of one year or less.

IFRS 15 also requires entities to capitalise incremental costs of obtaining a contract with a customer, provided that the entity expects such costs to be recovered. Capitalised costs are then amortised over the contract term. Since the Bank enters into contracts having an original maturity of one year or less, the amortisation period of any contract asset would be equal to one year or less. Accordingly, the Bank has availed itself of the practical expedient in IFRS 15, and therefore recognises such costs as an expense when incurred.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.16 Net trading income

Net trading income comprises realised and unrealised fair value movements in respect of financial instruments measured at FVTPL, income recognised upon the inception of forward foreign exchange derivative contracts, as well as realised and unrealised foreign exchange differences.

4.17 Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

The Bank contributes towards the state pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense during the year in which these are incurred.

Post-employment benefit obligations

The Bank operates a post-employment scheme which meets the definition of a defined benefit plan in accordance with IAS 19. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually using the projected unit credit method.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms approximating to the terms of the related obligation.

The net interest cost is calculated by applying the discount rate to the balance of the defined benefit obligation. This cost is included in employee benefit expense in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

In view of the insignificant impact of the post-employment benefit obligations on the Bank's income statement charge for the financial years ended 31 December 2024 and 31 December 2023, the IAS 19 disclosure requirements attributable to defined benefit plans are not being presented in these financial statements.

Other long-term employee benefit obligations

The group also has liabilities in respect of deferred remuneration schemes that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. These obligations are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period, using the projected unit credit method.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Material accounting policies *(continued)*

4.17 Employee benefits *(continued)*

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of high-quality corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss. The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least 12 months after the reporting period, regardless of when the actual settlement is expected to occur.

In view of the insignificant impact of the deferred remuneration scheme on the Bank's income statement charge for the financial years ended 31 December 2024 and 31 December 2023, the IAS 19 disclosure requirements attributable to other long-term employee benefit obligations are not being presented in these financial statements.

4.18 Income tax expense

The income tax expense or credit for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management

5.1 Introduction

This note explains the Bank's exposure to financial risks and how these risks could affect its future financial performance. The Bank's risk management is predominantly controlled by the Risk Committee under policies approved by the Board of Directors. The Bank's Board of Directors is primarily responsible for setting, approving and overseeing the implementation of the overall business strategy and the key policies of the Bank, as well as the overall risk strategy and internal governance and internal control framework. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and investment of excess liquidity.

The Board of Directors challenges and periodically reviews the Bank's Risk Management Framework to ensure that the attainment of strategic objectives is not at the expense of the viability or sustainability of the Bank. The Board of Directors is supported in its supervisory function by the Risk Committee.

Senior management, vested in the Managing Director (CEO), the Chief Technology Officer and the Chief Legal and Governance Officer ('CLGO') (appointed as from 22nd November 2024), is responsible for the implementation of the strategies and policies set by the Board of Directors and is accountable to the Board of Directors for the day-to-day running of the Bank. In performing its risk management duties, Senior management is also assisted by the Management Committee ('MANCO') whose functions include assisting and supporting senior management in the implementation and monitoring of the Bank's business strategy and policies and procedures established by the Board of Directors, and the implementation and monitoring of the Bank's risk strategy, including the risk appetite and risk management framework established by the Board of Directors.

The Management Committee is supported by its four sub-committees, namely the Credit Review Committee, the Treasury and Investment Management Committee ('TIMCO'), the Customer Account Evaluation Committee and the Business Committee, and reports regularly to the Board of Directors on its activities.

Further information in respect of the Bank's risk management framework, objectives, policies and governance arrangements can be located in the Directors' Report and the Bank's Pillar 3 Disclosures document.

The main categories of risk which the Bank faces, and thus are given importance in this report, are the following:

- Credit Risk
- Market Risk
- Interest Rate Risk in the Banking Book
- Liquidity Risk
- Operational Risk

The Board is responsible for defining the Bank's risk appetite towards each risk category identified as part of the risk assessment process. The risk appetite of the Bank is determined by a series of indicators set out in the Bank's Risk Appetite Statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.2 Key risk components

- Credit Risk: Credit risk can be defined as the risk of suffering financial loss, due to the failure of the Bank's customers or counterparties to meet and fulfil their obligations to the Bank. In determining the extent of its exposure to credit risk, the Bank assesses the credit quality of its financial assets. The Bank's business model does not feature a significant activity in the provision of credit to the general economy, focusing instead on investment services activities. In this respect, the Bank's credit risk exposure predominantly stems from its proprietary portfolio of debt securities, liquidity held with the Central Bank of Malta and other banks, as well as loans and advances to customers. The lending activity is not substantial when compared to total assets. When granting credit to customers, the Bank does so almost invariably in a fully secured manner, with exposures fully collateralised by pledges on cash balances or high quality liquid assets, and for short maturities not exceeding five years.

- Market Risk: Market risk is the risk that the fair value, or future cash flows, of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and share prices. Consequently, market risk comprises the following sub-categories of risk, namely:
  - Interest rate risk, which is brought about by changes in interest rates.
  - Exchange rate risk, which is brought about by exchange rate changes in respect of financial instruments denominated in a foreign currency.
  - Investments price risk, which is the risk of incurring losses due to the changes in the prices of investments.
  - Credit valuation adjustment risk, defined as the risk of changes in the mark-to-market value of the Bank's exposure to its derivative transaction counterparties.
  - Credit spread risk in the banking book, which refers to the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments, which is not explained by Interest Rate Risk in the Banking Book ('IRRBB') or by expected credit default risk.

- Interest Rate Risk in the Banking Book: Interest rate risk in the banking book ('IRRBB') is defined as the current or prospective risk to both earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including the following categories of risk:
  - Gap risk: Risk resulting from the term structure of interest-rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (also referred to as parallel risk) or differentially by period (also referred to as non-parallel risk).
  - Basis risk: The impact of relative changes in interest rates on interest-rate sensitive instruments that have similar tenors but are priced using different interest rate indices. This risk arises mainly from hedging exposures to one interest rate with exposure to a rate which reprices under slightly different conditions. The Bank does not engage in interest rate hedging and therefore does not consider this as a material risk exposure.
  - Option risk: The risk arising from options, whether embedded or explicit, where the institution or its customers can alter the level and timing of their cash flows. The Bank does not hold interest-rate sensitive instruments with optionality and therefore does not consider this as a material risk exposure.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.2 Key risk components *(continued)*

- Liquidity Risk: Liquidity risk is the risk that an entity will encounter difficulty in meeting expected or unexpected current and future cash flow needs without affecting daily operations or the financial condition of the entity. Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity risk can arise from two particular sub-categories, namely:
    - Market liquidity risk: Risk of losses being incurred due to being unable to access a product or market at any required time.
    - Funding liquidity risk: The loss faced due to a timing mismatch which would eventually lead to missing settlement date or the obligation met at a premium price which would mean a higher cost for the Bank.

- Operational Risk: Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as from external events. Operational risks are mitigated by a system of controls, policies, procedures and random checks. In addition, risk is mitigated through adequate back up sites and systems and the continuous maintenance of the business continuity plan.

5.3 Credit risk

i. Credit Risk Management

Credit risk is defined as the potential for loss due to failure of a borrower to meet its contractual obligation to repay a debt in accordance with the agreed terms. The Bank has policies and procedures for accepting, measuring and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return, and to minimise potential adverse effects of credit risk on the Bank's financial performance.

Credit risk is the primary risk category to which the Bank is exposed, namely through investment in debt securities (2024: EUR279,763,860), balances held with the Central Bank of Malta (2024: EUR636,566,354) and balances held with other institutions (2024: EUR75,560,762). The Bank is not heavily involved in the business of lending, with credit facilities and financial guarantees representing a less significant credit risk exposure. In fact, credit facilities amounted to EUR6,245,493 as of the end of 2024, representing less than 1% of the Bank's total assets.

The Bank's credit exposures policy defines the Bank's credit risk exposures arising from both on-balance sheet and off-balance sheet exposures. The policy also describes how the Bank manages its exposure to credit risk, including the allocation of roles and responsibilities within the three lines of defence.

The Bank's Board of Directors is responsible for setting, approving and overseeing the implementation of the Bank's Credit Exposures Policy, including approval and annual review of the Credit Exposures Policy, setting the credit risk strategy and appetite and approving certain credit facilities and guarantees in line with the limits defined in the Credit Exposures policy. In turn, Senior Management is responsible for the implementation of credit risk management targets and ensuring that the Bank operates within the defined credit risk limits.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The Bank has two management sub-committees, namely the Treasury and Investment Management Committee ('TIMCO') and the Credit Review Committee, which support Senior Management in the exercise of its duties in relation to credit risk management. Firstly, TIMCO is primarily responsible for managing credit risk exposures emanating from the Bank's investments portfolio. Its functions include:

i. Overseeing and monitoring the performance of the Bank's investment portfolio
ii. Monitoring the risk exposure from the portfolio, including potential breaches to early warning signals and investment limits, and taking corrective actions where necessary
iii. In relation to credit risk mitigation, reviewing the initial pool of static collateral at loan origination and monitoring the said pool over the life of the facility

The Credit Review Committee, on the other hand, focuses on the Bank's credit facilities and guarantees, including:

i. Approving of new or renewed credit facilities, within the limits defined in the Credit Exposures Policy
ii. Making recommendations for the approval of credit facilities and guarantees for Board approval, where these require Board approval
iii. Monitoring and reviewing credit facilities and guarantees on a regular basis

The Risk Management function is responsible for facilitating the implementation of the Bank's Credit Exposures Policy. The Risk Management function is represented on both the TIMCO and the Credit Review Committee, by the Risk Manager. The Risk Management function acts as the second line of defence by consulting the first line of defence in the day-to-day implementation of the Credit Exposures Policy, as well as fulfilling its oversight role by ensuring that the risk management policies are followed and the risk appetite limits are adhered to. The Risk Management function may carry out its own independent analysis on investment positions, credit facilities and guarantees, on the basis of which it would advise on the credit risk exposure emanating from such positions or facilities.

<u>ii. Credit Risk Measurement</u>

Measurement of credit risk is complex and requires the use of models, as the credit risk exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures expected credit losses using Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) parameters.

(a) Financial investments and other financial assets

The majority of the Bank's balance sheet comprises financial investments measured at amortised cost, balances held with the Central Bank of Malta and loans and advances to banks. The Bank considers public credit ratings determined by external credit rating agencies to assess the probability of default of individual counterparties. Such public credit ratings are continuously monitored and updated. The Bank applies PDs determined by external credit rating agencies by reference to historical default rates observed in the market, with different PDs being associated with different public credit ratings. In determining the probability of default of individual counterparties, the Bank distinguishes between investment-grade and sub-investment grade counterparties.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Before investing in a debt security, the Bank performs an assessment of the creditworthiness of the issuer and determines whether this falls within the Bank's risk appetite. The assessment performed can take on various forms including discussions held during TIMCO meetings. The limits established within the Bank's Risk Appetite Statement govern investment decisions. In this respect, TIMCO ensures that all investment decisions are aligned with the defined risk appetite. Subsequent to acquisition date, TIMCO and the Risk function monitor position prices and market news on a regular basis to identify adverse price movements in its portfolio and changes in the perceived credit risk posed by the issuer on a timely basis.

(b) Loans and advances to customers

The Bank has defined maximum risk exposures limits for its lending products, which principally comprise settlement lines offered to corporate clients, overdraft facilities offered to licenced entities for the financing of the acquisition of financial instruments or to discharge obligations in respect of forward foreign exchange transactions, as well as loans and overdraft facilities offered to private banking clients. The Bank uses internal credit risk grades (refer to Note 5.3.vi) to reflect its assessment of the probability of default of individual counterparties or facilities. Internal credit risk grading is based on payment behaviour, loan specific information and expert judgement of the Bank's Credit Review Committee.

Information considered by the Bank when determining the internal credit risk grades includes the payment behaviour of the borrower as well as historical information in respect of its financial performance and financial position. Management also takes into consideration non-financial indicators in the performance of credit risk assessments, such as the timeliness of the provision of financial information, borrower-specific risk profile, the quality of management, forecast market growth, the economic sectors / activities to which the borrower is exposed, the industry-specific outlook and the impact of general macroeconomic conditions on the borrower's financial performance. The internal credit risk grades are calibrated such that they reflect the increased risk of default at each higher risk grade. The rating is determined at the borrower level through the performance of a creditworthiness assessment of the borrower in each periodic review, which is performed at least on an annual basis.

<u>iii. Expected credit loss measurement</u>

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

- A financial instrument that is not credit-impaired upon initial recognition is classified in 'Stage 1'.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to Note 5.3.iii for a description of how the Bank determines when a SICR has occurred.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'. Refer to Note 5.3.iii for the Bank's definition of credit-impaired.
- Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Refer to Note 5.3.iii for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired upon initial recognition. The ECL in respect of POCI exposures is always measured on a lifetime basis ('Stage 3').

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The Bank recognises credit loss allowances at an amount equal to 12-month ECL for debt securities that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when it is considered 'investment-grade', as defined by external credit rating agencies. The following diagram summarises the impairment requirements under IFRS 9 (other than POCI financial assets):

Change in credit quality since initial recognition

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

Significant increase in credit risk

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

For exposures classified within 'Loans and advances to customers', the Bank primarily identifies whether a SICR has occurred since initial recognition by reference to delinquency status, as well as the internal risk gradings determined on an individual borrower level. For deposit facilities which have been overdrawn at any point in time, referred to as 'unauthorised facilities', the Bank also takes into consideration the number of times when the facility was overdrawn during the previous 12 months.

The Bank allocates each exposure to an internal credit risk grade based on financial and non-financial information which is deemed to be predictive of the risk of default. Amongst other things, reference is made to audited financial statements and financial projections. Management applies expert credit judgement in assessing the level of credit risk attributable to specific borrowers. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different internal rating grade (refer to Note 5.3.vi).

Unless additional unlikeliness-to-pay ('UTP') events have been identified, the Bank classifies non-defaulted exposures into 'Stage 2' when the borrower is classified within the 'Watch' or 'Probable' internal credit risk grade, which means that the exposure is more than 30 days past due or, in the case of unauthorised facilities, the account was overdrawn at least twice during the last 12 months. Internal credit risk grades used by the Bank are defined in Note 5.3.vi.

In the case of other financial assets, including balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, the Bank applies the low credit risk simplification to exposures having an 'investment grade' public credit rating. In this respect, exposures having an 'investment grade' public credit rating are not subject to the SICR assessment. Moving from 'investment-grade' to 'sub-investment grade' does not automatically trigger a SICR. In this respect, public credit ratings assigned to each investment, as well as the relative movements in market prices, are monitored on a periodic basis in order to assess the level of credit risk attributable to each investment.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Definition of default and credit-impaired assets

The Bank's assessment to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Bank applies the definition of default in a consistent manner with internal credit risk management practice for the relevant instruments and the definition considers qualitative and quantitative factors where appropriate.

The Bank determines that exposures classified within loans and advances to customers are credit-impaired or in default (and accordingly classified as Stage 3) by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days for any material credit obligations to the Bank; and
- there are other indicators that the borrower is unlikely to pay without realisation of collateral, such as an observed deterioration in the financial performance and / or financial position of the borrower.

The default definition is applied consistently when modelling PD, EAD and LGD parameters throughout the Bank's expected credit loss calculations. An instrument is considered to have cured from defaulted status when it no longer meets any of the default criteria for a period of three consecutive months and, in case of forborne exposures, a period of 12 consecutive months.

The Bank considers other financial assets, comprising balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, to be in default when a payment (including a coupon payment) becomes overdue by 1 day or more.

Measurement of ECL

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

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

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

Probability of default

The PD represents the likelihood of a borrower defaulting on its financial obligation (as defined in Note 4.2), either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The PD of financial investments is determined by reference to publicly available market information. Specifically, PDs for rated counterparties, principally relating to exposures classified within 'Balances with Central Bank of Malta', 'Loans and advances to banks' and 'Financial investments measured at amortised cost', reflect historical market default data sourced from external credit rating agencies. PDs used in the ECL calculation therefore reflect default rates for comparable issuers assigned an equivalent credit rating as at the date of the assessment. If a counterparty or exposure migrates between external credit ratings, this will lead to a change in PD.

In the case of loans and advances to customers, PDs are similarly sourced from publicly available market information sourced from external credit rating agencies. However, in view of the fact that counterparties within this portfolio are typically unrated, the Bank estimates PDs by reference to historical market default data sourced from external credit rating agencies taking into consideration the nature and seniority of the facility, as well as the industry in which the borrower operates.

Loss given default

The LGD represents the Bank's expectation of the extent of the loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGDs are determined based on the factors which impact the recoveries made in the event of default and, as a result, vary by product type.

