COMPANY ANNOUNCEMENT

Interim Financial Statements for the Six-Month Period Ended 30 June 2022

Date of Announcement:	30 August 2022
Reference:	BNF04

The following is Company Announcement issued by BNF Bank p.l.c. (the "Bank") pursuant to the Capital Market Rules Rules of the Listing Authority.

Quote

BNF Bank p.l.c. achieved positive financial results for the first half of 2022. The lending book grew by €52.3m and improved in credit quality, with non-performing exposure decreasing by €10.5m. The decrease in non-performing exposure was due to the cure of a non-performing commercial loan, and recovery of various other non-performing loans. Lending book growth was primarily funded by deposits from customers which grew by €96.6m in the first half of 2022.

The Bank's Capital Adequacy Ratio as at June 2022 was 17.2% compared to 17.5% in December 2021. During the first half of 2022 the Bank, as part of its capital plan, obtained authorisation from the Malta Financial Services Authority to issue unsecured subordinated bonds (the 'Bonds'), of €15.0m with an over-allotment option of €5.0m. In July 2022 the bonds were issued and fully subscribed at €20.0m. The Bonds meet the criteria to qualify as Tier 2 capital and will increase the Capital Adequacy Ratio further in the second half of the year.

Net interest income remained the main driver of the Bank's profitability, and has increased by 15% to €12.6m in the first half of 2022. The increase in net interest income in the first half of 2022 pertained mainly to lending book growth.

Operating costs amounted to €9.2m for the first half of 2022 compared to €8.1m for the first half of 2021, the majority of the increase being a cash contribution payable to the Depositor Compensation Scheme upon Legal Notice 193 of 2022 coming into force. Adjusting for the latter, the Bank's cost-to-income ratio would have improved due to positive jaws being generated between operating income and operating expenses.

Unquote

Dr Jean Noel Cutajar
Company Secretary

Directors' Report

The Directors present their condensed interim financial statements for the six-month period ended 30 June 2022.

Principal Activities

BNF Bank p.l.c. (the "Bank", "BNF Bank") was incorporated as Banif Bank (Malta) p.l.c. and licenced to operate as a credit institution in terms of the Banking Act, Cap. 371 of the Laws of Malta on 27 March 2007. On 4 October 2016, following the non-objection of the European Central Bank (ECB) by virtue of a decision dated 12 August 2016 made pursuant to Articles 4(1)(c) and 15(3) of Council Regulation EU no. 1024/2013, Article 87 of Regulation (EU) no. 468/2014 of the ECB (EC/2014/17) and Article 13(1) and Article 13A of the Banking Act (Cap. 371 of the laws of Malta), a controlling stake was purchased by Al Faisal International for Investment Malta Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar. The Bank's name was subsequently changed to BNF Bank p.l.c. On 3 July 2018 Al Faisal International for Investment Malta Limited changed its name to JUD Investment Group Limited.

The Bank provides a comprehensive range of retail and commercial banking services through a network of twelve branches and a corporate and business centre in Malta, and a branch in London.

The Economic Environment

The Russia-Ukraine war is a source of economic uncertainty as the global economy emerges from difficulties encountered in the COVID-19 pandemic. The resulting supply-chain issues, energy shortages, food shortages, and others have created inflationary pressure which is being combated by central banks through the tightening of monetary policy. In July 2022 the Governing Council of the ECB raised the main refinancing rate and deposit facility rate by 0.5% and indicated that further normalisation of interest rates will be appropriate in upcoming meetings. The intention of interest rate rises is for the ECB to deliver on its 2% inflation target over the medium term. Nevertheless it remains unclear whether (i) the interest rate rises will be sufficient to tame inflation, and (ii) an economic recession will be avoided in the foreseeable future.

In Malta, amidst rising inflation and supply-side pressures, the economic recovery from the pandemic continued. Malta was also removed from the Financial Action Task Force (FATF) grey list in June 2022. Nevertheless, as detailed in the 'Financial Performance' section below, BNF Bank has adopted a cautious provisioning stance to mitigate the elevated risk of economic uncertainty, and has retained a judgemental temporary post-model adjustment in its credit-related loss allowances.

Business Development

The Bank witnessed strong growth in its core business of residential mortgage lending during the first half of 2022. Corporate customers renewed their demand for credit as capital investment projects increased following the start of the pandemic. The Bank's London branch continued to develop its lending activities through participation in high-quality secured syndicated lending. As part of the Bank's strategy it is also committed to safeguard and contribute towards a better future for generations to come. Throughout the first half of the year the Bank continued with its support programme towards various NGOs.

Financial Performance

Profit before tax amounted to €5.7m (June 2021: €3.9m) for the first half of 2022. Profitability continued to be driven predominantly by net interest income, which increased by 15% to €12.6m (June 2021: €10.9m). Net interest income together with net fees and commission income, and net trading, investment, and other income made up total net operating income of €14.7m, an increase of 13% over the first half of 2021 (€13.0m).