Loans and advances to customers and lending commitments are typically secured by pledges on cash balances and portfolios of financial investments. In this respect, the LGD takes into consideration the current fair value of pledged collateral and haircuts to market values to reflect potential losses in value in a forced sale scenario. A key determinant for the LGD applied to such exposures is therefore the Loan to-Value ratio of individual facilities.

For unsecured exposures, comprising balances held with Central Bank of Malta, loans and advances to banks, financial investments measured at amortised cost, and unauthorised facilities classified within loans and advances to customers, a 100% LGD is assumed by the Bank.

Exposure at default

EAD represents the expected exposure in the event of a default. For balances held with Central Bank of Malta, loans and advances to banks and loans and advances to customers, the EAD is equivalent to the gross carrying amount at the reporting date. For lending commitments, the EAD is determined by reference to the undrawn amount as at reporting date.

For financial investments measured at amortised cost, the Bank estimates the EAD by reference to the sum of the interest receivable from reporting date until maturity and the nominal amount receivable upon maturity.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Period over which ECL is measured

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

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

iv. Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking into account any collateral held or other credit enhancements. For financial instruments recognised on the statement of financial position, the maximum credit risk exposure is equal to the carrying amount. For loan commitments that are irrevocable over the life of the respective facilities, the maximum exposure to credit risk is the full amount of the committed facilities. The maximum credit risk exposure for financial guarantees is the maximum amount that the Bank would have to pay if the guarantees were called upon.

	2024 EUR	2023 EUR
Credit risk exposures relating to on-balance sheet instruments		
Balances with Central Bank of Malta	**636,566,354**	530,571,054
Loans and advances to banks	**75,560,762**	61,704,110
Loans and advances to customers	**6,245,493**	8,855,664
Financial investments measured at amortised cost	**279,763,860**	317,709,569
Financial investments measured at fair value through profit or loss	**96,480**	93,120
Derivative financial assets	**1,474,912**	995,334
Accrued income	**878,916**	894,469
Total on-balance sheet credit risk exposures	**1,000,586,777**	920,823,320
Credit risk exposures relating to off-balance sheet instruments		
Financial guarantees	**15,000,000**	15,001,200
Loan commitments	**21,875,403**	31,831,244
Total off-balance sheet credit risk exposures	**36,875,403**	46,832,444
Total credit risk exposures	**1,037,462,180**	967,655,764

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The table below presents the gross carrying amount and nominal amount of financial instruments measured at amortised cost, to which IFRS 9 impairment requirements apply, and the associated allowance for ECL. As at the end of December 2024 and 2023, the Bank did not hold any financial instruments measured at fair value through other comprehensive income.

	31 December 2024		31 December 2023	
	Gross carrying amount/ Nominal amount EUR	Allowance for ECL EUR	Gross carrying amount/ Nominal amount EUR	Allowance for ECL EUR
Credit risk exposures relating to on-balance sheet instruments				
Balances with Central Bank of Malta	636,566,354	-	530,571,054	-
Loans and advances to banks	75,575,328	14,566	61,775,002	70,892
Loans and advances to customers	6,359,483	113,990	8,954,102	98,438
Financial investments measured at amortised cost	279,825,926	62,066	317,784,892	75,323
Accrued income	878,916	-	894,469	-
Total on-balance sheet credit risk exposures	999,206,007	190,622	919,979,519	244,653
Credit risk exposures relating to off-balance sheet instruments				
Financial guarantees	15,000,000	-	15,001,200	-
Loan commitments	21,875,403	1,501	31,831,244	378
Total off-balance sheet credit risk exposures	36,875,403	1,501	46,832,444	378
Total credit risk exposures	1,036,081,410	192,123	966,811,963	245,031

The Bank is also exposed to credit risk arising from financial instruments for which IFRS 9 impairment requirements do not apply. As at 31 December 2024, these include financial investments measured at fair value through profit or loss amounting to EUR96,480 (2023: EUR93,120) and derivative financial assets amounting to EUR1,474,912 (2023: EUR995,334).

v. Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The Bank’s policies regarding obtaining collateral have not changed significantly during the financial year ended 31 December 2024 and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The principal collateral types for secured loans and advances to customers and related loan commitments are pledges held in respect of cash balances and charges over portfolios of liquid financial instruments, such as debt securities and equities. Financial guarantees are fully cash collateralised, with the cash collateral being held at the Bank.

The table overleaf presents the Bank’s gross carrying amount of loans and advances to customers and the gross off-balance sheet exposures relating to loan commitments and financial guarantees, together with the total amount of collateral held, analysed by type of collateral. The net maximum exposure would then be equivalent to the gross exposure less the collateral value as at each respective reporting date. The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed on a periodic basis in order to ensure that adequate collateral coverage is maintained at all times. The collateral amounts shown in the tables below are presented net of applicable haircuts.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

2024

	Gross on-balance sheet exposures	Gross off-balance sheet exposures	Total gross exposure	Collateral held		Net maximum exposure
				Cash	Securities	
	EUR	EUR	EUR	EUR	EUR	EUR
Stage 1	6,144,838	36,532,201	42,677,039	24,264,371	604,662,888	739,905
Stage 2	103,168	343,202	446,370	526,485	1,300,289	86,283
Stage 3	111,477	-	111,477	-	-	111,477
	6,359,483	36,875,403	43,234,886	24,790,856	605,963,177	937,665

2023

	Gross on-balance sheet exposures	Gross off-balance sheet exposures	Total gross exposure	Collateral held		Net maximum exposure
				Cash	Securities	
	EUR	EUR	EUR	EUR	EUR	EUR
Stage 1	8,562,406	46,832,444	55,394,850	21,253,950	758,719,865	44,970
Stage 2	294,410	-	294,410	-	-	294,410
Stage 3	97,286	-	97,286	-	-	97,286
	8,954,102	46,832,444	55,786,546	21,253,950	758,719,865	436,666

As outlined earlier, all secured loans and advances to customers, referred to as ‘authorised credit facilities', are typically required to be fully collateralised at all times, resulting in a nil net exposure. In this respect, secured loans and advances to customers have sufficiently low LTV ratios resulting in no credit loss allowances being recognised in accordance with the Bank’s ECL model. The carrying amount of such assets as at 31 December 2024 is EUR5,827,399 (2023: EUR8,518,469), with exposures with a carrying amount of EUR5,810,514 classified in Stage 1 (2023: EUR8,518,469) and exposures with a carrying amount of EUR16,885 classified in Stage 2 (2023: nil). As at 31 December 2024, the allowance for ECL in respect of authorised facilities classified as Stage 1 amounted to EUR570 (2023: EUR13) and there is no allowance for ECL in respect of Stage 2 facilities (2023: nil).

In contrast, unauthorised facilities, relating to cases where deposit balances are overdrawn resulting in unauthorised overdraft facilities, are fully unsecured. Stage 3 exposures presented in the tables above relate to such unauthorised facilities. As at 31 December 2024, Stage 1 exposures amounting to EUR334,324 (2023: EUR43,937), Stage 2 exposures amounting to EUR86,283 (2023: EUR294,410) and Stage 3 exposures amounting to EUR111,477 (2023: EUR97,286) and included in the table above are unsecured. As at 31 December 2024, the allowance for ECL in respect of unauthorised facilities classified as Stage 1, Stage 2 and Stage 3 amounted to EUR1,431 (2023: EUR210), EUR512 (2023: EUR929), and EUR111,477 (2023: EUR97,286) respectively.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk (continued)

The following table shows the distribution of LTV ratios in respect of the Bank's authorised loans and advances to customers as at 31 December 2024 and 31 December 2023:

	Stage 1		Stage 2	
As at 31 December 2024	Gross carrying amount EUR	Allowance for ECL EUR	Gross carrying amount EUR	Allowance for ECL EUR
Authorised credit facilities - LTV distribution				
- Less than 10%	506,026	60	16,885	-
-10% to 50%	5,112,657	-	-	-
-50% to 100%	191,831	510	-	-
Total authorised credit facilities	5,810,514	570	16,885	-

	Stage 1	
As at 31 December 2023	Gross carrying amount EUR	Allowance for ECL EUR
Authorised credit facilities - LTV distribution		
-Less than 10%	5,756,275	-
-10% to 50%	1,996,444	-
-50% to 100%	765,750	13
Total authorised credit facilities	8,518,469	13

The Bank closely monitors collateral held for secured loans and advances to customers considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. As at 31 December 2024 and 31 December 2023, all credit-impaired loans and advances to customers are unsecured and, as a result, are provided for in full.

No collateral is held in respect of balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost.

vi. Credit quality analysis

As described in Note 5.3.iii, the Bank's internal credit risk grades are designed to highlight exposures which require closer management attention because of their greater probability of default and potential loss. The credit quality of the Bank's portfolios of financial instruments is assessed by reference to the Bank's standard credit rating system, as described below:

Grade	Stage	Balances held with Central Bank of Malta Loans and advances to banks Financial investments	Loans and advances to customers: Authorised facilities	Loans and advances to customers: Unauthorised facilities
Regular	1	Investment grade	Not past due; 1 to 30 days past due	Overdrawn once during the previous 12 months
Watch	2	Sub-investment grade	31 to 60 days past due	Overdrawn twice during the previous 12 months
Probable	2	Sub-investment grade	61 to 90 days past due	Overdrawn three times during the previous 12 months
Default	3	Default	More than 90 days past due	Overdrawn four times during the previous 12 months

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The following table presents the distribution, by stage, of the financial instruments to which IFRS 9 impairment requirements apply, and the associated allowance for ECL, as at 31 December 2024 and 31 December 2023. The financial instruments classified in each stage have the following characteristics:

i. Stage 1 – unimpaired and without significant increase in credit risk and on which a 12-month allowance for ECL is recognised.
ii. Stage 2 – a significant increase in credit risk has been experienced since initial recognition and on which lifetime ECL is recognised.
iii. Stage 3 – objective evidence of impairment and therefore considered as credit-impaired and on which lifetime ECL is recognised.

The determination of the staging in respect of exposures classified within loans and advances to customers is linked to the Bank's internal credit grading classification. Any exposure which is assigned an internal credit grading of 'Regular' and which is hence less than 30 days past due, is mapped to Stage 1, and hence is considered as unimpaired and without significant increase in credit risk since initial recognition. 12-month ECL is measured in respect of such exposures.

Exposures which are assigned an internal credit grading of 'Watch' or 'Probable', and which would hence be more than 30 days past due but up to 90 days past due, are classified to Stage 2. These exposures are considered to have experienced a significant increase in credit risk since initial recognition, but they are not credit-impaired. Accordingly, a lifetime ECL is measured in respect of these exposures.

Finally, defaulted exposures, comprising exposures which are more than 90 days past due, are considered as Stage 3 exposures and are fully provided for. As a result, the Bank assumes that these exposures are fully irrecoverable.

For other financial assets, comprising balances held with Central Bank of Malta, loans and advances to banks and financial investments measured at amortised cost, staging is determined by reference to public credit ratings, as described in the table presented on the previous page.

31 December 2024	Gross carrying amount/ Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Credit risk exposures relating to on-balance sheet instruments								
Balances with Central Bank of Malta	636,566,354	-	-	636,566,354	-	-	-	-
Loans and advances to banks	75,575,328	-	-	75,575,328	14,566	-	-	14,566
Loans and advances to customers	6,144,838	103,168	111,477	6,359,483	2,001	512	111,477	113,990
Financial investments measured at amortised cost	279,825,926	-	-	279,825,926	62,066	-	-	62,066
Accrued income	878,916	-	-	878,916	-	-	-	-
Total on-balance sheet credit risk exposures	998,991,362	103,168	111,477	999,206,007	78,633	512	111,477	190,622
Credit risk exposures relating to off-balance sheet instruments								
Financial guarantees	15,000,000	-	-	15,000,000	-	-	-	-
Loan commitments	21,532,201	343,202	-	21,875,403	1,501	-	-	1,501
Total off-balance sheet credit risk exposures	36,532,201	343,202	-	36,875,403	1,501	-	-	1,501
Total credit risk exposures	1,035,523,563	446,370	111,477	1,036,081,410	80,134	512	111,477	192,123

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

31 December 2023	Gross carrying amount/ Nominal amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Credit risk exposures relating to on-balance sheet instruments								
Balances with Central Bank of Malta	530,571,054	-	-	530,571,054	-	-	-	-
Loans and advances to banks	61,775,002	-	-	61,775,002	70,892	-	-	70,892
Loans and advances to customers	8,562,406	294,410	97,286	8,954,102	223	929	97,286	98,438
Financial investments measured at amortised cost	317,784,892	-	-	317,784,892	75,323	-	-	75,323
Accrued income	894,469	-	-	894,469	-	-	-	-
Total on-balance sheet credit risk exposures	919,587,823	294,410	97,286	919,979,519	146,438	929	97,286	244,653
Credit risk exposures relating to off-balance sheet instruments								
Financial guarantees	15,001,200	-	-	15,001,200	-	-	-	-
Loan commitments	31,831,244	-	-	31,831,244	378	-	-	378
Total off-balance sheet credit risk exposures	46,832,444	-	-	46,832,444	378	-	-	378
Total credit risk exposures	966,420,267	294,410	97,286	966,811,963	146,816	929	97,286	245,031

Balances held with Central Bank of Malta and Loans and advances to banks

The Bank holds significant liquidity with the Central Bank of Malta. In this respect, the credit rating assigned to balances held with the Central Bank of Malta reflects the credit rating of the Maltese government. As at 31 December 2024, Maltese sovereign debt was 'A' rated (2023: 'A') and, in this respect, such balances are deemed to be investment-grade exposures and are accordingly classified as 'Regular' in line with the Bank's internal credit rating classification.

In this respect, the ECL in respect of balances with Central Bank of Malta was deemed to be insignificant as at 31 December 2024 and 31 December 2023.

The Bank also holds liquidity with other correspondent banks. The Bank ensures that correspondent banks with which it transacts are of good repute and of good credit standing. As at 31 December 2024, 100% (2023: 97%) of loans and advances to banks are rated 'BBB-' and above, thereby being assigned an investment-grade rating, and none (2023: one) of the correspondent banks being rated lower than BBB-. Furthermore, none (2023: one) of the correspondent banks are unrated as at 31 December 2024. In this respect, a 12-month allowance for ECL was recognised in respect of loans and advances to banks given that the majority of counterparties were assigned an investment grade credit rating as at 31 December 2024 and 31 December 2023.

The Bank also recognised a 12-month allowance for ECL in respect of counterparties which were not assigned an investment-grade credit rating or were unrated as at 31 December 2024 and 31 December 2023, since these exposures are withdrawable on demand and, as a result, the 12-month ECL would be equivalent to the lifetime ECL.

As described previously, PDs are determined using historical market default data sourced from external credit rating agencies, by reference to the credit rating assigned to each respective counterparty as at year end. In view of the assumed 12-month ECL horizon, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The tables overleaf present an analysis of loans and advances to banks by external credit rating as at 31 December 2024 and 2023.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

31 December 2024

Rating	PD	Gross carrying amount	Allowance for ECL
		EUR	EUR
AAA - AA+	-	-	-
AA - AA-	0.01%	45,915,615	4,683
A+ - A-	0.03%	29,607,142	9,772
BBB+	-	-	-
BBB	0.09%	1,149	1
BBB-	0.21%	51,422	110
BB+ and lower	-	-	-
Unrated	-	-	-
		75,575,328	14,566

31 December 2023

Rating	PD	Gross carrying amount	Allowance for ECL
		EUR	EUR
AAA - AA+	-	-	-
AA - AA-	0.02%	20,314,166	3,279
A+ - A-	0.03%	36,526,217	9,374
BBB+	0.08%	24,374	20
BBB	0.11%	2,723,535	2,860
BBB-	0.23%	406,367	914
BB+ and lower	0.98%	1,600	16
Unrated	3.06%	1,778,743	54,429
		61,775,002	70,892

An analysis of movements in allowances for ECL in respect of loans and advances to banks during the financial years ended 31 December 2024 and 31 December 2023 is presented below.

	EUR
Opening allowance for ECL as at 1 January 2024	70,892
Decrease in impairment loss allowance	(56,326)
- Decrease due to decrease in credit risk	(2,357)
- Increase due to increase in balance	6,277
- Decrease due to repayment of unrated exposures	(60,025)
- Change due to update in default rates	(221)
Closing allowance for ECL as at 31 December 2024	14,566

	EUR
Opening allowance for ECL as at 1 January 2023	74,366
Decrease in impairment loss allowance	(3,474)
- Decrease due to decrease in credit risk	(8,162)
- Increase due to increase in balance	8,376
- Decrease due to decrease in balance	(14,337)
- Change due to update in default rates	10,649
Closing allowance for ECL as at 31 December 2023	70,892

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Loans and advances to customers and Off-balance sheet exposures

In assessing its exposure to credit risk from loans and advances to customers and off-balance sheet exposures, the Bank uses an internal grading structure whereby a credit risk grade is assigned to each counterparty primarily by reference to delinquency status, as described in more detail in a previous section.

For authorised facilities, management deems it highly unlikely that a credit loss can occur since such exposures are highly collateralised by liquid assets. The Bank regularly monitors the market value of pledged securities, applying a haircut to assess the adequacy of collateral coverage under stress. In this respect, the Bank performs a daily assessment of collaterals held, including market prices and value of securities following the application of haircuts, to ensure that the total collateral value remains in excess of the carrying amount of the exposure. As a result, the ECL in respect of such facilities is deemed to be immaterial.

Since the Bank's loans and advances to customers are predominantly composed of overdraft facilities that are renewable on an annual basis, the Bank calculates 12-month ECLs in respect of loans and advances to customers.

In view of the assumed 12-month ECL horizon, as well as the high level of collateralisation of exposures classified within loans and advances to customers, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The tables below present the Bank's loans and advances to customers by credit risk grading, as at 31 December 2024 and 31 December 2023.

	As at 31 December 2024			
	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR
Loans and advances to customers measured at amortised cost				
Grade 1: Regular	6,144,838	-	-	6,144,838
Grade 2: Watch	-	79,252	-	79,252
Grade 3: Probable	-	23,916	-	23,916
Grade 4: Default	-	-	111,477	111,477
Gross carrying amount	6,144,838	103,168	111,477	6,359,483
Allowance for ECL	(2,001)	(512)	(111,477)	(113,990)
Net carrying amount	6,142,837	102,656	-	6,245,493
Off-balance sheet exposure				
Grade 1: Regular	36,532,201	-	-	36,532,201
Grade 2: Watch	-	343,202	-	343,202
Gross exposure amount	36,532,201	343,202	-	36,875,403
Allowance for ECL	(1,501)	-	-	(1,501)
Net exposure amount	36,530,700	343,202	-	36,873,902

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

	As at 31 December 2023			
	Stage 1	Stage 2	Stage 3	Total
	EUR	EUR	EUR	EUR
Loans and advances to customers measured at amortised cost				
Grade 1: Regular	8,562,406	-	-	8,562,406
Grade 2: Watch	-	290,718	-	290,718
Grade 3: Probable	-	3,692	-	3,692
Grade 4: Default	-	-	97,286	97,286
Gross carrying amount	8,562,406	294,410	97,286	8,954,102
Allowance for ECL	(223)	(929)	(97,286)	(98,438)
Net carrying amount	8,562,183	293,481	-	8,855,664
Off-balance sheet exposure				
Grade 1: Regular	46,832,444	-	-	46,832,444
Gross exposure amount	46,832,444	-	-	46,832,444
Allowance for ECL	(378)	-	-	(378)
Net exposure amount	46,832,066	-	-	46,832,066

The tables below present the transfers between stages for the Bank's loans and advances to customers.

	Non-credit impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
As at 1 January 2024	8,562,406	(223)	294,410	(929)	97,286	(97,286)	8,954,102	(98,438)
New and further lending	3,592,766	(1,281)	38,050	(79)	70,016	(70,016)	3,700,832	(71,376)
Repayments	(1,128,814)	180	(5,152,752)	113	(13,885)	13,885	(6,295,451)	14,178
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(5,122,344)	18	5,122,344	(18)	-	-	-	-
- Transfers from Stage 2 to Stage 1	232,040	(656)	(232,040)	656	-	-	-	-
- Transfers from Stage 2 to Stage 3	-	-	(8,190)	34	8,190	(34)	-	-
- Transfers from Stage 3 to Stage 2	-	-	41,346	(41,346)	(41,346)	41,346	-	-
- Transfers from Stage 1 to Stage 3	(623)	7	-	-	623	(7)	-	-
-Transfers from Stage 3 to Stage 1	9,407	(9,407)	-	-	(9,407)	9,407	-	-
Net remeasurement of ECL arising from stage transfer and changes in risk parameters	-	9,361	-	41,057	-	(8,772)	-	41,646
As at 31 December 2024	6,144,838	(2,001)	103,168	(512)	111,477	(111,477)	6,359,483	(113,990)
Total income statement charge for the year								(15,552)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

	Non-credit impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount EUR	Allowance for ECL EUR	Gross carrying amount EUR	Allowance for ECL EUR	Gross carrying amount EUR	Allowance for ECL EUR	Gross carrying amount EUR	Allowance for ECL EUR
As at 1 January 2023	4,558,021	(93)	278,569	(471)	58,004	(58,004)	4,894,594	(58,568)
New and further lending	5,424,438	(159)	53,347	(390)	77,814	(77,814)	5,555,599	(78,363)
Repayments	(1,427,244)	41	(35,557)	(86)	(33,290)	33,290	(1,496,091)	33,245
Transfers of financial instruments								
- Transfers from Stage 1 to Stage 2	(13,290)	29	13,290	(29)	-	-	-	-
- Transfers from Stage 2 to Stage 1	20,536	(35)	(20,536)	35	-	-	-	-
- Transfers from Stage 2 to Stage 3	-	-	(3,272)	7	3,272	(7)	-	-
- Transfers from Stage 3 to Stage 2	-	-	8,569	(8,569)	(8,569)	8,569	-	-
- Transfers from Stage 1 to Stage 3	(55)	-	-	-	55	-	-	-
Net remeasurement of ECL arising from stage transfer and changes in risk parameters	-	(6)	-	8,574	-	(3,320)	-	5,248
As at 31 December 2023	8,562,406	(223)	294,410	(929)	97,286	(97,286)	8,954,102	(98,438)
Total income statement charge for the year								(39,870)

As at 31 December 2023, all off-balance sheet exposures were classified as Stage 1 and no movement between staging was experienced. During the financial year ended 31 December 2024, one authorised exposure with a carrying amount of EUR16,885 and an off-balance sheet exposure of EUR343,202 were migrated to Stage 2.

Financial investments measured at amortised cost

In accordance with its approved risk appetite, the Bank invests its excess funding in a portfolio of high-quality liquid assets, specifically debt securities which are assigned an investment grade credit rating by at least one major credit rating agency. In this respect, debt securities measured at amortised cost are deemed by management to expose the Bank to a low level of credit risk and are accordingly classified as 'Regular' in line with the Bank's internal credit rating classification. As a result, 12-month allowances for ECL are recognised in respect of these instruments as at 31 December 2024 and 31 December 2023.

As described previously, PDs are determined using historical market default data sourced from external credit rating agencies, by reference to the credit rating assigned to each respective counterparty as at year end. In view of the assumed 12-month ECL horizon, the macroeconomic modelling aspect of IFRS 9 is deemed to be insignificant.

The table below presents an analysis of financial investments measured at amortised cost by external credit rating as at 31 December 2024 and 2023.

31 December 2024

Rating	PD	Gross carrying amount	Allowance for ECL
		EUR	
AAA to AAA-	0.01%	100,966,242	10,965
AA+ to AA-	0.01%	100,376,268	9,605
A+ to A-	0.04%	67,606,057	25,342
BBB+ to BBB-	0.15%	10,877,359	16,154
		279,825,926	62,066

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

31 December 2023			
Rating	PD	Gross carrying amount	Allowance for ECL
		EUR	
AAA to AAA-	0.01%	120,961,442	15,022
AA+ to AA-	0.02%	115,439,574	17,764
A+ to A-	0.04%	70,514,826	25,577
BBB+ to BBB-	0.16%	10,869,050	16,960
		317,784,892	75,323

An analysis of movements in allowances for ECL in respect of financial investments measured at amortised cost during the financial years ended 31 December 2024 and 31 December 2023 is presented below.

	EUR
Opening allowance for ECL as at 1 January 2024	**75,323**
Decrease in impairment loss allowance	**(13,257)**
- Acquisitions	**-**
- Maturities	**(12,365)**
- Change due to update in default rates	**(1,454)**
- Increase due to changes in ratings	**562**
Closing allowance for ECL as at 31 December 2024	**62,066**

	EUR
Opening allowance for ECL as at 1 January 2023	103,734
Decrease in impairment loss allowance	(28,411)
- Acquisitions	-
- Maturities	(6,732)
- Change due to update in default rates	(15,337)
- Decrease due to decrease in credit risk	(6,342)
Closing allowance for ECL as at 31 December 2023	75,323

vii. Write-off policy

The Bank writes off a loan, security and/or other receivable balances (and any related credit loss allowances) when management determines that the amounts due are uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower’s/issuer’s financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. During the financial years ended 31 December 2024 and 31 December 2023, no amounts receivable were written off by the Bank.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

viii. Credit concentration risk

Credit concentration risk is analysed into three different sub-risks, including:

i. Name concentration risk, which refers to the risk of imperfect diversification in the Bank's financial asset exposures because of large exposures to specific individual issuers, correspondent banks or borrowers;
ii. Sectoral concentration risk, which refers to the risk of imperfect diversification of the Bank's financial asset exposures due to an uneven distribution amongst sectors or industries; and
iii. Country concentration risk, which refers to the risk of default arising from political or economic events in a specific country or region, including political or social unrest, exchange controls, moratoria, currency devaluation, nationalisation, and expropriation of assets.

The Bank mitigates its exposure to such risks through various mitigating techniques embedded in the day-to-day processes, which help align the Bank's residual risk exposure to its risk appetite. Specifically, name concentration risk is regulated by large exposure rules in terms of the Capital Requirements Regulation. Limits are also defined for country and sectoral concentration risk, the latter being applicable to corporate debt securities.

The Bank's Risk Appetite Statement and Liquidity Management Policy determine the level of risk which the Bank deems to be acceptable. This is expressed in terms of various factors including the sector of the issuer or borrower, the country of risk, the term to maturity and the credit rating of the issuer or borrower, amongst others. In terms of the latter, the Bank makes reference to major credit rating agencies including Fitch, Moody's and Standard and Poor's.

The tables below present the Bank's counterparty concentration in respect of loans and advances to customers and financial investments.

Loans and advances to customers

	Gross carrying amount				Allowance for ECL			
	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR
2024								
Financial corporations	**5,614,117**	**94,707**	**78,876**	**5,787,700**	**1,284**	**304**	**78,876**	**80,464**
Non-financial corporations	**3,973**	**7,836**	**30,834**	**42,643**	**98**	**193**	**30,834**	**31,125**
Households	**526,748**	**625**	**1,767**	**529,140**	**619**	**15**	**1,767**	**2,401**
	6,144,838	**103,168**	**111,477**	**6,359,483**	**2,001**	**512**	**111,477**	**113,990**

	Gross carrying amount				Allowance for ECL			
	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR
2023								
Financial corporations	8,178,651	283,977	86,165	8,548,793	97	795	86,165	87,057
Non-financial corporations	3,788	9,564	9,897	23,249	48	121	9,897	10,066
Households	379,967	869	1,224	382,060	78	13	1,224	1,315
	8,562,406	294,410	97,286	8,954,102	223	929	97,286	98,438

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

Financial investments measured at amortised cost

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
2024		
Central Governments	86,628,924	-
Supranational organisations	73,532,781	-
Credit institutions	65,232,725	42,086
Other non-bank financial institutions	3,948,739	2,188
Foreign and listed corporates	50,482,757	17,792
	279,825,926	62,066

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
2023		
Central Governments	89,756,934	-
Supranational organisations	86,537,470	-
Credit institutions	71,128,146	45,629
Other non-bank financial institutions	3,934,577	2,388
Foreign and listed corporates	66,427,765	27,306
	317,784,892	75,323

The Bank also looks at sectoral concentration risk, primarily in relation to its loans and advances to customers and its portfolio of financial investments. The following tables analyse the Bank's loans and advances to customers by business sector and stage.

	Gross carrying amount				Allowance for ECL			
	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR
2024								
Fund management activities	5,153,760	61,937	55,637	5,271,334	1,238	176	55,637	57,051
Activities of holding companies	283,624	18,806	10,309	312,739	9	73	10,309	10,391
Other financial and insurance activities	176,733	13,964	12,930	203,627	37	55	12,930	13,022
Non-financial corporations	3,973	7,836	30,834	42,643	98	193	30,834	31,125
Households	526,748	625	1,767	529,140	619	15	1,767	2,401
	6,144,838	103,168	111,477	6,359,483	2,001	512	111,477	113,990

	Gross carrying amount				Allowance for ECL			
	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR	Stage 1 EUR	Stage 2 EUR	Stage 3 EUR	Total EUR
2023								
Fund management activities	1,856,496	263,105	75,841	2,195,442	79	737	75,841	76,657
Activities of holding companies	573,820	10,265	6,533	590,618	7	29	6,533	6,569
Activities of insurance agents and brokers	560,000	-	-	560,000	-	-	-	-
Other financial and insurance activities	5,188,335	10,607	3,791	5,202,733	11	29	3,791	3,831
Non-financial corporations	3,788	9,564	9,897	23,249	48	121	9,897	10,066
Households	379,967	869	1,224	382,060	78	13	1,224	1,315
	8,562,406	294,410	97,286	8,954,102	223	929	97,286	98,438

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

In line with the main customer base of the Bank, most authorised credit facilities are granted to customers operating in the financial services industry, including fund management activities, insurance and other financial activities. Nevertheless, this is not deemed to give rise to heightened concentration risk, given that customers within this segment invest in various sectors, and as a result, the Bank's risk exposure is determined by the fund's underlying instruments.

The following tables illustrate the sectoral concentration of financial investments measured at amortised cost as at 31 December 2024 and 31 December 2023.

2024

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
Supranational organisations	73,532,781	-
Sovereigns	86,628,924	-
Credit institutions	65,232,725	42,086
Healthcare and pharma	2,991,384	1,721
Energy & natural resources	6,957,849	2,068
Retail and consumer products	10,799,874	4,020
Manufacturing - motor vehicles	10,496,307	4,144
Technology	8,234,456	2,348
Insurance	5,027,537	517
Asset management	4,993,656	2,391
Non-bank financial institutions	3,948,739	2,188
Industrials and transportation	981,694	583
	279,825,926	62,066

2023

	Stage 1	
	Gross carrying amount EUR	Allowance for ECL EUR
Supranational organisations	86,537,470	-
Sovereigns	89,756,934	-
Credit institutions	71,128,146	45,629
Healthcare and pharma	12,975,493	7,389
Energy & natural resources	11,925,745	4,950
Retail and consumer products	11,784,721	4,683
Manufacturing - motor vehicles	10,498,895	4,257
Technology	8,249,401	2,058
Insurance	5,040,088	523
Asset management	4,975,371	2,819
Non-bank financial institutions	3,934,577	2,388
Industrials and transportation	978,051	627
	317,784,892	75,323

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.3 Credit risk *(continued)*

The table below illustrates the Bank's exposure to country concentration risk.

2024	Carrying amount EUR	Malta EUR	Austria EUR	United States EUR	Other EUR
Balances with Central Bank of Malta	636,566,354	636,566,354	-	-	-
Loans and advances to banks	75,560,762	5,400,803	13,952,031	44,224,355	11,983,573
Loans and advances to customers	6,245,493	6,208,305	-	-	37,188
Financial investments measured at amortised cost	279,763,860	1,557,043	10,023,500	73,762,227	194,421,090
Financial investments measured at fair value through profit or loss	96,480	-	-	-	96,480
Derivative financial assets	1,474,912	466,364	1,008,548	-	-
Accrued income	878,916	8,664	24,863	198,247	647,142
	1,000,586,777	650,207,533	25,008,942	118,184,829	207,185,473

2023	Carrying amount EUR	Malta EUR	Austria EUR	United States EUR	Other EUR
Balances with Central Bank of Malta	530,571,054	530,571,054	-	-	-
Loans and advances to banks	61,704,110	5,256,305	11,551,295	14,768,747	30,127,763
Loans and advances to customers	8,855,664	3,837,624	-	447	5,017,593
Financial investments measured at amortised cost	317,709,569	1,556,655	10,037,393	87,837,234	218,278,287
Financial investments measured at fair value through profit or loss	93,120	-	-	-	93,120
Derivative financial assets	995,334	171,638	823,696	-	-
Accrued income	894,469	37,408	24,863	231,252	600,946
	920,823,320	541,430,684	22,437,247	102,837,680	254,117,709

Refer to Notes 18 and 20.1 for a more detailed analysis of country concentration risk in respect of loans and advances to banks and financial investments measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk

Market risk for the Bank consists of three elements:

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

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

Exchange Rate Risk

Exchange rate risk is mainly driven by positions held and transactions executed which are not denominated in the Bank's functional currency, the Euro.