Operating expenses excluding credit impairment gains or losses, incurred to June 2022, amounted to €9.2m (June 2021: €8.1m), generating a cost-to-income ratio of 62.8% (June 2021: 62.4%). Operating expenses for 2022 included a cash contribution to the Depositor Compensation Scheme of €0.6m (June 2021: €nil) upon Legal Notice 193 coming into force. The cash contribution increased the Bank's June 2022 cost-to-income ratio by 4.1 percentage points, from 58.7%.

Credit impairment gains in the first half of 2022 of €0.2m (June 2021: losses of €1.0m) are largely due to recoveries and cures of non-performing exposures. During the period under review, the economic environment elevated the level of estimation uncertainty and judgement, especially in light of the inability to track observable historical trends as part of the Bank's credit modelling. To reflect the economic uncertainty, the Bank retained a judgemental temporary post-model adjustment in credit-related loss allowances.

Directors' Report – (continued)

Profit after tax for the first half of 2022 amounted to €3.8m (June 2021: €2.5m), and was net of income tax expense of €1.8m (June 2021: €1.3m).

Financial Position

The Bank's total assets grew by 7.2% to €1,076.9m (December 2021: €1,004.7m) during the first six months of 2022, of which loans and advances to customers amounted to €845.4m (December 2021: €793.1m). Asset growth was primarily funded by amounts owed to customers which grew by €96.6m in the first half of 2022.

The percentage of total loans and advances to customers which were credit impaired decreased to 2.7% (December 2021: 4.1%), and the total credit-impaired exposure amounted to €22.9m (December 2021: €33.3m). Credit-impaired and non-credit-impaired loans and advances to customers are generally secured with collateral.

The Bank's Liquidity Coverage Ratio (LCR) remained above regulatory requirements throughout the first half of 2022 and as at 30 June 2022 amounted to 151.4% (December 2021: 129.1%). The increase in LCR pertains primarily to an increase in balances with the Central Bank of Malta and cash of 33.4%, to €136.6m (December 2021: €102.4m).

The Bank's Capital Adequacy Ratio as at June 2022 was 17.2% compared to 17.5% in December 2021. During the first six months of 2022 the Bank's Capital Adequacy Ratio was negatively impacted by adverse price movements on financial instruments accounted for at fair value through other comprehensive income ('FVOCI'), although the Bank remained well above minimum regulatory capital requirements at all times. As at June 2022, none of the FVOCI financial instruments were considered to be credit impaired, and adverse market movements did not impact the Bank's profitability. During the first half of 2022 the Bank, as part of its capital plan, obtained authorisation from the Malta Financial Services Authority to issue unsecured subordinated bonds ('the bonds') of €15.0m with an over-allotment option of €5.0m. In July 2022 the bonds were issued and fully subscribed at €20.0m. The bonds meet the criteria to qualify as Tier 2 capital and will increase the Capital Adequacy Ratio further in the second half of the year.

Approved by the Board of Directors and signed on its behalf on 30 August 2022 by:

MFrendo

MICHAEL FRENDO
Chairman

Michael A. Collis

MICHAEL ANTHONY COLLIS
Chief Executive Officer and Managing Director

Statement pursuant to Listing Rule 5.75.3 issued by the Listing Authority

It is hereby being confirmed that to the best of our knowledge, the condensed interim financial statements for the six-month period ended 30 June 2022 portray a true and fair view of the Bank's financial position, financial performance and cash flows for the period ended, in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU.

The Directors' Report includes information as required under Listing Rule 5.81 to 5.84.

MICHAEL FRENDO
Chairman

MICHAEL ANTHONY COLLIS
Chief Executive Officer and Managing Director

Statement of Financial Position
as at 30 June 2022

	Note	30 June 2022 €000	31 December 2021 €000
ASSETS			
Balances with Central Bank of Malta and cash		136,603	102,410
Cheques in course of collection		4,060	1,327
Financial investments	4	54,924	72,135
Loans and advances to banks		11,081	11,713
Loans and advances to customers		845,425	793,093
Property and equipment		5,663	5,640
Intangible assets		888	864
Right-of-use assets		1,632	1,830
Derivative assets		104	6
Deferred tax assets		7,767	6,757
Prepayments and accrued income		3,598	3,187
Other assets		5,115	5,736
TOTAL ASSETS		1,076,860	1,004,698
EQUITY			
Share capital		74,544	74,544
Perpetual capital notes		10,000	10,000
Revaluation reserve		(2,039)	38
Reserve for general banking risks		992	992
Retained earnings		15,511	12,137
TOTAL EQUITY		99,008	97,711
LIABILITIES			
Amounts owed to banks		667	29,436
Amounts owed to customers		955,726	859,152
Derivative liabilities		121	256
Current tax liabilities		1,989	652
Other liabilities		14,835	12,663
Accruals and deferred income		4,514	4,828
TOTAL LIABILITIES		977,852	906,987
TOTAL EQUITY AND LIABILITIES		1,076,860	1,004,698
MEMORANDUM ITEMS			
Contingent liabilities		10,583	9,506
Commitments		254,425	253,534