The Bank operates primarily in Euro ('EUR'), United States Dollar ('USD') and Pound Sterling ('GBP'), accepting deposits in a number of different currencies and also processing foreign exchange payment transactions on behalf of customers. The Bank maintains liquidity balances in foreign currency with counterparty banks or acquires financial investments denominated in a foreign currency in order to manage mismatches in its foreign currency profile, which expose the Bank to movements in exchange rates. The Bank attempts to attain natural hedging by matching asset and liability positions denominated in the same currency, as much as is practicable.

The Bank monitors the exchange rate risk on a frequent basis through the Asset and Liability Management Report, which is prepared by the Finance Department and presented to the Board of Directors. Through this tool, the Board is kept updated in respect of the Bank's net exposures to foreign currencies.

The Bank does not take speculative positions in foreign exchange and maintains foreign currency balances in line with deposit currencies to enable business-as-usual transactions by customers. In order to manage exchange rate risk, the Bank has established risk limits in respect of open foreign exchange positions, with any open positions exceeding this limit being reduced by buying or selling the respective foreign currency. The Bank monitors its foreign exchange position on a daily basis and executes transactions accordingly.

As part of its portfolio of services, the Bank also offers forward foreign exchange contracts to its customers. In this respect, the Bank eliminates its exposure to foreign exchange risk by entering into 'back-to-back' transactions with counterparties to perfectly hedge any forward foreign exchange contract entered into with its customers.

In certain instances, the Bank may hold balances in foreign currencies in excess of risk limits for the purpose of facilitating settlement of customer transactions in the said currencies. Exchange rate risk exposure resulting from settlement of customer transactions may be unhedged up to the duration of the settlement cycle, up to a determined limit.

In the scenario whereby all foreign currencies fluctuate upwards or downwards by 20% against the Euro, the carrying amounts of financial assets and liabilities would fluctuate upwards or downwards by EUR39,696,746 and EUR39,549,239 (2023: EUR34,089,073 and EUR33,901,134) respectively, with the net impact amounting to EUR147,507 (2023: EUR 187,940).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk *(continued)*

The tables below present the open positions in respect of all currencies to which the Bank is exposed as of 31 December 2024, and comparative figures for 2023.

2024	Reporting currency EUR	USD EUR	GBP EUR	Other EUR	Total EUR
Assets					
Cash and Balances with Central Bank of Malta	528,667,696	83,776,262	24,125,278	-	636,569,236
Loans and advances to banks	17,148,103	22,493,434	11,074,974	24,844,251	75,560,762
Loans and advances to customers	2,850,793	3,360,047	23,778	10,875	6,245,493
Financial investments measured at amortised cost	250,921,747	28,842,113	-	-	279,763,860
Financial investments measured at fair value through profit or loss	96,480	-	-	-	96,480
Derivative financial assets	990,893	455,724	23,662	4,633	1,474,912
Accrued income	878,916	-	-	-	878,916
	801,554,628	138,927,580	35,247,692	24,859,759	1,000,589,659
Liabilities					
Amounts owed to banks	4,166	168,765	8,163	186,976	368,070
Amounts owed to customers	735,670,976	137,711,799	35,132,070	24,543,090	933,057,935
Derivative financial liabilities	990,893	455,724	23,662	4,403	1,474,682
	736,666,035	138,336,288	35,163,895	24,734,469	934,900,687
Net exposure	64,888,593	591,292	83,797	125,290	65,688,972

2023	Reporting currency EUR	USD EUR	GBP EUR	Other EUR	Total EUR
Assets					
Cash and Balances with Central Bank of Malta	433,798,542	79,521,210	17,258,082	-	530,577,834
Loans and advances to banks	15,303,096	21,762,122	11,017,485	13,621,407	61,704,110
Loans and advances to customers	8,570,556	259,746	18,293	7,069	8,855,664
Financial investments measured at amortised cost	290,728,222	26,981,347	-	-	317,709,569
Financial investments measured at fair value through profit or loss	93,120	-	-	-	93,120
Derivative financial assets	319,044	575,567	100,723	-	995,334
Accrued income	894,469	-	-	-	894,469
	749,707,049	129,099,992	28,394,583	13,628,476	920,830,100
Liabilities					
Amounts owed to banks	650,628	1,790,029	-	20,563	2,461,220
Amounts owed to customers	692,169,827	126,123,255	28,254,228	13,317,528	859,864,838
Derivative financial liabilities	319,044	575,567	100,723	-	995,334
	693,139,499	128,488,851	28,354,951	13,338,091	863,321,392
Net exposure	56,567,550	611,141	39,632	290,385	57,508,708

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.4 Market risk *(continued)*

The exchange rates used as at the end of each respective year are presented hereunder:

	2024	2023
USD to EUR	**1.0385**	1.1066
GBP to EUR	**0.8290**	0.8692
CAD to EUR	**1.4953**	1.4635
CZK to EUR	**25.1753**	24.7275

Investment Price Risk

The Bank is exposed to investment price risk in respect of financial investments measured at fair value through profit or loss. The Bank frequently monitors its portfolio and comes up with solutions and decisions where deemed fit should it decide on acquiring or disposing of any investments. Nevertheless, the Bank maintains its stance on investing in high quality financial assets with a healthy credit rating.

The Bank mitigates its exposure to investment price risk primarily by setting risk limits in respect of the maximum exposure to investments measured at fair value subsequent to initial recognition. In addition, the risk appetite statement also defines specific loss limits in this respect, which are monitored by the Treasury and Investment Management Committee ('TIMCO') members on a regular basis. TIMCO also monitors position prices and news on a regular basis to identify adverse price movements in its portfolio and changes in the perceived credit risk posed by the issuer, enabling management to take corrective action on a timely basis.

Financial investments measured at FVTPL represent a minor portion of the Bank's total financial assets and, as a result, the Bank's exposure to investment price risk is deemed to be immaterial. In addition, the Bank is not exposed to commodity price risk.

Credit Valuation Adjustment ('CVA') Risk

The Bank's exposure to CVA risk arises from the forward foreign exchange transactions contracted by the Bank both with its clients as well as with other counterparties to fully hedge client positions. As at 31 December 2024 and 31 December 2023, the Bank's position in forward foreign exchange contracts represents a minimal portion of the Bank's total assets and, in this respect, this risk is not deemed to be significant.

Credit Spread Risk in the Banking Book ('CSRBB')

CSRBB arises from banking book positions that meet the following conditions:

- Are actively traded on a deep and large market
- Are held in a business model envisaging a possible sale before maturity under business-as-usual conditions
- The market value of which is affected by credit-spread risk component

Based on the above conditions, the risk would be limited to the Bank's positions held in the portfolio of financial investments measured at fair value through profit or loss. As at 31 December 2024 and 31 December 2023, these financial assets represent a minimal portion of the total assets and, in this respect, this risk is deemed to be immaterial.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk

Interest rate risk in the banking book ('IRRBB') is defined as the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, basis risk and option risk.

Gap risk refers to the risk resulting from the term structure of interest rate sensitive instruments that arises from differences in the timing of rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (also referred to as parallel risk) or differentially by period (also referred to as non-parallel risk).

The Bank considers option risk in derivative positions immaterial due to the absence of significant option derivative positions. The Bank however considers option risk for its Non-Maturity Deposits where customer behaviour and cash flow timings can vary with changes in the interest rate environment. Moreover, the Bank does not consider basis risk to be material as the sum of floating rate instruments (other than those with an overnight reference rate) do not amount to more than 5% of assets.

Balances held with the Central Bank of Malta and loans and advances to banks are remunerated by reference to prevailing market interest rates during the reference period, given that these are predominantly held in call accounts.

The Bank grants loans and advances to customers with a limited maturity, with the maximum maturity for loans and overdraft facilities being restricted to 5 years and 12 months respectively. Loans and advances to customers are principally subject to variable interest rates, thereby ensuring that any changes to market interest rates are reflected in the interest rates charged in respect of the Bank's loan portfolio.

The Bank's financial investments are almost entirely measured at amortised cost. This means that any changes in market interest rates would not impact the carrying amount of such investments.

The Bank does not pay interest on customer deposits repayable on demand meaning that movements in market interest rates will not have a significant impact on the Bank's cost of funding. The Bank had introduced the Liquidity Management Account, which acts as an overnight deposit for institutional clients and is remunerated at a positive interest. The Bank also pays interest on term customer deposits. Accordingly, the amounts presented under 'Amounts owed to customers' on the next page represent amounts placed in Liquidity Management Accounts or term deposit accounts.

The Finance department monitors key interest rates on an ongoing basis to identify developments in the current and future interest rate environment, which are then reported to the Credit Review Committee. The Bank adjusts its balance sheet composition accordingly depending on interest rate expectations.

In addition, the Finance department performs a gap analysis on a monthly basis to assess the sensitivity of the Bank's interest-bearing assets and liabilities to a 200 basis point change in interest rates. This assessment is performed separately for each major currency of operation, namely EUR, USD and GBP.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

The table below presents the Bank's interest-bearing assets and liabilities, analysed by instruments subject to fixed and floating rates.

2024	Fixed EUR	Floating EUR	Total EUR
Interest-bearing assets			
Balances with Central Bank of Malta	-	636,566,354	636,566,354
Loans and advances to banks	22,487	75,538,275	75,560,762
Loans and advances to customers	633,479	5,612,014	6,245,493
Financial investments measured at amortised cost	257,065,759	22,698,101	279,763,860
	257,721,725	740,414,744	998,136,469
Interest-bearing liabilities			
Amounts owed to banks	-	368,070	368,070
Amounts owed to customers	211,519,221	11,000,000	222,519,221
	211,519,221	11,368,070	222,887,291
Net exposure	46,202,504	729,046,674	775,249,178

2023	Fixed EUR	Floating EUR	Total EUR
Interest-bearing assets			
Balances with Central Bank of Malta	-	530,571,054	530,571,054
Loans and advances to banks	22,487	61,681,623	61,704,110
Loans and advances to customers	337,208	8,518,456	8,855,664
Financial investments measured at amortised cost	295,057,604	22,651,965	317,709,569
	295,417,299	623,423,098	918,840,397
Interest-bearing liabilities			
Amounts owed to banks	-	2,461,220	2,461,220
Amounts owed to customers	181,785,885	8,000,000	189,785,885
	181,785,885	10,461,220	192,247,105
Net exposure	113,631,414	612,961,878	726,593,292

Financial instruments issued at fixed interest rates potentially expose the Bank to fair value interest rate risk. Balances with Central Bank of Malta, loans and advances to customers and to banks, financial investments held within a 'Hold-to-Collect' business model, and amounts owed to customers and banks are measured at amortised cost and are therefore not subject to fair value interest rate risk. The Bank's financial investments measured at FVTPL are equity instruments and are therefore not subject to interest rates.

In addition, given that the Bank hedges all forward foreign exchange contracts entered into with clients by entering into mirror trades with another counterparty, any movement in the fair value of derivative assets and derivative liabilities driven by interest rate movements is deemed to be fully hedged.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

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

The sensitivity of interest rate gaps to various interest rate scenarios is monitored by management. Standard scenarios that are considered on a quarterly basis include a 200-basis point (bp) parallel rise or fall in all the yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates is presented below. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	Impact on	
2024	Profit or loss EUR	Equity EUR
+ 200 basis points	**4,875,441**	**4,875,441**
- 200 basis points	**(9,775,036)**	**(9,775,036)**
2023		
+ 200 basis points	3,540,663	3,540,663
- 200 basis points	(6,533,954)	(6,533,954)

The following tables summarise the mismatch of repricing dates for interest-bearing financial assets and financial liabilities that reprice, which reflect the date upon which interest rates are next reset to market rates as per the contractual agreement or, if earlier, the dates on which the instruments mature.

2024	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	More than 5 years EUR	Total EUR
Interest-bearing assets					
Balances with Central Bank of Malta	636,566,354	-	-	-	636,566,354
Loans and advances to banks	75,560,762	-	-	-	75,560,762
Loans and advances to customers	6,030,466	-	215,027	-	6,245,493
Financial investments measured at amortised cost	20,994,869	53,589,638	119,255,128	85,924,225	279,763,860
	739,152,451	53,589,638	119,470,155	85,924,225	998,136,469
Interest-bearing liabilities					
Amounts owed to banks	368,070	-	-	-	368,070
Amounts owed to customers	213,943,374	8,575,847	-	-	222,519,221
	214,311,444	8,575,847	-	-	222,887,291
Interest repricing gap	524,841,007	45,013,791	119,470,155	85,924,225	
Cumulative gap		569,854,798	689,324,953	775,249,178	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.5 Interest rate risk *(continued)*

2023	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	More than 5 years EUR	Total EUR
Interest-bearing assets					
Balances with Central Bank of Malta	530,571,054	-	-	-	530,571,054
Loans and advances to banks	61,704,110	-	-	-	61,704,110
Loans and advances to customers	337,208	8,518,456	-	-	8,855,664
Financial investments measured at amortised cost	999,565	38,922,850	190,936,453	86,850,701	317,709,569
	593,611,937	47,441,306	190,936,453	86,850,701	918,840,397
Interest-bearing liabilities					
Amounts owed to banks	2,461,220	-	-	-	2,461 ,220
Amounts owed to customers	180,646,118	9,139,767	-	-	189,785,885
	183,107,338	9,139,767	-	-	192,247,105
Interest repricing gap	410,504,599	38,301,539	190,936,453	86,850,701	
Cumulative gap		448,806,138	639,742,591	726,593,292	

5.6 Liquidity risk

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

Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management involves the ongoing maintenance of sufficient cash and marketable securities in order to ensure that sufficient liquidity is available to meet commitments.

Liquidity risk is divided into two categories:

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

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

- Monitoring liquidity balances held at counterparties and the fair value of financial investments on a daily basis, to assess the need to increase the Bank's holdings of high-quality liquid assets ('HQLAs').

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

- Maintaining sufficient liquidity balances in approved currencies to enable the execution of payments in different currencies, and restricting execution of foreign exchange transactions in exotic currencies.
- Negotiating settlement lines with different counterparties, to be used in case of liquidity shortfalls.
- Carrying a portfolio of high-quality liquid assets, diversified by currency and maturity, which can also be used as collateral in order to raise funding.
- Hedging all forward foreign exchange contracts entered into with clients by entering into mirror trades with another counterparty, thereby ensuring that all liquidity inflows and outflows are hedged.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities, and the extent of asset encumbrance which might prevent financial assets from being used as collateral to obtain further funding.
- Stress testing of the Bank's liquidity position against various exposures and global, country-specific and Bank-specific events.

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

- The Liquidity Coverage Ratio ('LCR') measures an institution's holdings of liquid assets enabling it to cover its net liquidity outflows under stressed conditions, thus ensuring that institutions have liquidity buffers which are adequate to address any possible imbalances between liquidity inflows and outflows under stressed conditions over a 30-day period. The LCR is computed by dividing the Bank's liquidity buffer (composed of the HQLAs) by the net liquidity outflow (composed of the Bank's liquidity outflows less liquidity inflows over the next 30 days). The Bank uses the LCR to monitor its short-term liquidity on an ongoing basis and to gauge the short-term resilience of its liquidity profile in terms of the requirements emanating from European Commission ('EC') Delegated Regulation 2015/61.
- The Net Stable Funding Ratio ('NSFR'), on the other hand, measures the amount of available stable funding relative to the amount of required stable funding. The Bank's available stable funding consists of the portion of capital and liabilities expected to be stable over one year. Required stable funding, on the other hand, refers to the funding which the Bank is required to hold in respect of its assets and off-balance sheet commitments. The Bank uses this ratio to monitor its funding requirements over the longer term.

The Board, with the assistance of the Finance department, is responsible for ensuring that the Bank holds sufficient liquidity that is commensurate to the Bank's projected level of operating activity. In this respect, the Bank ensures that both the LCR and NSFR meet the minimum regulatory requirement and that liquidity levels are enough to enable the Bank to achieve the target return on equity.

Through the liquidity contingency plan, the Bank also determines options which may be resorted to when the Bank's recovery indicators are triggered. These include the sale of HQLAs when permitted by market conditions, the utilisation of settlement lines with other correspondent banks, and the utilisation of emergency funding from the European Central Bank.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

The minimum regulatory requirement for both the LCR and NSFR amounts to 100%. The Bank exceeded this regulatory requirement for both ratios during the current and previous financial years.

The Bank's liquidity profile is generally made up of deposits and a sizeable portfolio of financial investments which are eligible for use as collateral to raise ECB funding. In this respect, the Bank typically invests in sovereign bonds issued by countries having an investment-grade credit rating, including Malta, the Netherlands, Luxembourg, the United States of America, France, Finland, Canada and Austria amongst others.

TIMCO monitors maturity profiles through the implementation of a laddered portfolio maturity approach, in an attempt to manage the Bank's exposure to interest rate changes, investment price risk, liquidity risk and re-investment risk. This approach ensures that the Bank matches the maturity profile of its financial assets and financial liabilities.