These condensed interim financial statements were approved by the Board of Directors on 30 August 2022 and were signed on its behalf by:

MICHAEL FRENDO
Chairman

MICHAEL ANTHONY COLLIS
Chief Executive Officer and Managing Director

Income Statement
for the period ended 30 June 2022

	Notes	30 June 2022 €000	30 June 2021 €000
Interest receivable and similar income			
- on loans and advances, balances with Central Bank of Malta and other instruments	6	14,190	12,784
- on debt and other fixed-income instruments	6	195	153
Interest payable and similar expense	7	(1,813)	(2,005)
Net interest income		12,572	10,932
Fees and commission income	8	2,189	2,220
Fees and commission expense	8	(607)	(716)
Net fees and commission income		1,582	1,504
Net trading income		26	129
Net gains from financial instruments at FVTPL		502	-
Gain on disposal of investments measured at FVOCI		-	367
Other income		6	68
Net operating income		14,688	13,000
Employee compensation and benefits		(4,695)	(4,285)
Other administrative expenses		(3,911)	(3,208)
Depreciation of property and equipment and right-of-use assets		(458)	(458)
Amortisation of intangible assets		(154)	(154)
Credit impairment gains/(losses)		198	(1,019)
Profit before tax		5,668	3,876
Income tax expense		(1,841)	(1,348)
Profit for the period		3,827	2,528
Earnings per share		3c9	2c6

Statement of Comprehensive Income
for the period ended 30 June 2022

	30 June 2022 €000	30 June 2021 €000
Profit for the period	3,827	2,528
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Investments measured at FVOCI:		
- Net losses in fair value, before tax	(3,253)	(28)
- Net losses on financial assets reclassified to profit or loss on disposal, before tax	-	(367)
- Net gains/(losses) attributable to changes in credit risk, before tax	56	(161)
Income taxes	1,120	195
Other comprehensive losses for the period, net of tax	(2,077)	(361)
Total comprehensive income for the period, net of tax	1,750	2,167

Statement of Changes in Equity
for the period ended 30 June 2022

	Share capital €000	Perpetual capital notes €000	Revaluation reserve €000	Reserve for general banking risks €000	Retained earnings €000	Total €000
At 1 January 2021	74,544	10,000	663	992	6,750	92,949
Comprehensive income						
Profit for the period	-	-	-	-	2,528	2,528
Fair valuation of financial assets measured at FVOCI:						
- net movement in fair value arising during the period	-	-	(17)	-	-	(17)
- reclassifications - net amounts reclassified to profit or loss	-	-	(239)	-	-	(239)
- net gain attributable to change in credit risk	-	-	(105)	-	-	(105)
Total other comprehensive income for the period	-	-	(361)	-	-	(361)
Total comprehensive income	-	-	(361)	-	2,528	2,167
Transactions with owners						
Distributions to owners:						
Interest on perpetual capital notes	-	-	-	-	(453)	(453)
Total transactions with owners	-	-	-	-	(453)	(453)
At 30 June 2021	74,544	10,000	302	992	8,825	94,663
At 1 January 2022	74,544	10,000	38	992	12,137	97,711
Comprehensive income						
Profit for the period	-	-	-	-	3,827	3,827
Fair valuation of financial assets measured at FVOCI:						
- net movement in fair value arising during the period	-	-	(2,114)	-	-	(2,114)
- reclassifications - net amounts reclassified to profit or loss	-	-	-	-	-	-
- net loss attributable to change in credit risk	-	-	37	-	-	37
Total other comprehensive income for the period	-	-	(2,077)	-	-	(2,077)
Total comprehensive income	-	-	(2,077)	-	3,827	1,750
Transactions with owners						
Distributions to owners:						
Interest on perpetual capital notes	-	-	-	-	(453)	(453)
Total transactions with owners	-	-	-	-	(453)	(453)
At 30 June 2022	74,544	10,000	(2,039)	992	15,511	99,008

Statement of Cash Flows
for the period ended 30 June 2022

	30 June 2022 €000	30 June 2021 €000
Cash flows from operating activities		
Interest, fees and commission received	16,524	15,377
Interest, fees and commission paid	(2,220)	(2,487)
Net return from investment and trading activities	(177)	274
Payments to employees and suppliers	(9,615)	(7,139)
Net interest on financial assets	124	163
Cash flows from operating profit before changes in operating assets and liabilities	4,636	6,188
Operating assets:		
Balances with Central Bank of Malta	(634)	(965)
Loans and advances to customers	(51,862)	(74,717)
Other assets	(2,128)	(1,481)
Operating liabilities:		
Amounts owed to customers	96,574	67,993
Other liabilities	2,264	421
Net cash flows generated from/(used in) operating activities before tax	48,850	(2,561)
Income tax paid	(395)	(485)
Net cash flows generated from/(used in) operating activities	48,455	(3,046)
Cash flows from investing activities		
Purchase of property, equipment and intangible assets	(647)	(277)
Purchase of financial investments	(5,040)	(15,145)
Proceeds from redemption/disposal of financial investments	19,474	31,020
Net cash flows generated from investing activities	13,787	15,598
Cash flows from financing activities		
Interest on perpetual capital notes	(453)	(453)
Net cash flows used in financing activities	(453)	(453)
Net increase in cash and cash equivalents	61,789	12,099
Cash and cash equivalents at beginning of period	78,137	90,230
Cash and cash equivalents at end of period	139,926	102,329

Notes to the Condensed Interim Financial Statements

1. General information

BNF Bank p.l.c. is a public limited liability company domiciled and incorporated in Malta. The Bank was incorporated on 27 March 2007 and started operating as a fully-fledged retail bank during January 2008.

The Bank provides a comprehensive range of retail and commercial banking services through a network of twelve branches and a corporate and business centre in Malta, and a branch in London.

The financial statements of the Bank for theyear ended 31 December 2021 are available upon request from the Bank's registered office at Level 2, 203, Rue D'Argens, Gzira, GZR 1368, Malta. They are also available for viewing on the Bank's website at www.bnf.bank.

This condensed interim financial information has been reviewed, not audited, in accordance with the requirements of International Standard on Review Engagements 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

2. Summary of significant accounting policies

2.1 Basis of Preparation

The following condensed interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and as endorsed by the EU and should be read in conjunction with the *Annual Report and Financial Statements 2021.* Therefore, they include an explanation of events and transactions that are significant to an understanding of the changes in the Bank's financial position and performance since the end of 2021.

The condensed interim financial information has been extracted from the Bank's management accounts for the six months ended 30 June 2022.

2.2 Significant accounting policies

In 2022, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2022. The adoption of these revisions to the requirements of IFRSs as adopted by the EU, did not result in changes to the Bank's accounting policies impacting the Banks's financial performance and position.

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

The Bank did not early adopt any new standards, amendments and interpretations to existing standards applicable to periods after 1 January 2022 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.

The condensed interim financial statements were prepared in accordance with the accounting policies set out in Note 2 of the *Annual Report and Financial Statements 2021.*

2.3 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. These estimates and assumptions present a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Bank's management also makes judgements, apart from those involving estimations, in the process of applying the entity's accounting policies that may have a significant effect on the amounts recognised in the financial statements.

2. Summary of significant accounting policies – (continued)

2.3 Accounting estimates and judgements – (continued)

In particular, the measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour which require a number of significant judgements. The critical accounting estimates and judgements as set out in Note 4 of the *Annual Report and Financial Statements 2021* were applied to the current period under review.

2.4 Going concern

Having taken into consideration the Bank's performance and its future strategic goals, the Directors declare that the Bank is able to continue operating as a going concern for the foreseeable future. These considerations include stressed scenarios on the Bank's profitability, capital and liquidity, reflecting the uncertainty arising due to the lingering effects of the COVID-19 pandemic and Malta's FATF grey listing, as well as the increased economic pressures being experienced as a result of the war between Russia and Ukraine.

2.5 Accounting policies

The accounting policies that were applied in these interim condensed financial statements are consistent with those described in Note 2 of the *Annual Report and Financial Statements 2021*, as are the methods of computation.

3. Financial instruments

3.1 Summary of financial instruments to which the IFRS 9 requirements are applied

The Bank's business model exposes it to financial risks, in particular credit risk, which is the risk of losses arising from untimely or non-repayment of existing or contingent credit obligations, generally resulting from deterioration in the financial condition of a borrower. These exposures can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally balances with Central Bank of Malta, financial investments and loans and advances to banks and customers.
- Documentary credits and guarantee obligations incurred on behalf of third parties.
- Lending commitments and other credit-related commitments that are irrevocable over the life of the respective facilities and are off-balance sheet items.

3. Financial instruments – (continued)

3.1 Summary of financial instruments to which the IFRS 9 requirements are applied – (continued)

The Bank's credit risk exposure relating to on-balance sheet assets and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, include the following:

	At 30 June 2022		At 31 December 2021	
	Gross exposure €000	ECL allowance €000	Gross exposure €000	ECL allowance €000
Credit risk exposure relating to on-balance sheet assets				
Subject to IFRS 9 impairment allowance				
Financial assets measured at amortised cost				
Balances with Central Bank of Malta	**131,282**	**(329)**	96,974	(243)
Cheques in course of collection	**4,060**	**-**	1,327	-
Loans and advances to banks	**11,088**	**(7)**	11,714	(1)
Loans and advances to customers				
- Corporate	**319,464**	**(11,194)**	311,747	(11,405)
- Retail	**541,936**	**(4,781)**	497,801	(5,050)
Accrued income	**1,785**	**-**	1,858	-
Financial investments measured at FVOCI	**54,277**	**(201)**	70,719	(144)
Not subject to IFRS 9 impairment allowance				
Derivative financial instruments held-for-trading	**104**		6	
Financial investments measured at FVTPL	**647**		1,416	
Credit risk exposure	**1,064,643**	**(16,512)**	993,562	(16,843)
Credit risk exposure relating to off-balance sheet instruments				
Contingent liabilities	**10,583**	**(89)**	9,506	(136)
Undrawn commitments to lend	**254,254**	**(470)**	253,516	(315)
Credit risk exposure	**264,837**	**(559)**	263,022	(451)

Accrued income substantially arises from loans and advances to customers. Expected credit losses in respect of accrued income, which are not deemed material, have been allocated to loans and advances to customers.