The table below analyses the Bank's financial assets and liabilities by contractual maturity.

2024	Total EUR	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	Over 5 years EUR	No maturity EUR
Assets						
Cash and Balances with Central Bank of Malta	636,569,236	626,610,633	-	-	-	9,958,603
Loans and advances to banks	75,560,762	75,560,762	-	-	-	-
Loans and advances to customers	6,245,493	435,504	5,269,186	540,803	-	-
Financial investments measured at amortised cost	279,763,860	20,994,869	53,589,638	119,255,128	85,924,225	-
Financial investments measured at fair value through profit or loss	96,480	-	-	-	-	96,480
Derivative financial assets	1,474,912	1,474,912	-	-	-	-
Accrued income	878,916	878,916	-	-	-	-
Other assets	34,443	34,443	-	-	-	-
	1,000,624,102	725,990,039	58,858,824	119,795,931	85,924,225	10,055,083
Liabilities						
Amounts owed to banks	368,070	368,070	-	-	-	-
Amounts owed to customers	933,057,935	918,982,088	3,075,847	11,000,000	-	-
Derivative financial liabilities	1,474,682	1,474,682	-	-	-	-
Accruals and deferred income	753,416	753,416	-	-	-	-
Lease liabilities	99,964	33,166	63,233	3,565	-	-
Other liabilities	649,495	649,495	-	-	-	-
	936,403,562	922,260,917	3,139,080	11,003,565	-	-
Maturity gap		(196,270,878)	55,719,744	108,792,366	85,924,225	
Cumulative gap		(196,270,878)	(140,551,134)	(31,758,768)	54,165,457	

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

2023	Total EUR	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	Over 5 years EUR	No maturity EUR
Assets						
Cash and Balances with Central Bank of Malta	530,577,834	515,563,454	-	-	-	15,014,380
Loans and advances to banks	61,704,110	61,704,110	-	-	-	-
Loans and advances to customers	8,855,664	480,620	6,869,159	1,505,885	-	-
Financial investments measured at amortised cost	317,709,569	999,565	38,922,850	176,080,968	101,706,186	-
Financial investments measured at fair value through profit or loss	93,120	-	-	-	-	93,120
Derivative financial assets	995,334	995,334	-	-	-	-
Accrued income	894,469	894,469	-	-	-	-
Other assets	22,727	22,727	-	-	-	-
	920,852,827	580,660,279	45,792,009	177,586,853	101,706,186	15,107,500
Liabilities						
Amounts owed to banks	2,461,220	2,461,220	-	-	-	-
Amounts owed to customers	859,864,838	850,725,071	1,139,767	8,000,000	-	-
Derivative financial liabilities	995,334	995,334	-	-	-	-
Accruals and deferred income	708,183	708,183	-	-	-	-
Lease liabilities	293,709	-	202,848	90,861	-	-
Other liabilities	968,666	968,666	-	-	-	-
	865,291,950	855,858,474	1,342,615	8,090,861	-	-
Maturity gap		(275,198,195)	44,449,394	169,495,992	101,706,186	
Cumulative gap		(275,198,195)	(230,748,801)	(61,252,809)	40,453,377	

As illustrated in the tables above, the Bank's loans and advances to banks have been included in the 'Less than 3 months' category given that these are held in call accounts and are therefore withdrawable on demand. However, in practice, these balances are maintained by the Bank for longer periods.

Financial investments measured at amortised cost mature primarily in the 'Between 1 year and 5 years' and 'Over 5 years' buckets. Nevertheless, financial investments with a gross carrying amount of EUR214,573,221 as at 31 December 2024 (2023: EUR246,628,194) form part of the Bank's HQLA portfolio and can therefore be liquidated within one month or less, even under stressed conditions. The remainder of the portfolio is composed of debt securities issued by credit institutions which are considered to be liquid, despite the fact that these do not meet the definition of HQLAs in terms of the LCR regulation.

In addition, financial investments with a gross carrying amount of EUR176,626,095 as at 31 December 2024 (2023: EUR164,734,320) are eligible to be pledged as collateral for the purpose of participating in ECB open market operations. As at 31 December 2024, debt securities measured at amortised cost with a carrying amount of EUR20,332,435 (2023: EUR20,354,021) have been pledged against the provision of credit lines by the Central Bank of Malta. As at 31 December 2024 and 31 December 2023, financial assets measured at FVTPL include only investments in SWIFT shares with a fair value of EUR96,480 and EUR93,120 respectively.

Amounts owed to customers primarily include customer deposits which are repayable on demand. However, in practice, the Bank has determined that most of these deposits are sticky and are held with the Bank for longer periods.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.6 Liquidity risk *(continued)*

The table below presents the Bank's undiscounted cash flows payable under non-derivative and derivative financial liabilities, grouped by reference to the residual period to the contractual maturity date.

2024	**Carrying amount EUR**	**Gross nominal outflow EUR**	**Less than 3 months EUR**	**Between 3 months and 1 year EUR**	**Between 1 year and 5 years EUR**	**Over 5 years EUR**
Non-derivative financial liabilities						
Amounts owed to banks	**368,070**	**368,070**	**368,070**	**-**	**-**	**-**
Amounts owed to customers	**933,057,935**	**934,306,459**	**919,161,582**	**3,107,452**	**12,037,425**	**-**
Accruals and deferred income	**753,416**	**753,416**	**753,416**	**-**	**-**	**-**
Lease liabilities	**99,964**	**101,616**	**33,492**	**64,518**	**3,606**	**-**
Other liabilities	**649,495**	**649,495**	**649,495**	**-**	**-**	**-**
	934,928,880	**936,179,056**	**920,966,055**	**3,171,970**	**12,041,031**	**-**

2023	Carrying amount EUR	Gross nominal outflow EUR	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	Over 5 years EUR
Non-derivative financial liabilities						
Amounts owed to banks	2,461,220	2,461,220	2,461,220	-	-	-
Amounts owed to customers	859,864,838	860,880,432	850,771,758	1,152,101	8,956,573	-
Accruals and deferred income	708,183	708,183	708,183	-	-	-
Lease liabilities	293,709	304,570	-	212,394	92,176	-
Other liabilities	968,666	968,666	968,666	-	-	-
	864,296,616	865,323,071	854,909,827	1,364,495	9,048,749	-

The following amounts are representative of the gross nominal inflows/outflows for the foreign exchange derivative liabilities. In the tables below, the inflows are representative of the 'buy' leg of the derivative transaction while the outflows are representative of the 'sell' leg of the derivative transaction:

2024	**Less than 1 month EUR**	**Between 1 and 3 months EUR**	**Between 3 and 6 months EUR**	**Between 6 months and 1 year EUR**	**Total EUR**	**Carrying amount EUR**
Derivative financial liabilities						
Inflows	**52,842,998**	**3,972,215**	**4,000,000**	**-**	**60,815,213**	
Outflows	**(53,951,299)**	**(4,024,326)**	**(4,247,765)**	**-**	**(62,223,390)**	
	(1,108,301)	**(52,111)**	**(247,765)**	**-**	**(1,408,177)**	**1,474,682**

2023	Less than 1 month EUR	Between 1 and 3 months EUR	Between 3 and 6 months EUR	Between 6 months and 1 year EUR	Total EUR	Carrying amount EUR
Derivative financial liabilities						
Inflows	40,007,871	24,554,386	-	-	64,562,257	
Outflows	(40,462,677)	(25,011,550)	-	-	(65,474,227)	
	(454,806)	(457,164)	-	-	(911,970)	995,334

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.7 Operational risk

Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as from external events. Such risk can take various forms in such as Sanctions Risk, Anti-Money Laundering Risk, Internal Fraud Risk, External Fraud Risk, Conduct Risk, Systems ICT Risk, Business Process Risk, Reputational Risk and also Key Staff Dependency Risk. Such risks can be driven by various risk drivers which are all a threat to the Bank's operations.

The Bank mitigates its exposure to operational risk through the implementation of a number of automated and manual controls, which controls are documented in detailed risk registers. Operational risk losses in excess of EUR5,000 are documented in Operational Risk Reports, which reports are reviewed by the Risk Manager.

As from March 2023, the applicable Pillar 2 capital requirement for the Bank is 4.5%, which requirement was attributable to the under-capitalisation of operational risk under Pillar 1. On an annual basis as part of its ICAAP, the Bank assesses the Pillar 2 capital requirement for operational risk using an internally-developed model. The resulting capital requirement is compared to the 4.5% capital requirement imposed by the MFSA. To date, the Bank's internal assessment in respect of operational risk has always fallen within the 4.5% capital requirement imposed by the MFSA.

5.8 Capital risk management

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

Own Funds represents the Bank's available capital and reserves measured in line with the CRR. During the financial years ended 31 December 2024 and 31 December 2023, the Bank always managed to maintain its capital ratios above minimum regulatory requirements as well as internal risk appetite thresholds. The Bank's capital base is made up exclusively of Common Equity Tier 1 (CET1) capital, comprising the following items:

- Share capital - The Bank's Share Capital as at 31 December 2024 is analysed in Note 29;
- Retained earnings – The Bank's retained earnings is composed of opening Retained Earnings, the current year profit after tax (post verification) less the dividend pay-out to the shareholder, if any;
- Property revaluation reserve – the movement in the revalued amount of the Bank's freehold premises, net of deferred tax, as presented in Note 30; and
- Other regulatory adjustments including deductions for intangible assets and prudential filters for financial assets in accordance with CRD IV.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments

i. Fair value hierarchy

The Bank measures fair value using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements. The different levels of the fair value hierarchy are defined below:

i. Level 1 – valuation techniques based on quoted prices in active markets for identical assets or liabilities
ii. Level 2 – valuation techniques based on directly and indirectly observable inputs other than quoted prices included in Level 1
iii. Level 3 – valuation techniques based on inputs that are not based on observable market data

ii. Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- For financial assets that are traded in an active market – the use of quoted market prices or dealer quotes for similar instruments;
- For foreign currency forwards – the present value of future cash flows based on the forward exchange rates as at the balance sheet date; and
- For other financial instruments - discounted cash flow analysis.

iii. Financial instruments measured at fair value

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Bank has classified its financial instruments into the three levels prescribed under the accounting standards.

The Bank's financial instruments measured at fair value consist of financial investments measured at fair value through profit or loss, which include investments in equity securities, and derivative financial instruments.

Derivative assets and liabilities comprise forward foreign exchange contracts valued using discounted cash flow techniques, based on forward foreign exchange rates quoted at the end of the financial reporting period. As a result, these are classified as Level 2 instruments.

The financial assets within Level 3 comprise holdings of unlisted equity securities. In view of the absence of quoted market prices or observable inputs for modelling the fair value of these instruments, the fair value of the equity securities is derived by reference to prices sourced from the issuer, which are based on unobservable inputs. In view of the insignificance of the Level 3 assets in the context of the Bank's total assets, the disclosure of key unobservable inputs to Level 3 financial instruments and the sensitivity of Level 3 fair value to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary and relevant.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2024 and 2023. The following table provides an analysis of the fair value hierarchy classification in respect of financial instruments measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments *(continued)*

31 December 2024	Total EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Financial investments measured at FVTPL	96,480	-	-	96,480
Derivative assets	1,474,912	-	1,474,912	-
Total financial assets measured at fair value	**1,571,392**	**-**	**1,474,912**	**96,480**
Derivative liabilities	**1,474,682**	**-**	**1,474,682**	**-**
Total financial liabilities measured at fair value	**1,474,682**	**-**	**1,474,682**	**-**

31 December 2023	Total EUR	Level 1 EUR	Level 2 EUR	Level 3 EUR
Financial investments measured at FVTPL	93,120	-	-	93,120
Derivative assets	995,334	-	995,334	-
Total financial assets measured at fair value	1,088,454	-	995,334	93,120
Derivative liabilities	995,334	-	995,334	-
Total financial liabilities measured at fair value	995,334	-	995,334	-

iv. Financial instruments not measured at fair value

All other financial assets and liabilities of the Bank are measured at amortised cost, including cash, balances held with the Central Bank of Malta, loans and advances to banks and to customers, financial investments, accrued income and amounts owed to banks and customers.

Financial investments include investments in debt securities amounting to EUR279,763,860 (2023: EUR317,709,569). The fair value of these instruments is determined using quoted prices in active markets, thus resulting in a Level 1 fair value classification. As at 31 December 2024, the fair value of the Bank's financial investments measured at amortised cost amounted to EUR254,334,733 (2023: EUR286,042,842).

The carrying amount of balances held with the Central Bank of Malta, loans and advances to banks, accrued income and amounts owed to banks is deemed to be a reasonable approximation of their fair value, since these balances are predominantly short term in nature.

Fair values in relation to loans and advances to customers, which mainly comprise short-term facilities repayable on demand, are deemed to be fairly close to carrying amounts principally in view of the fact that the Bank has the ability to re-price the majority of the exposures at its discretion within a period of short notice of up to a maximum of 12 months.

The carrying amount of amounts due to customers, which predominantly represent amounts which are repayable on demand, is considered to be a reasonable approximation of their fair value, in light of the short-term nature of customer deposits. The majority of customer term deposits have a maturity ranging between one year and eighteen months and, as a result, the fair value is also deemed to be closely approximated by the amortised cost, due to the relatively short-term nature. The customer term deposits with a maturity in excess of eighteen months are periodically re-priced, and, as a result, their fair value is considered to be closely approximated by the amortised cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. Financial risk management *(continued)*

5.9 Fair value measurement of financial instruments *(continued)*

v. Non-financial instruments measured at fair value

The Bank measures its property at fair value. The fair value is determined based on periodic valuations carried out by independent and professional valuers. Such valuations are based on market values, taking into account the location of the property, its size and the availability of similar properties in the area. As a result of the significant unobservable inputs to these valuations, property is classified under Level 3 within the fair value hierarchy.

The external valuations of the Level 3 property have been performed using predominantly the traditional investment method of valuation based on the capitalised rentals approach. In view of the limited market information available, the valuations have been performed using unobservable inputs. In relation to the capitalised rentals approach, the significant unobservable inputs include a capitalisation rate representing the discount rate adjusted for anticipated growth and the expected annual rental value ("ERV") taking into account the rental rate per square metre for comparable properties located in proximity to the Bank's property with adjustments for differences in the size, age, exact location and condition of the property. The property within 'Property, plant and equipment' was last revalued on 15 October 2023. The independent valuer applied a capitalisation rate of 6% and a range of rental rate of EUR450 - EUR475 per square metre. The higher the rental rate per square metre, the higher the resultant fair valuation. Conversely, the lower the capitalisation rate, the higher the fair value.

The Directors have reviewed the carrying amounts of the properties within 'Property, plant and equipment', and have adjusted the carrying amount as of the end of 2023 to reflect the property's fair value. Valuations are performed on a periodic basis unless there is reasonable ground to believe that the current carrying amount significantly deviated from the fair value. At 31 December 2024, the Bank performed an assessment to determine whether there is any evidence that the carrying amount of the property within 'Property, plant and equipment' differs materially from the fair value by reference to market comparables. No such indicators were identified and, in this respect, a refreshed valuation was not deemed necessary by management.

As the Bank's investment property was acquired close to the reporting date at arm's length, and there have been no material changes in market conditions, the fair value of the investment property is estimated to be equal to its carrying amount.

Market activity has been impacted in a number of sectors, which has led to a heightened level of uncertainty within the local property market. The real impact of the current macroeconomic environment on property prices, will not be fully known until market conditions stabilise.

6. Judgements applied in the determination of accounting estimates and sources of estimation uncertainty

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that potentially involve a higher degree of judgement or complexity, and potential major sources of estimation uncertainty that have a potential significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis for calculation of each affected line item in the financial statements.

Measurement of ECL in respect of financial assets measured at amortised cost

The measurement of allowances for ECL for financial assets measured at amortised cost is an area that requires the use of models and assumptions about future economic conditions and credit behaviour, including the likelihood of customers or counterparties defaulting and the measurement of the resulting losses. An explanation of the inputs, assumptions and estimation techniques used in measuring ECL is presented in further detail in Note 5.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. Judgements applied in the determination of accounting estimates and sources of estimation uncertainty *(continued)*

A number of judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The ECL models are reviewed regularly in light of differences between loss estimates and actual loss experience, although available information in respect of the Bank's historical loss experience since the initial adoption of IFRS 9 is still contained. Since there is no observable historical trend, which can be reflected within the models, that will accurately represent the effects of the economic changes brought about by the current macroeconomic environment, the measurement of ECL remains highly subjective.

In this respect, management considers reasonable and supportable information that is relevant and reliable and based on the Bank's historical experience and expert credit assessment.