3. Financial instruments – (continued)

3.2 Summary of financial instruments to which the IFRS 9 requirements are applied by stage distribution

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.
- If the financial instrument becomes credit-impaired, the financial instrument is moved to 'Stage 3'.

As part of the ECL model, the Bank classifies its exposures to loans and advances to customers into groups with similar characteristics that include instrument type. In this respect, the Bank considers the following categories when measuring ECL:

- Corporate portfolio, which includes loans and advances to business entities, as well as the international lending portfolio which represents exposures originated by the Bank's branch in London which finances prime properties in the same city.
- Retail portfolio, which includes loans and advances to individual customers such as mortgages, credit cards and other consumer credit.

The following tables provide information on the Bank's financial instruments which are subject to IFRS 9, split by Stage:

	At 30 June 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	131,282	-	-	131,282
Loss allowance	(329)	-	-	(329)
Carrying amount	130,953	-	-	130,953
Financial investments measured at FVOCI				
Carrying amount – fair value	54,277	-	-	54,277
Loss allowance	(201)	-	-	(201)
Loans and advances to banks at amortised cost				
Gross carrying amount	11,088	-	-	11,088
Loss allowance	(7)	-	-	(7)
Carrying amount	11,081	-	-	11,081

3. Financial instruments – (continued)

3.2 *Summary of financial instruments to which the IFRS 9 requirements are applied by stage distribution – (continued)*

	At 30 June 2022			
	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Loans and advances to customers at amortised cost				
Corporate				
Gross carrying amount	277,231	28,497	13,736	319,464
Loss allowance	(1,214)	(985)	(8,995)	(11,194)
Carrying amount	276,017	27,512	4,741	308,270
Retail				
Gross carrying amount	522,995	9,793	9,148	541,936
Loss allowance	(1,203)	(502)	(3,076)	(4,781)
Carrying amount	521,792	9,291	6,072	537,155
Total				
Gross carrying amount	800,226	38,290	22,884	861,400
Loss allowance	(2,417)	(1,487)	(12,071)	(15,975)
Carrying amount	797,809	36,803	10,813	845,425
Loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend				
Corporate				
Gross carrying amount	426,112	33,596	13,832	473,540
Loss allowance	(1,327)	(1,086)	(9,109)	(11,522)
Carrying amount	424,785	32,510	4,723	462,018
Retail				
Gross carrying amount	633,033	10,157	9,507	652,697
Loss allowance	(1,233)	(526)	(3,253)	(5,012)
Carrying amount	631,800	9,631	6,254	647,685
Total				
Gross carrying amount	1,059,145	43,753	23,339	1,126,237
Loss allowance	(2,560)	(1,612)	(12,362)	(16,534)
Carrying amount	1,056,585	42,141	10,977	1,109,703

3. Financial instruments – (continued)

3.2 *Summary of financial instruments to which the IFRS 9 requirements are applied by stage distribution – (continued)*

	At 31 December 2021			
	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	96,974	-	-	96,974
Loss allowance	(243)	-	-	(243)
Carrying amount	96,731	-	-	96,731
Financial investments measured at FVOCI				
Carrying amount – fair value	70,719	-	-	70,719
Loss allowance	(144)	-	-	(144)
Loans and advances to banks at amortised cost				
Gross carrying amount	11,714	-	-	11,714
Loss allowance	(1)	-	-	(1)
Carrying amount	11,713	-	-	11,713
Loans and advances to customers at amortised cost				
Corporate				
Gross carrying amount	264,373	23,069	24,305	311,747
Loss allowance	(1,415)	(1,057)	(8,933)	(11,405)
Carrying amount	262,958	22,012	15,372	300,342
Retail				
Gross carrying amount	478,024	10,746	9,031	497,801
Loss allowance	(1,157)	(643)	(3,250)	(5,050)
Carrying amount	476,867	10,103	5,781	492,751
Total				
Gross carrying amount	742,397	33,815	33,336	809,548
Loss allowance	(2,572)	(1,700)	(12,183)	(16,455)
Carrying amount	739,825	32,115	21,153	793,093