The identification of customers experiencing significant increase in credit risk or credit impairment in the context of the elevated level of uncertainty requires judgement. For loans and advances to customers, staging is predominantly determined on the basis of delinquency status. In addition, the Bank performs periodic credit assessments at borrower level by reference to recent historical management information and financial forecasts, where available. As part of these credit assessments, judgement is exercised in evaluating all relevant information on indicators of impairment, particularly where factors indicate deterioration in the financial condition and outlook of borrowers affecting their ability to pay.

In relation to financial investments measured at amortised cost, as well as balances held with Central Bank of Malta and loans and advances to banks, the Bank applies the low credit risk exemption since most of these financial instruments are assigned an investment-grade credit rating by reputable external credit rating agencies.

In the opinion of the Directors, the estimates and judgements applied in preparing these financial statements are not overly difficult, subjective or complex, especially in view of the fact that:

- The level of collateralisation in respect of a significant proportion of loans and advances to customers is elevated, which minimises the risk of misstatement in the measurement of ECL;
- The size of the portfolio of loans and advances to customers is limited in the context of the size of the balance sheet, given that the lending activity is deemed to represent an ancillary service offered to the Bank's clients;
- The majority of financial investments measured at amortised cost and other financial assets are assigned an investment-grade credit rating by reputable external credit rating agencies, thereby limiting the possibility of unidentified SICR or UTP trigger events; and
- With the exception of financial investments measured at amortised cost, the Bank's portfolios of financial assets are either repayable on demand or have very short maturities, thereby limiting the extent of judgement which would have been required in terms of the application of forward-looking information within the ECL calculation for financial assets with longer term maturities.

In this respect, the Directors believe that the judgement applied in the measurement of ECL is not expected to have a significant impact on the amounts recognised in the financial statements. A detailed description of the inputs, assumptions and estimation techniques used in measuring ECL in respect of financial assets measured at amortised cost is disclosed in Note 5.3.iii.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Net interest income

	2024 EUR	2023 EUR
Interest and similar income		
On balances held with Central Bank of Malta	**22,318,198**	19,669,042
On loans and advances to banks	**554,254**	1,081,359
On loans and advances to customers	**486,234**	331,684
	23,358,686	21,082,085
On debt and other fixed income instruments	**1,414,498**	1,580,873
Net amortisation of premiums and discounts (Note 20)	**271,180**	257,807
	1,685,678	1,838,680
Total interest and similar income	**25,044,364**	22,920,765
Interest expense		
On amounts owed to customers	**5,448,271**	2,699,456
On amounts owed to banks	**15,713**	42,278
On lease liabilities (Note 34)	**10,536**	23,119
Total interest expense	**5,474,520**	2,764,853
Net interest income	**19,569,844**	20,155,912

8. Net fee and commission income

	2024 EUR	2023 EUR
Fee and commission income		
Custody, depositary and securities transactions fees	**6,752,642**	5,626,680
Credit related fees and commissions	**3,670,078**	3,814,881
	10,422,720	9,441,561
Fee and commission expense		
Custody, depositary and securities transactions fees	**(1,015,123)**	(769,527)
Other fees paid	**(595,110)**	(503,884)
	(1,610,233)	(1,273,411)
Net fee and commission income	**8,812,487**	8,168,150

	At a point in time		Over time		Total	
	2024 EUR	2023 EUR	2024 EUR	2023 EUR	2024 EUR	2023 EUR
Securities	**1,392,066**	1,084,517	**5,411,806**	4,596,756	**6,803,872**	5,681,273
Payments	**1,195,665**	1,242,325	**-**	-	**1,195,665**	1,242,325
Ad hoc fees	**416,295**	453,265	**2,006,888**	2,064,698	**2,423,183**	2,517,963
Fee and commission income from contracts with customers	**3,004,026**	2,780,107	**7,418,694**	6,661,454	**10,422,720**	9,441,561

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. Net trading income

	2024 EUR	2023 EUR
Net income from foreign exchange activities	**1,885,132**	1,261,064
Fair value movements in respect of financial investments measured at FVTPL (Note 20)	**3,360**	73,546
	1,888,492	1,334,610

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

	2024 EUR	2023 EUR
Change in expected credit losses:		
- loans and advances to customers	**(15,552)**	(39,870)
- loan commitments	**(1,123)**	(378)
- loans and advances to banks	**56,326**	3,474
- financial investments measured at amortised cost	**13,257**	28,411
Other credit impairment charges:		
- bad debts recovered	**12,115**	89,829
	65,023	81,466

During the financial year ended 31 December 2024, the Bank made a partial recovery of EUR12,115 (2023: EUR89,829) in respect of one debt security (2023: two debt securities) which was fully written off in a previous financial year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Other operating income

	2024 EUR	2023 EUR
Net impact of lease agreement termination (Notes 23 and 34)	-	111,724
Rental income from investment property (Note 25)	**3,920**	-
Other income	**19,291**	68,640
	23,211	180,364

12. Employee compensation and benefits

Employee compensation and benefits include the following:

	2024 EUR	2023 EUR
Wages, salaries and allowances	5,542,478	4,489,417
Directors' remuneration	716,296	610,000
Post employment and other long-term employee benefits	1,145,466	1,157,498
Social security costs	349,613	287,522
Other staff costs	408,014	340,621
	8,161,867	6,885,058

Post employment and other long-term employee benefits

The Bank has liabilities for post employment and other long-term employee benefits arising out of the provisions of the Bank's Remuneration Policy. Refer to Note 35 for further detail in respect of the nature of these liabilities.

The weekly average number of persons employed by the Bank during the year amounted to 127 (2023: 112) as follows:

	2024	2023
Weekly average:		
Executive and senior managerial	2	2
Other managerial and clerical	120	106
Other	5	4
	127	112

The headcount, including persons employed as part-time, as at end of year is as follows:

Executive and senior managerial	3	2
Other managerial and clerical	124	110
Other	5	3
	132	115

13. Expenses by nature

	2024 EUR	2023 EUR
I.T. expenses	2,018,330	1,699,865
Legal, consultancy and other professional services expenses	1,042,641	1,004,073
Marketing expenses	248,308	205,480
Operational expenses	238,770	205,118
Premises related expenses	104,025	139,862
Travel expenses	108,559	102,645
Regulatory fund contributions	4,068	256,655
Other administrative expenses	-	15,583
	3,764,701	3,629,281

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Expenses by nature - continued

The auditor's remuneration is included within 'Legal, consultancy and other professional services expenses' in the table overleaf and comprises fees charged in relation to the annual statutory audit of the Bank's financial statements, amounting to EUR123,000 (2023: EUR117,150). Other fees charged by the appointed independent auditors to the Bank during the financial year ended 31 December 2024 relate to other assurance services in respect of Investor Services Rules, the Calculation of Contributions to the Single Resolution Fund, the independent assurance on the qualification of increase in share capital as a Common Equity Tier 1 instrument, and, for the financial year ended 31 December 2023, the review of the Bank's interim financial statements as at 30 June 2023, amounting to EUR13,630 (2023: EUR42,825). During the financial year ended 31 December 2024, fees amounting to EUR105,900 (2023: EUR117,610) have been charged to the Bank by connected undertakings of the Bank's auditor in respect of regulatory and tax advisory, and tax compliance services. All fees are exclusive of value added tax.

14. Taxation

	2024 EUR	2023 EUR
Current tax:		
- for this year	**4,533,538**	4,711,386
- adjustments in respect of prior years	**1,094**	204,145
Deferred tax:		
- origination and reversal of temporary differences	**(928,168)**	55,829
	3,606,464	4,971,360

The tax recognised in profit or loss on the Bank's profit before tax differs from the theoretical amount that would arise using the applicable tax rate as follows:

	2024 EUR	2023 EUR
Profit before tax	**14,601,572**	18,109,241
Tax thereon at 35%	**5,110,550**	6,338,234
Tax effect of:		
Current tax adjustments in respect of prior years	**1,094**	204,145
Non-deductible expenses	**29,308**	146,329
Disallowed expense arising from depreciation of property, plant and equipment	**218,090**	331,577
Non-taxable income	**(37,684)**	(5,521)
Notional interest deduction	**(1,714,894)**	(2,043,404)
Tax charge for the year	**3,606,464**	4,971,360

15. Earnings per share

The calculation of basic earnings per share as at 31 December 2024 was based on profit attributable to ordinary shareholders of EUR10,995,108 (2023: EUR13,137,881) and the weighted average number of outstanding ordinary shares of 46,932 (2023: 42,107).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. Dividends per share

During January 2023, the Board of Directors proposed the payment of a final net dividend of EUR5,000,076, in relation to the financial year ended 31 December 2022, which amount reflects a dividend per ordinary share of EUR124.38. This dividend was approved during the Annual General Meeting held on 21 April 2023. Approval by the competent authority was confirmed on 7 September 2023, following which the dividend was paid out.

On 26 February 2024, the Board of Directors proposed a final net dividend of EUR5,999,994 in relation to the financial year ended 31 December 2023, reflecting a dividend per ordinary share of EUR129.87. This dividend was approved during the Annual General Meeting held on 24 April 2024. Approval by the competent authority was confirmed on 20 August 2024, following which the dividend was paid out.

In respect of the current financial year ended 31 December 2024, the Board of Directors is proposing a final dividend of EUR15,365,400, composed of EUR13,100,000 in bonus shares and EUR2,265,400 in cash dividend. The bonus share issue will comprise 13,100 shares of EUR1,000 each, distributed equally between Ordinary A and Ordinary B shares. The cash dividend amounts to EUR47 per share. The bonus share issue is subject to MFSA approval.

17. Cash and Balances held with Central Bank of Malta

	2024 EUR	2023 EUR
Balances with Central Bank of Malta	636,566,354	530,571,054
Cash	2,882	6,780
	636,569,236	530,577,834

Balances held with the Central Bank of Malta include an amount of EUR9,600,000 (2023: EUR14,050,000) representing mandatory reserve deposits in terms of Article 37 of the Central Bank of Malta Act, which amounts are not available for use in the Bank's day-to-day operations. These balances also comprise an amount of EUR358,603 (2023: EUR964,380) pledged in favour of the Depositor Compensation Scheme (Refer to Note 37). Any excess balances are maintained for liquidity purposes together with foreign currency denominated placements, to maximise interest income. Credit loss allowances in respect of balances with the Central Bank of Malta are deemed to be negligible.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Loans and advances to banks

	2024 EUR	2023 EUR
Repayable at call or short notice	**75,552,828**	61,752,502
Term loans and advances	**22,500**	22,500
Gross carrying amount	**75,575,328**	61,775,002
Allowance for ECL	**(14,566)**	(70,892)
	75,560,762	61,704,110

All term loans and advances to banks have a residual maturity of 3 months of less.

	2024 EUR	2023 EUR
By currency:		
United States Dollar	**22,493,434**	21,762,122
Euro	**17,148,103**	15,303,096
UK Pound	**11,074,974**	11,017,485
Canadian Dollar	**13,003,053**	3,354,019
Czech Koruna	**2,538,551**	1,365,906
Swedish Krona	**4,830,721**	3,294,006
Swiss Franc	**1,314,539**	2,538,957
Norwegian Krone	**2,319,723**	2,041,962
Other currencies	**837,664**	1,026,557
	75,560,762	61,704,110

	2024 EUR	2023 EUR
By country:		
United States of America	**44,224,355**	14,768,747
Austria	**13,952,031**	11,551,295
Switzerland	**5,983,906**	4,393,440
Malta	**5,400,803**	5,256,305
Denmark	**4,952,207**	2,720,637
France	**255,792**	18,089,025
Belgium	**123,166**	2,432,326
Other countries	**668,502**	2,492,335
	75,560,762	61,704,110

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. Loans and advances to customers

	2024 EUR	2023 EUR
Repayable at call and short notice	**532,084**	435,633
Term loans and advances	**5,827,399**	8,518,469
Gross carrying amount	**6,359,483**	8,954,102
Allowance for ECL	**(113,990)**	(98,438)
	6,245,493	8,855,664
Remaining maturity of term loans and advances:		
1 to 5 years	**540,803**	1,505,885
1 year or less but over 3 months	**5,269,186**	6,869,159
3 months or less but not payable on demand	**17,410**	143,425
	5,827,399	8,518,469

	2024 EUR	2023 EUR
By currency:		
Euro	2,850,793	8,570,556
United States Dollar	3,360,047	259,746
UK Pound	23,778	18,293
Other currencies	10,875	7,069
	6,245,493	8,855,664
By country:		
Malta	**6,208,305**	3,837,624
United Kingdom	**14,245**	4,998,423
Other countries	**22,943**	19,617
	6,245,493	8,855,664

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Financial investments

	2024 EUR	2023 EUR
Measured at amortised cost		
- debt securities	**279,763,860**	317,709,569
Measured at fair value through profit or loss		
- equity and other non-fixed income securities	**96,480**	93,120
	279,860,340	317,802,689

20.1 Financial investments measured at amortised cost

	2024 EUR	2023 EUR
At 1 January	**317,784,892**	343,472,134
Redemptions	**(40,000,000)**	(25,000,000)
Amortisation of premium/discount	**271,180**	257,807
Exchange adjustments	**1,769,854**	(945,049)
At 31 December	**279,825,926**	317,784,892
Allowance for ECL	**(62,066)**	(75,323)
	279,763,860	317,709,569

	2024 EUR	2023 EUR
By currency:		
Euro	**250,921,747**	290,728,222
United States Dollar	**28,842,113**	26,981,347
	279,763,860	317,709,569

By country:	2024 EUR	2023 EUR
Luxembourg	**77,014,872**	77,000,433
United States of America	**73,762,227**	87,837,234
France	**23,957,600**	35,957,628
Netherlands	**32,422,096**	32,409,884
Finland	**10,250,586**	13,274,005
Canada	**11,992,482**	11,928,764
Austria	**10,023,500**	10,037,393
Norway	**9,961,191**	9,954,488
United Kingdom	**2,989,663**	2,984,529
New Zealand	**2,982,550**	7,951,396
Germany	**2,965,258**	2,960,866
Switzerland	**3,947,113**	3,935,854
Malta	**1,557,043**	1,556,655
Other countries	**15,937,679**	19,920,440
	279,763,860	317,709,569

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Financial investments *(continued)*

20.1 Financial investments measured at amortised cost *(continued)*

	2024 EUR	2023 EUR
Issued by Public Bodies:		
- Supranational organisations	**73,532,781**	86,537,470
- Foreign sovereigns	**86,628,924**	89,756,934
	160,161,705	176,294,404
Issued by Public Issuers:		
- Foreign banks	**63,633,596**	69,525,862
- Foreign corporates	**54,411,516**	70,332,648
- Local banks	**1,557,043**	1,556,655
	119,602,155	141,415,165
Total financial investments measured at amortised cost	**279,763,860**	317,709,569

	2024 EUR	2023 EUR
Listing status:		
Listed on the Malta Stock Exchange	**1,557,043**	1,556,655
Listed on other recognised exchanges	**278,206,817**	316,152,914
	279,763,860	317,709,569

A sectoral analysis in respect of financial investments measured at amortised cost is presented within Note 5.3.viii.

As at 31 December 2024, debt securities measured at amortised cost with a carrying amount of EUR20,332,435 (2023: EUR20,354,021) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2024 and 2023, no balances were outstanding against these credit lines.

20.2 Financial investments measured at fair value through profit or loss

	2024 EUR	2023 EUR
At 1 January	93,120	1,510,379
Acquisitions	-	300,000
Disposals	-	(1,788,372)
Exchange adjustments	-	(2,433)
Net fair value movement	3,360	73,546
	96,480	93,120
By currency:		
Euro	96,480	93,120
	96,480	93,120
By country:		
Belgium	96,480	93,120
	96,480	93,120

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21. Derivative financial instruments

	Notional contract amount EUR	Fair value - Assets EUR	Fair value - Liabilities EUR
Forward foreign exchange derivatives:			
- as at 31 December 2024	**124,446,779**	**1,474,912**	**(1,474,682)**
- as at 31 December 2023	131,112,542	995,334	(995,334)

The Bank transacts derivatives primarily to create risk management solutions for clients, referred to as 'trading derivatives', enabling customers to take, transfer, modify or reduce current or expected foreign exchange risks. All of the positions held for trading purposes are covered by back-to-back derivative transactions with other counterparties, managing the market risk arising from these positions.

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk. Foreign exchange derivatives represent commitments to purchase and sell pre-established amounts of currencies and are gross settled.

22. Prepayments and accrued income

	2024 EUR	2023 EUR
Accrued income	**878,916**	894,469
Prepayments	**813,144**	693,872
	1,692,060	1,588,341

23. Right-of-use assets

The Bank leases property and equipment, which lease agreements are accounted for in line with Note 4.6. The table below illustrates a breakdown of the right-of-use assets as at 31 December 2024 and 31 December 2023, together with an analysis of movements during the respective years.