3. Financial instruments – (continued)

3.2 Summary of financial instruments to which the IFRS 9 requirements are applied by stage distribution – (continued)

	At 31 December 2021			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to customers at amortised cost, guarantees, documentary credits and undrawn commitments to lend				
Corporate				
Gross carrying amount	411,951	31,324	25,037	468,312
Loss allowance	(1,516)	(1,231)	(8,959)	(11,706)
Carrying amount	410,435	30,093	16,078	456,606
Retail				
Gross carrying amount	583,584	11,293	9,381	604,258
Loss allowance	(1,187)	(671)	(3,343)	(5,201)
Carrying amount	582,397	10,622	6,038	599,057
Total				
Gross carrying amount	995,535	42,617	34,418	1,072,570
Loss allowance	(2,703)	(1,902)	(12,302)	(16,907)
Carrying amount	992,832	40,715	22,116	1,055,663

3.3 Expected credit loss measurement

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. The expected credit loss requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. In the context of the volatile economic conditions driven by international developments, including the inflationary pressures and stresses on the supply chain which may have an effect on the local economy, the Bank continues to account for a post model adjustment which increases the expected credit losses being accounted for on Stage 1 and Stage 2 exposures as at 30 June 2022. This post model mechanism addresses potential limitations in statistical models given that a number of assumptions continue to be applied during a period of time characterised by a high degree of economic volatility.

ECL are the discounted product of the PD, EAD and LGD. ECL are determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. The PD, EAD and LGD parameters are derived from internally developed statistical models and other historical data, as set out in Note 3.2.3.3 in the *Annual Report and Financial Statements 2021,* adjusted to reflect forward-looking information as described in Note 3.2.3.4 in the *Annual Report and Financial Statements 2021.*

3. Financial instruments – (continued)

3.3 Expected credit loss measurement – (continued)

Due to the lack of internal history of defaults on the international lending portolio, the Bank applies PDs sourced from renowned external service providers which assess the credit risk of small and medium-sized enterprises ('SMEs'), and determine PDs by reference to financial and non-financial aspects namely the entity size, country, industry sector, corporate governance and macroeconomic in which the entity operates. Furthermore, the PDs used for IFRS9 modelling are Point in Time PDs and only take into account the situation of the company at the moment of assessment.

No major changes were made to this methodology during the first half of 2022. The assumptions underlying the ECL calculations are monitored and reviewed on a regular basis.

3.4 Forward-looking information incorporated in the ECL model

The Bank performs a historical analysis to identify the key economic variables affecting credit risk and expected credit losses for each portfolio. These key drivers include:

(i) *Corporate exposure:* the Real Estate Price Index (REPI) and the Gross Fixed Capital Formation (GFCF), given the significant impact they have on local investment and the performance of corporate entities.

(ii) *Retail exposure:* the real GDP, average gross salary rate, unemployment rate and the REPI, being good indicators of household-level spending and spending power and considering their performance, have a significant impact on repayment feasibility of secured and unsecured retail borrowers.

The impact of these economic variables on the PD is determined by performing statistical regression analysis to understand the historical impact that changes in these variables had on the Bank's default rates.

Three possible scenarios are considered to capture non-linearity across credit portfolios:
- The 'baseline' scenario captures business-as-usual macroeconomic expectations, whereby the current rhythm of economic activity is maintained.
- The 'downside' scenario is based on a subdued level of economic activity hypothesized to correspond to an economic recession.
- The 'upside' scenario is based on the assumption that it would be possible to marginally improve further over the already benign economic conditions.

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

As with any macro-economic forecast, the projections and likelihoods of occurrence are subject to a degree of uncertainty and actual outcomes could be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes after analysing different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

As at 30 June 2022, the Bank updated its macroeconomic forecasts until the end of 2024. This exercise has been undertaken in an environment where economic conditions remain highly volatile in view of the current high inflation rates and interest rate hikes across the globe. In this light, as previously explained, the Bank continues to account for a post model mechanism which increases expected credit losses being accounted for on Stage 1 and Stage 2 exposures as at 30 June 2022.

3. Financial instruments – (continued)

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

The most significant period-end assumptions used for the ECL estimate as at 30 June 2022 and 31 December 2021 are set out below.

*YoY = year on year	As at 30 June 2022 2022	2023	2024
Average gross salary rate (YoY)*			
'Baseline'	1.15%	3.27%	2.38%
Range of forecasts for alternative scenarios	[-0.4 – 1.4]%	[1.0 – 3.7]%	[-0.5 – 2.9]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-6.19%	2.02%	-0.61%
Range of forecasts for alternative scenarios	[-8.9 – 3.0]%	[-2.1 – 16.1]%	[-5.8 – 17.0]%
Real GDP rate (YoY)*			
'Baseline'	2.20%	3.36%	3.28%
Range of forecasts for alternative scenarios	[-0.4 – 3.0]%	[-0.7 – 4.6]%	[-1.7 – 4.8]%
Unemployment rate (YoY)*			
'Baseline'	3.28%	3.25%	3.23%
Range of forecasts for alternative scenarios	[3.2 – 3.4]%	[3.1 – 3.4]%	[3.1 – 3.4]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	2.72%	2.94%	2.71%
Range of forecasts for alternative scenarios	[1.8 – 3.1]%	[1.6 – 3.5]%	[1.1 – 3.3]%

*YoY = year on year	As at 31 December 2021 2022	2023	2024**
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-11.80%	-8.98%	-7.38%
Range of forecasts for alternative scenarios	[-14.8 – -0.5]%	[-13.0 – 6.1]%	[-12.0 – 10.0]%
Real GDP rate (YoY)*			
'Baseline'	3.85%	1.79%	0.96%
Range of forecasts for alternative scenarios	[1.0 – 4.7]%	[-2.0 – 2.9]%	[-3.4 – 2.2]%
Unemployment rate (YoY)*			
'Baseline'	3.21%	3.19%	3.17%
Range of forecasts for alternative scenarios	[3.1 – 3.3]%	[3.0 – 3.4]%	[3.0 – 3.4]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	2.86%	4.50%	3.54%
Range of forecasts for alternative scernarios	[1.7 – 4.4]%	[3.1 – 6.4]%	[1.9 – 5.7]%

**2024 Q3 data forecast

3. Financial instruments – (continued)

3.5 Economic scenarios sensitivity analyses of ECL estimates

The weightings assigned to each economic scenario were 50% (2021: 50%) for the 'baseline' scenario, 25% (2021: 25%) for the 'downside' scenario and 25% (2021: 25%) for the 'upside' scenario. The number of scenarios used is based on the analysis of each major product type to ensure that non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. The economic scenarios were simulated over a full economic cycle.

The outcome of the Bank's credit loss allowances estimation process is sensitive to judgements and estimations made throughout the incorporation of forward-looking economic conditions. Management has assessed the sensitivity of the Bank's expected credit losses by assigning a 100% weighting to the 'baseline', 'downside' and 'upside' scenario respectively. The Bank's credit loss allowances would decrease by €0.9 million (December 2021: €0.8 million) if the provisions had to be calculated solely on the 'baseline' scenario; ECL would increase by €1.7 million (December 2021: €1.9 million) if these had to be estimated using only the 'downside' scenario and would reduce by €1.8 million (December 2021: €1.9 million) if the 'upside' scenario only were to be taken into consideration. Considering any of these scenarios, the Bank would remain in a profitable position. This demonstrates the Bank's resilience in overcoming negative shocks and ability to absorb such changes, if necessary.

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

3.6 Modification of financial assets

The contractual terms of a loan may be revised for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the credit quality of a customer. Forbearance measures comprise concessions made on the contractual terms of a loan in response to a customer's financial difficulties. The Bank categorises loans on which concessions have been granted under conditions of financial difficulties as 'forborne loans' when their contractual payment terms have been revised, because of significant concerns about the customer's ability to meet contractual payments when due. Further information on the Bank's treatment of forbearance is set out in Note 3.2.8 in the *Annual Report and Financial Statements 2021.*

In April 2020, the Central Bank of Malta issued Directive 18[1], 'On Moratoria on Credit Facilities in Exceptional Circumstances ('Directive No. 18')' in order to provide guidance on the treatment of moratoria in the current environment, in line with European Banking Authority[2] ('EBA') Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (the 'EBA Guidelines'). These were referred to as general payment moratoria.

In line with the EBA Guidelines and Directive No. 18, exposures which met established criteria and which were eligible for the granting of a general payment moratorium were not classified as forborne, unless the borrower was already experiencing financial difficulties prior to the COVID-19 pandemic.

[1] Amended on 23rd April 2020, 30th June 2020 and 14th January 2021.

[2] EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis. EBA/GL/2020/02 amended by EBA/GL/2020/08 and EBA/GL/2020/15

3. Financial instruments – (continued)

3.6 Modification of financial assets – (continued)

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

	Forborne exposures	
	At 30 June 2022	At 31 December 2021
	€000	€000
At 1 January	12,417	13,979
Loans to which forbearance measures have been extended during the period	56	1,474
Repayments	(333)	(808)
Retired from forborne	(2,531)	(2,228)
At end of period	9,609	12,417

As at 30 June 2022, there were no outstanding gross loans and advances subject to general payment moratoria as established within Directive No. 18 and the EBA guidelines.

As at 31 December 2021, the Bank had gross exposures subject to general payment moratoria amounting to €2.3 million in respect of 2 obligors, of which €1.3 million were classified as Stage 1 and €1 million were classified as Stage 2. The total allowance for ECL in respect of loans and advances subject to general payment moratoria as at 31 December 2021 amounted to €0.01 million.

Out of the outstanding gross loans and advances subject to general payment moratoria, none of the active moratoria accounts were related to retail customers. In order to earmark obligors experiencing a significant increase in credit risk and estimate the impact of delayed emergence of defaults in view of these moratoria, and accordingly estimate the ECL referred to above, the Bank assessed these exposures by reference to specific criteria established by management (refer to Note 3.2.3.1 in the *Annual Report and Financial Statements 2021*). In respect of corporate exposures, the Bank assessed and individually rated each borrower on the basis of recently obtained management information.