Cost	Property EUR	Equipment EUR	Total EUR
At 1 January 2023	1,654,478	33,135	1,687,613
Additions	199,697	-	199,697
Impact of termination of lease arrangement	(1,330,412)	-	(1,330,412)
At 31 December 2023	**523,763**	**33,135**	**556,898**
At 1 January 2024	**523,763**	**33,135**	**556,898**
Additions	**26,993**	**-**	**26,993**
At 31 December 2024	**550,756**	**33,135**	**583,891**
Depreciation			
At 1 January 2023	672,400	18,924	691,324
Charge for the year	208,026	3,274	211,300
Impact of termination of lease arrangement	(656,068)	-	(656,068)
At 31 December 2023	**224,358**	**22,198**	**246,556**
At 1 January 2024	**224,358**	**22,198**	**246,556**
Charge for the year	**210,279**	**3,274**	**213,553**
At 31 December 2024	**434,637**	**25,472**	**460,109**
Net book value			
At 1 January 2023	**982,078**	**14,211**	**996,289**
At 31 December 2023	**299,405**	**10,937**	**310,342**
At 31 December 2024	**116,119**	**7,663**	**123,782**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Right-of-use assets *(continued)*

On 8 March 2023, the Bank terminated a lease agreement relating to the Ireland branch, giving rise to a gain on termination of EUR111,724 (refer to Note 11). Subsequently, on 20 March 2023, the Bank entered into a new lease agreement presented as an addition to the right-of-use-assets in the previous table.

24. Property, plant and equipment

	Freehold premises EUR	Computer hardware EUR	Furniture & fittings EUR	Motor vehicles EUR	Total EUR
Cost or revalued amount					
At 1 January 2023	10,318,999	1,231,884	1,031,927	41,000	12,623,810
Additions	-	48,598	68,750	-	117,348
Disposals/Write-offs	-	(4,498)	(66,008)	-	(70,506)
Revaluation	431,001	-	-	-	431,001
At 31 December 2023	10,750,000	1,275,984	1,034,669	41,000	13,101,653
At 1 January 2024	10,750,000	1,275,984	1,034,669	41,000	13,101,653
Additions	-	49,889	162,048	-	211,937
Disposals/Write-offs	-	(1,215)	-	-	(1,215)
At 31 December 2024	**10,750,000**	**1,324,658**	**1,196,717**	**41,000**	**13,312,375**
Depreciation					
At 1 January 2023	616,278	932,665	624,592	25,967	2,199,502
Charge for the year	514,364	123,667	71,897	8,200	718,128
Depreciation capitalised as directly attributable overheads within Intangible assets	-	1,276	11,449	-	12,725
Disposals/Write-offs	-	(4,498)	(30,961)	-	(35,459)
Reversed on revaluation	(861,885)	-	-	-	(861,885)
At 31 December 2023	268,757	1,053,110	676,977	34,167	2,033,011
At 1 January 2024	268,757	1,053,110	676,977	34,167	2,033,011
Charge for the year	476,866	115,522	76,565	6,833	675,786
Depreciation capitalised as directly attributable overheads within Intangible assets	-	994	11,099	-	12,093
Disposals/Write-offs	-	(1,215)	-	-	(1,215)
At 31 December 2024	745,623	1,168,411	764,641	41,000	2,719,675
Net book value					
At 1 January 2023	9,702,721	299,219	407,335	15,033	10,424,308
At 31 December 2023	10,481,243	222,874	357,692	6,833	11,068,642
At 31 December 2024	10,004,377	156,247	432,076	-	10,592,700

During the current financial year, fully depreciated computer hardware with an original cost of EUR1,215, was disposed of for proceeds of EUR100 giving rise to a gain on disposal of EUR100 as disclosed in Note 39.

During the financial year ended 31 December 2023, computer hardware and furniture & fittings with a carrying amount of EUR35,047 were disposed of for proceeds of EUR1,784, giving rise to a loss on disposal of EUR33,263 (Note 39).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

24. Property plant and equipment *(continued)*

During 2023, the Bank engaged an independent external expert to revalue its freehold premises, resulting in an increase in the fair value of the Bank's premises amounting to EUR1,292,886 (Note 30). Given that the Bank subsequently measures freehold premises using the revaluation model, this increase was reflected as an increase in the carrying amount of freehold premises as illustrated in the table above. At 31 December 2024, the Bank performed an assessment to determine whether there is any evidence that the carrying amount of the property differs materially from the fair value by reference to market comparables. No such indicators were identified and, in this respect, a refreshed valuation was not deemed necessary by management.

If the freehold premises were stated on the historical cost basis, the carrying amount would be:

	2024 EUR	2023 EUR
At 31 December		
Cost	6,039,089	6,039,089
Accumulated depreciation	(2,249,636)	(2,008,051)
Carrying amount	**3,789,453**	4,031,038

Valuations of freehold premises are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period.

During the financial year ended 31 December 2024, depreciation charges attributable to computer hardware and furniture and fittings amounting to EUR12,093 (2023: EUR12,725) are deemed to be directly attributable to the design and testing of software under development. In this respect, these amounts were capitalised as part of the carrying amount of intangible assets (refer to Note 26).

25. Investment property

Cost

	EUR
At 1 January 2024	-
Additions	2,421,377
At 31 December 2024	**2,421,377**

During November 2024, the Bank acquired a property adjacent to its current office location with the intention to use as office space in the future. However, as at both acquisition and reporting dates, the property is still subject to a lease agreement expiring in January 2027. The Bank has decided to honour this lease agreement and continue to lease out the property until January 2027. As a result, this property is being shown as 'Investment Property' on the statement of financial position. Once the lease agreement expires, the Bank has no intention to extend such agreement or enter into other lease agreements, but will use the property to extend its current office space. As a result, the property will be transferred to 'Property, plant and equipment' upon the expiration of the lease term.

As the Bank's investment property was acquired close to the reporting date at arm's length, and there have been no material changes in market conditions, the fair value of the investment property is estimated to be equal to its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

26. Intangible assets

	Bavaria banken software EUR	Self developed software EUR	Software under development EUR	Other software EUR	Total EUR
Cost					
At 1 January 2023	1,046,869	1,263,930	3,216,323	1,238,183	6,765,305
Additions	22,700	-	-	216,876	239,576
Capitalisation of directly attributable overheads	-	46,862	729,095	-	775,957
At 31 December 2023	**1,069,569**	**1,310,792**	**3,945,418**	**1,455,059**	**7,780,838**
At 1 January 2024	1,069,569	1,310,792	3,945,418	1,455,059	7,780,838
Capitalisation of directly attributable overheads	-	-	726,570	-	726,570
Amounts written off	-	-	(2,596,903)	-	(2,596,903)
At 31 December 2024	**1,069,569**	**1,310,792**	**2,075,085**	**1,455,059**	**5,910,505**
Amortisation					
At 1 January 2023	1,021,561	781,190	-	1,000,137	2,802,888
Charge for the year	24,106	192,686	-	150,702	367,494
Amortisation capitalised as directly attributable overheads	-	-	-	651	651
At 31 December 2023	**1,045,667**	**973,876**	**-**	**1,151,490**	**3,171,033**
At 1 January 2024	1,045,667	973,876	-	1,151,490	3,171,033
Charge for the year	19,873	171,780	-	153,022	344,675
Amortisation capitalised as directly attributable overheads	-	-	-	379	379
At 31 December 2024	**1,065,540**	**1,145,656**	**-**	**1,304,891**	**3,516,087**
Net book value					
At 1 January 2023	**25,308**	**482,740**	**3,216,323**	**238,046**	**3,962,417**
At 31 December 2023	**23,902**	**336,916**	**3,945,418**	**303,569**	**4,609,805**
At 31 December 2024	**4,029**	**165,136**	**2,075,085**	**150,168**	**2,394,418**

The Bank has continued to invest in its I.T. infrastructure and in line with previous years, software under development has not been amortised in accordance with the Bank's accounting policies and in line with IAS 38 - Intangible Assets. This is due to the fact that the Board of Directors of Sparkasse Bank Malta plc firmly believes that once the software under development goes live, an economic benefit will flow to the Bank, at which point the Bank will classify this software under “Self developed software” and amortise it accordingly.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

During the financial year ended 31 December 2024, amortisation charges attributable to other software amounting to EUR379 (2023: EUR651) are deemed to be directly attributable to the design and testing of software under development. In this respect, these amounts were capitalised as part of the carrying amount of intangible assets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

26. Intangible assets (continued)

As at 31 December 2024, the Bank was in its final stages of the I.T. infrastructure development project, though the project was not yet completed and the infrastructure was not yet live. Accordingly, the Bank was in a position to assess and determine which components of the capitalised expenditure will give rise to substantive and measurable future economic benefits to the Bank post going live, and which components will not. Hence the Bank reviewed the capitalised amounts and carrying amount of the IT infrastructure under development to identify such latter components, and has written off an amount of EUR2,596,903, reflecting the expenditure which is not expected to generate future economic benefits to the Bank.

27. Deferred tax assets and liabilities

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the income taxes relate to the same fiscal authority.

The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2024 EUR	2023 EUR
Deferred tax assets	**882,613**	-
Deferred tax liabilities	**(2,513,037)**	(2,558,592)
	(1,630,424)	(2,558,592)

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% (2023: 35%).

The Bank has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Bank. 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 following table analyses the deferred tax balances by source of temporary differences:

	2024 EUR	2023 EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	**(71,034)**	(112,495)
Intangible assets written-off	**908,916**	-
Expected credit loss allowances	**67,243**	85,761
Fair valuation of properties	**(2,513,037)**	(2,513,037)
Fair value movements on financial instruments measured at FVTPL	**(14,175)**	(12,999)
Right-of-use assets	**(43,324)**	(108,620)
Lease liabilities	**34,987**	102,798
	(1,630,424)	(2,558,592)

The movement in deferred tax assets and liabilities during the year is as follows:

	At 1 January 2024 EUR	Recognised in profit or loss EUR	Recognised in OCI EUR	At 31 December 2024 EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	**(112,495)**	**41,461**	**-**	**(71,034)**
Intangible assets written off	**-**	**908,916**	**-**	**908,916**
Expected credit loss allowances	**85,761**	**(18,518)**	**-**	**67,243**
Fair valuation of properties	**(2,513,037)**	**-**	**-**	**(2,513,037)**
Fair value movements on financial instruments measured at FVTPL	**(12,999)**	**(1,176)**	**-**	**(14,175)**
Right-of-use assets	**(108,620)**	**65,296**	**-**	**(43,324)**
Lease liabilities	**102,798**	**(67,811)**	**-**	**34,987**
	(2,558,592)	**928,168**	**-**	**(1,630,424)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

27. Deferred tax assets and liabilities *(continued)*

	At 1 January 2023 EUR	Recognised in profit or loss EUR	Recognised in OCI EUR	At 31 December 2023 EUR
Depreciation of property, plant and equipment and amortisation of intangible assets	(152,939)	40,444	-	(112,495)
Expected credit loss allowances	82,834	2,927	-	85,761
Fair valuation of properties	(2,060,527)	-	(452,510)	(2,513,037)
Fair value movements on financial instrument measured at FVTPL	62,940	(75,939)	-	(12,999)
Right-of-use assets	(348,701)	240,081	-	(108,620)
Lease liabilities	366,140	(263,342)	-	102,798
	(2,050,253)	(55,829)	(452,510)	(2,558,592)

28. Other assets

	2024 EUR	2023 EUR
Other	**34,443**	22,727
	34,443	22,727

29. Called up share capital

	2024 EUR	2023 EUR
Authorised:		
50,000 *(2023: 50,000)* Ordinary 'A' voting shares of €1,000 each	**50,000,000**	50,000,000
50,000 *(2023: 50,000)* Ordinary 'B' non-voting shares of €1,000 each	**50,000,000**	50,000,000
	100,000,000	100,000,000
Issued and fully paid:		
24,100 *(2023: 23,100)* Ordinary 'A' voting shares of €1,000 each	**24,100,000**	23,100,000
24,100 *(2023: 23,100)* Ordinary 'B' non-voting shares of €1,000 each	**24,100,000**	23,100,000
	48,200,000	46,200,000

On 2 January 2023, the MFSA granted its consent to the Bank to increase its authorised share capital from EUR50,000,000 composed of 25,000 Ordinary ‘A’ shares of EUR1,000 each and 25,000 Ordinary ‘B’ shares of EUR1,000 each to EUR100,000,000 composed of 50,000 Ordinary ‘A’ shares of EUR1,000 each and 50,000 Ordinary ‘B’ shares of EUR1,000 each. The increase in the authorised share capital of the Bank had no impact on the shareholding structure of the Bank or on the beneficial owners thereof.

Pursuant to the increase in authorised share capital, the Bank’s Board of Directors resolved to recommend an increase in issued share capital amounting to EUR6,000,000 through the issue and allotment of 3,000 Ordinary ‘A’ Voting Shares of EUR1,000 each and 3,000 Ordinary ‘B’ Non-Voting Shares of EUR1,000 each, in consideration for cash. The increase in issued share capital from the Bank’s immediate parent company was approved by the general meeting on 21 April 2023, and subsequently approved by the MFSA on 7 September 2023.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

29. Called up share capital *(continued)*

During the financial year ended 31 December 2024, the Bank's Board of Directors resolved to recommend an increase in issued share capital amounting to EUR2,000,000 through the issue and allotment of 1,000 Ordinary 'A' Voting Shares of EUR1,000 each and 1,000 Ordinary 'B' Non-Voting Shares of EUR 1,000 each, in consideration for cash. The increase in issued share capital from the Bank's immediate parent company was approved by the general meeting on 24 April 2024, and subsequently approved by the MFSA on 20 August 2024.

30. Property revaluation reserve

	EUR
Freehold Premises	
At 1 January 2023	3,826,693
- surplus arising on revaluation (Note 24)	1,292,886
- deferred tax on revaluation surplus	(452,510)
At 31 December 2023	4,667,069
At 1 January 2024	**4,667,069**
- surplus arising on revaluation	**-**
- deferred tax on revaluation surplus	**-**
At 31 December 2024	**4,667,069**

In line with the requirements of IAS 16 – Property, Plant and Equipment, the carrying amount of any immovable property subsequently measured at fair value should be reviewed periodically. In accordance with this, the Bank engaged an independent architect to review the value of the property during 2023, which resulted in an increase in the fair value of the said property by EUR1.3million, as illustrated in the table above.

At 31 December 2024, the Bank performed an assessment to determine whether there is any evidence that the carrying amount of the property differs materially from the fair value by reference to market comparables. No such indicators were identified and, in this respect, a refreshed valuation was not deemed necessary by management.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31. Amounts owed to banks

	2024 EUR	2023 EUR
Repayable at call or short notice	368,070	2,461,220

	2024	2023
By currency:		
United States Dollar	**168,765**	1,790,029
Swedish Krona	**112,227**	33
Euro	**4,166**	650,628
Other currencies	**82,912**	20,530
	368,070	2,461,220

	2024 EUR	2023 EUR
By country:		
Belgium	289,155	-
Luxembourg	74,251	279,470
Switzerland	4,664	1,759,329
Other countries	-	422,421
	368,070	2,461,220

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

32. Amounts owed to customers

	2024 EUR	2023 EUR
Repayable at call or short notice	**868,649,727**	821,880,589
Term deposits	**64,408,208**	37,984,249
	933,057,935	859,864,838

	2024 EUR	2023 EUR
Term deposits by residual maturity (contractual maturity dates or notice period):		
1 to 5 years	**11,000,000**	8,000,000
1 year or less but over 3 months	**3,075,847**	1,139,767
3 months or less but not repayable on demand	**50,332,361**	28,844,482
	64,408,208	37,984,249

	2024 EUR	2023 EUR
By currency:		
Euro	**735,670,976**	692,169,827
United States Dollar	**137,711,799**	126,123,255
Pound Sterling	**35,132,070**	28,254,228
Canadian Dollar	**13,023,861**	3,332,767
Swedish Krona	**4,717,052**	3,268,946
Czech Koruna	**2,501,929**	1,386,994
Norwegian Krone	**2,272,269**	2,013,594
Other currencies	**2,027,979**	3,315,227
	933,057,935	859,864,838

	2024 EUR	2023 EUR
By country:		
Malta	**639,959,467**	645,717,783
Great Britain	**95,285,587**	98,059,321
United States	**69,484,249**	2,536,448
Ireland	**65,245,699**	60,694,709
Isle of Man	**17,740,617**	16,742,757
Switzerland	**13,286,483**	5,744,885
Cyprus	**13,198,694**	11,200,610
Luxembourg	**5,398,031**	2,551,384
Austria	**2,587,686**	74,672
Guernsey	**2,214,259**	1,109,322
Bermuda	**1,756,838**	1,192,911
Gibraltar	**1,009,649**	910,909
Other countries	**5,890,676**	13,329,127
	933,057,935	859,864,838

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

33. Accruals and deferred income

	2024 EUR	2023 EUR
Accrued liabilities	**449,278**	538,247
Accrued interest payable	**304,138**	169,936
	753,416	708,183

34. Lease liabilities

IFRS 16 requires the Bank to recognise lease liabilities in respect of its lease agreements. The tables below analyse the movements in, and illustrate the maturity breakdown of, the Bank's lease liabilities as at 31 December 2024 and 31 December 2023.

	2024 EUR	2023 EUR
As at 1 January	**293,709**	1,046,115
Additions	**26,993**	196,300
Interest expense (Note 7)	**10,536**	23,119
Impact of termination of lease arrangement	**-**	(786,068)
Payments made	**(231,274)**	(185,757)
	99,964	293,709

On 8 March 2023, the Bank terminated a lease agreement relating to the Bank's Ireland branch, giving rise to a gain on termination of EUR111,724 (refer to Note 11). Subsequently, on 20 March 2023, the Bank entered into a new lease agreement presented as an addition to the lease liabilities in the above table.

Maturity analysis of contractual undiscounted cash flows

By contractual period:	2024 EUR	2023 EUR
Less than one year	**98,010**	212,394
One to five years	**3,606**	92,176
	101,616	304,570
By liability term (discounted)		
Current	**96,399**	202,848
Non-current	**3,565**	90,861
	99,964	293,709

During 2024, the Bank effected payments for leases amounting to EUR265,343 (2023: EUR231,738).

The income statement reflects the following amounts relating to leases:

	2024 EUR	2023 EUR
Depreciation charge of right-of-use assets (Note 23)	**213,553**	211,300
Interest expense (Note 7)	**10,536**	23,119
Expenses relating to short-term leases (included in other operating costs)	**33,834**	45,029
Expenses relating to variable lease payments (included in other operating costs)	**235**	952
	258,158	280,400

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

35. Provisions

Post employment and other long-term employee benefits

The Bank has liabilities for long-term employee benefits, treated as defined benefit obligations, arising out of the provisions of the Bank's Remuneration Policy. This provision is principally non-current in nature, with the maturity profile of the obligation spanning over the estimated remaining working life.

In this respect, the Bank has a present obligation towards its employees in respect of long service bonuses in terms of its savings plan, which are payable to eligible employees upon completion of employment subject to vesting conditions, thereby meeting the definition of a defined benefit plan in accordance with IAS 19.

In addition, the Bank’s Remuneration Policy also determines the structure of a deferred remuneration scheme, which benefit is awarded to eligible employees in respect of service received by the Bank in each financial year and payable over a three-year period subject to vesting conditions. In this respect, the deferred remuneration scheme meets the definition of Other long-term employee benefits in accordance with IAS 19.

The below table presents the movement in provision relating to post employment and other long-term employee benefits:

	2024	2023
	EUR	EUR
At 1 January	**2,232,779**	1,262,306
Additions	**1,145,466**	1,157,498
Amounts utilised	**(352,125)**	(187,025)
At 31 December	**3,026,120**	2,232,779

The movement in provisions is reflected in Note 12 ‘Employee compensation and benefits’ presented under Post employment and other long-term employee benefits.

In view of the insignificant impact of the post-employment and other long-term employee benefit obligations on the Bank’s income statement charge for the financial years ended 31 December 2024 and 31 December 2023, the IAS 19 disclosure requirements attributable to defined benefit plans and other long-term employee benefit obligations are not being presented in these financial statements.

Expected credit loss provision

The Bank measures ECL in respect of loan commitments as at each reporting date, with the resulting credit loss allowances classified as ‘Provisions’ within the statement of financial position. As at 31 December 2024, credit loss allowances in respect of loan commitments amounted to EUR 1,501 (2023: 378).

In addition, no ECL is deemed to arise in respect of financial guarantee contracts since all outstanding guarantees are fully cash secured as at 31 December 2024 and 31 December 2023.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

36. Other liabilities

	2024 EUR	2023 EUR
Withholding tax	107,278	111,804
Other creditors	56,730	50,701
Government grant	-	133
VAT payable	55,487	16,028
Variation margin	430,000	790,000
	649,495	968,666

The variation margin represents cash collateral deposited into a margin account to cover the unrealised losses made by customers through the forward foreign exchange contracts disclosed within 'Derivative financial liabilities'.

37. Contingent liabilities

	2024 EUR	2023 EUR
Financial guarantees	15,000,000	15,001,200
Other contingent liabilities	358,603	964,380
	15,358,603	15,965,580

The Bank provides guarantees on behalf of third party corporate customers in the normal course of the Bank's business. Such guarantees are fully secured by pledges on cash collateral. The majority of these guarantees have no fixed maturity date. As at 31 December 2024, total guarantees amounted to EUR15,000,000 (2023: EUR15,001,200).

Other contingent liabilities relate to possible future contributions payable to the Depositor Compensation Scheme ('DCS') and the Single Resolution Fund ('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 Bank to the extent the contributions imposed on the Bank to date are not sufficient to cover the compensation due to customers in any future possible collapse. The ultimate contribution to the DCS 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 2024, assets pledged in favour of the DCS comprise balances with Central Bank of Malta with a carrying amount of EUR358,603 (2023: EUR964,380). A contingent liability for this 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. However, as at 31 December 2024 and 31 December 2023, the Bank did not have any irrevocable payment commitments towards the SRF given that all contributions were settled in cash in full. Therefore, no contingent liability is deemed to arise in this respect.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38. Commitments

	2024 EUR	2023 EUR
Credit facilities and other commitments to lend	**21,875,403**	31,831,244

As at 31 December 2024, credit loss allowances in respect of loan commitments amounted to EUR1,501 (2023: EUR378) (Note 35).

39. Operating profit before changes in operating assets and liabilities

	2024 EUR	2023 EUR
Profit before tax	**14,601,572**	18,109,241
Adjustments for:		
Government grant	**(133)**	(603)
Gain on disposal of securities	**-**	(12,207)
(Gain)/ loss on disposal of fixed assets	**(100)**	33,263
Interest expense on lease liabilities	**10,536**	23,119
(Decrease)/ increase in allowance for expected credit losses	**(52,908)**	8,363
Intangible assets written off	**2,596,903**	-
Amortisation of premium/discount on securities	**(271,180)**	(257,807)
Net fair value movement on financial assets at FVTPL	**(3,360)**	(61,339)
Depreciation and amortisation	**1,234,014**	1,296,922
Net impact of lease agreement termination	**-**	(111,724)
Net fair value movement on derivative financial assets and liabilities	**(230)**	-
Operating profit before working capital changes	**18,115,114**	19,027,228

40. Cash and cash equivalents

	2024 EUR	2023 EUR
Balances with Central Bank of Malta (Note 17)	**626,607,751**	515,556,674
Loans and advances to banks (Note 18)	**75,552,828**	61,752,502
Cash in hand (Note 17)	**2,882**	6,780
	702,163,461	577,315,956

41. Investor Compensation Scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations issued under the Investment Services Act, license holders are required to transfer a variable contribution to the Investor Compensation Scheme and place the equivalent amount with a bank, pledged in favour of the Scheme. This amounted to EUR5,218 for the year under review (2023: EUR5,209).

42. Investment Services License related income

Net Income derived during the current year from activities for which an Investment Services Licence has been issued to the Bank amounted to EUR2,246,799 (2023: EUR1,738,072).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

43. Related party transactions

Related parties include persons or entities related to Sparkasse Bank Malta plc. With respect to natural persons, a person is considered to be a related party to the Bank if that person is a person that fulfils one of the following criteria or is a close family member to such person:

- Has control or joint control over the Bank;
- Has significant influence over the Bank; or
- Is a member of the key management personnel of the Bank or its parent company.

As of 31 December 2024 and 2023, the natural persons who met the definition of a related person include members of the Board of Directors, key management personnel and their close family members. Key management personnel comprise the Bank's Board of Directors, including both Executive and Non-Executive directors, as well as selected members of the Management Committee.

An entity is considered to be a related party if it meets any of the following conditions:

- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
- The entity is an associate or joint venture of the Bank
- Both entities are joint ventures of the same third party
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank.
- The entity is controlled or jointly controlled by a person identified in (a)
- A person identified as a related person has significant influence over the Bank or is a member of the key management personnel of the Bank (or of a parent of the entity)
- The entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or its parent company

Related party transactions include the below:

a) Transactions, arrangements, and agreements involving Directors and other key management personnel

Transactions, arrangements, and agreements entered into with Directors and other key management personnel, close family members and companies controlled or jointly controlled by them, include the below:

	2024 EUR	2023 EUR
Income statement		
Interest and similar income	**2,294**	82
Interest payable on deposits	**9,134**	5,198
Fee and commission income	**2,882**	8,132
Assets		
Loans and advances to customers	**56,098**	79,153
Liabilities		
Amounts owed to customers	**1,587,350**	556,581

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

43. **Related party transactions** ***(continued)***

(b) Compensation of Directors and other key management personnel

The following represents the compensation of Directors and other key management personnel in exchange for services rendered to the bank for the period they served during the year. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company.

	2024 EUR	2023 EUR
Directors' emoluments		
Salary and bonuses	**716,296**	610,000
Defined plan contribution and other variable remuneration	**421,875**	137,892
Social security contribution	**2,906**	2,764
	1,141,077	**750,656**

	2024 EUR	2023 EUR
Other key management personnel		
Salary and bonuses	**1,068,014**	798,639
Defined plan contribution and other variable remuneration	**242,440**	105,516
Social security contribution	**41,308**	34,070
	1,351,763	**938,225**

(c) Balances and transactions with ultimate and immediate parent companies

Balances and transactions with ultimate and immediate parent companies include:

	2024		2023	
	Immediate parent company EUR	**Ultimate parent company EUR**	Immediate parent company EUR	Ultimate parent company EUR
Income statement				
Interest payable on deposits	-	445	-	-
Liabilities				
Amounts owed to customers	2,188,747	2,500,000	129,638	-

44. **Registered address**

Sparkasse Bank Malta plc is a public limited company domiciled and incorporated in Malta. Its registered office is 101, Townsquare, Qui-Si-Sana Seafront, Sliema, SLM 3112, Malta.

Sparkasse Bank Malta plc has a branch in the Republic of Ireland situated at 9, Windsor Place, First Floor, Dublin 2, D02 YF30, Ireland.

The Ireland branch is not considered as a separate business line from the Malta Head Office.

In addition, the financial information of the branch is not considered material so as to warrant separate disclosures and presentation.

45. **Ultimate controlling party**

The parent company of the Bank is Sparkasse (Holdings) Malta Limited, bearing Company registration number C35408, which acts as a holding company. Anteilsverwaltungssparkasse Schwaz ('AVS'), which is a corporate entity established in Austria, owns 99.99% of the shares in Sparkasse (Holdings) Malta Limited. The ultimate controlling party is Sparkassenverein Sparkasse Schwaz, which is the founder of AVS and a savings bank association in terms of the Austrian Savings Bank Act, having its seat in Schwaz, Austria.

5 YEAR SUMMARIES

INCOME STATEMENT - 5 YEAR SUMMARY

	2024 €'000	2023 €'000	2022 €'000	2021 €'000	2020 €'000
Interest and similar income	25,044	22,921	6,928	5,475	6,840
Interest expense	(5,474)	(2,765)	(1,517)	(2,418)	(1,880)
Net interest income	**19,570**	**20,156**	**5,411**	**3,057**	**4,960**
Fee and commission income	10,423	9,442	10,415	9,983	8,613
Fee and commission expense	(1,610)	(1,273)	(1,342)	(1,415)	(1,188)
Net fee and commission income	**8,813**	**8,169**	**9,073**	**8,568**	**7,425**
Net trading income	1,888	1,335	1,281	532	284
Changes in expected credit losses and other credit impairment charges	65	81	(137)	341	(2,097)
Other operating income	23	180	34	1,047	1,267
	1,976	1,597	1,178	1,920	(546)
Total operating profit	**30,359**	**29,921**	**15,661**	**13,545**	**11,839**
Operating expenses					
Employee compensation and benefits	(8,162)	(6,885)	(5,224)	(4,715)	(4,300)
Other operating costs	(3,765)	(3,629)	(4,069)	(3,653)	(2,873)
Depreciation of property, plant and equipment and right-of-use assets	(889)	(929)	(784)	(757)	(710)
Amortisation and write-offs of intangible assets	(2,942)	(368)	(291)	(330)	(316)
Profit on ordinary activities before taxation	**14,602**	**18,110**	**5,293**	**4,090**	**3,640**
Tax on ordinary activities	(3,606)	(4,971)	(1,378)	(1,823)	(2,025)
Profit on ordinary activities after taxation	**10,995**	**13,139**	**3,915**	**2,267**	**1,615**
Earnings per share	**234**	312	97	56	54

STATEMENT OF FINANCIAL POSITION - 5 YEAR SUMMARY

	2024 €'000	2023 €'000	2022 €'000	2021 €'000	2020 €'000
Assets					
Cash and Balances held with Central Bank of Malta	636,569	530,578	469,754	620,940	574,371
Loans and advances to banks	75,561	61,704	60,813	46,118	65,255
Loans and advances to customers	6,245	8,856	4,836	10,234	17,975
Financial investments measured at amortised cost	279,764	317,710	343,368	283,801	202,941
Financial investments measured at fair value through profit or loss	96	93	1,510	2,448	68
Derivative financial assets	1,475	995	2,072	2,290	1,429
Prepayments and accrued income	1,692	1,588	1,455	1,728	1,169
Right-of-use assets	124	310	996	854	1,053
Property, plant and equipment	10,593	11,069	10,424	10,828	9,037
Investment property	2,421	-	-	-	-
Intangible assets	2,394	4,610	3,963	3,397	2,756
Deferred tax	883	-	10	1,284	1,172
Other assets	34	23	122	5	230
Total assets	**1,017,852**	**937,535**	**899,323**	**983,927**	**877,456**
Equity					
Called up share capital	48,200	46,200	40,200	40,200	34,000
Fair value reserve	-	-	-	-	(27)
Property revaluation reserve	4,667	4,667	3,827	3,827	2,433
Retained earnings	18,816	13,821	5,684	1,768	2,501
Total equity	**71,684**	**64,688**	**49,711**	**45,795**	**38,907**
Liabilities					
Amount owed to banks	368	2,461	4,030	2,400	911
Amount owed to customers	933,058	859,865	838,407	924,611	829,037
Derivative financial liabilities	1,475	995	2,072	2,290	1,429
Current tax liabilities	4,224	2,764	103	1,947	2,527
Accruals and deferred income	753	708	493	694	667
Lease liabilities	100	294	1,046	923	1,093
Provisions	3,028	2,233	1,262	1,129	1,012
Deferred tax liabilities	2,513	2,559	2,061	2,061	1,310
Other liabilities	649	968	138	2,077	563
Total liabilities	**946,169**	**872,847**	**849,612**	**938,132**	**838,549**
Total equity and liabilities	**1,017,852**	**937,535**	**899,323**	**983,927**	**877,456**

STATEMENT OF CASH FLOWS - 5 YEAR SUMMARY

	2024	2023	2022	2021	2020
	€'000	€'000	€'000	€'000	€'000
Net cash from operating activities	**94,208**	**58,158**	**(103,793)**	**113,934**	**61,571**
Cash flows from investing activities					
Disposal and redemption of securities	40,000	26,788	25,290	76,673	125,207
Disposal of tangible assets	0	2	-	-	-
Purchase of securities	-	(300)	(81,713)	(133,906)	(105,784)
Recovery of written-off security	-	-	-	(623)	-
Purchase of investment property	(212)	-	-	-	-
Purchase of tangible fixed assets	(2,421)	(117)	(225)	(221)	(322)
Purchase of intangible assets	(727)	(1,016)	(858)	(972)	(746)
Proceeds from government grant	-	-	-	-	2
Net cash used in investing activities	**36,640**	**25,357**	**(57,505)**	**(59,049)**	**18,357**
Cash flows from financing activities					
Lease liability payments	(231)	(189)	(184)	(219)	(264)
Issue of shares	2,000	6,000	-	3,200	-
Dividends paid	(6,000)	(5,000)	-	-	-
Net cash from used in financing activities	**(4,231)**	**811**	**(184)**	**2,981**	**(264)**
Movements in cash and cash equivalents	**126,617**	**84,326**	**(161,482)**	**57,866**	**79,664**
Cash and cash equivalents at beginning of the year	**577,316**	**492,029**	**655,671**	**599,801**	**520,690**
Effects of exchange rate changes on cash and cash equivalents	(1,770)	961	(2,159)	(1,996)	(554)
Cash and cash equivalents at close of the year	**702,163**	**577,316**	**492,029**	**655,671**	**599,801**

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