As at 30 June 2022, loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €4.5 million (31 December 2021: €5.3 million), of which a maximum amount of €2.2 million (31 December 2021: €2.6 million) is considered guaranteed. As at 30 June 2022, gross loans under this scheme, classified as Stage 1 and Stage 2, amounted to €3.5 million (31 December 2021: €4.1 million) and €1.0 million (31 December 2021: €0.9 million) respectively. As at 30 June 2022, there were no loans (31 December 2021: €0.3 million) under this scheme classified as Stage 3. The total ECL allowance in respect of Stage 1 loans subject to the Malta Development Bank COVID-19 Guarantee Scheme amounted to €0.02 million (31 December 2021: €0.05 million), while the ECL in respect of Stage 2 loans amounted to €0.12 million (31 December 2021: €0.09 million). There were no ECL in respect of Stage 3 loans as at 30 June 2022 (31 December 2021: €0.06 million).

3. Financial instruments – (continued)

3.7 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

The loss allowance recognised is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) in credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL.
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period.
- Impact on the measurement of ECL due to changes in PD, LGD or EAD in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurement of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Write-offs of allowances related to assets that were written off during the period.

3. Financial instruments – (continued)

3.7 Loss allowances – (continued)

The following tables explain the changes in the loss allowance between the beginning and the end of the period.

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2022	**96,974**	**(243)**	**96,974**	**(243)**
Changes in EAD and risk parameters (model inputs: PD/LGD)	**34,308**	**(86)**	**34,308**	**(86)**
At 30 June 2022	**131,282**	**(329)**	**131,282**	**(329)**
Total net income statement charge for the				**(86)**

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Balances with Central Bank of Malta at amortised cost				
At 1 January 2021	88,208	(168)	88,208	(168)
New financial assets originated or purchased	3,370	(8)	3,370	(8)
Changes in EAD and risk parameters (model inputs: PD/LGD)	22,646	(69)	22,646	(69)
Financial assets derecognised during the year	(17,250)	2	(17,250)	2
At 31 December 2021	96,974	(243)	96,974	(243)
Total net income statement charge for the year				(75)

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

3. Financial instruments – (continued)

3.7 Loss allowances – (continued)

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at FVOCI				
At 1 January 2022	**70,719**	**(144)**	**70,719**	**(144)**
New financial assets originated or purchased	3,026	(22)	3,026	(22)
Changes in EAD and risk parameters (model inputs: PD/LGD)	(1,028)	(41)	(1,028)	(41)
Financial assets derecognised during the period	(18,440)	6	(18,440)	6
At 30 June 2022	**54,277**	**(201)**	**54,277**	**(201)**
Total net income statement charge for the				**(57)**

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at FVOCI				
At 1 January 2021	78,176	(294)	78,176	(294)
New financial assets originated or purchased	22,916	(56)	22,916	(56)
Changes in EAD and risk parameters (model inputs: PD/LGD)	(3,541)	146	(3,541)	146
Financial assets derecognised during the year	(26,832)	60	(26,832)	60
At 31 December 2021	70,719	(144)	70,719	(144)
Total net income statement credit for the year				150

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

3. Financial instruments – (continued)

3.7 Loss allowances – (continued)

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to banks at amortised cost				
At 1 January 2022	**11,714**	**(1)**	**11,714**	**(1)**
New financial assets originated or purchased	**9,284**	**(2)**	**9,284**	**(2)**
Changes in EAD and risk parameters (model inputs: PD/LGD)	**(363)**	**(4)**	**(363)**	**(4)**
Financial assets derecognised during the period	**(9,547)**	**-**	**(9,547)**	**-**
At 30 June 2022	**11,088**	**(7)**	**11,088**	**(7)**
Total net income statement charge for the				**(6)**

	2021			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Loans and advances to banks at amortised cost				
At 1 January 2021	16,078	(17)	16,078	(17)
New financial assets originated or purchased	9,547	-	9,547	-
Changes in EAD and risk parameters (model inputs: PD/LGD)	(969)	12	(969)	12
Financial assets derecognised during the year	(12,942)	4	(12,942)	4
At 31 December 2021	11,714	(1)	11,714	(1)
Total net income statement credit for the year				16

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

3. Financial instruments – (continued)

3.7 Loss allowances – (continued)

	2022							
	Stage 1		Stage 2		Stage 3		Total	
	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000
Total loans and advances to customers at amortised guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2022	995,535	(2,703)	42,617	(1,902)	34,418	(12,302)	1,072,570	(16,907)
Net of new and further lending, repayments and disposals	60,762	143	(3,741)	494	(3,354)	(522)	53,667	115
Transfers of financial instruments								
Stage 1 to Stage 2	(1,489)	5	1,489	(5)	–	–	–	–
Stage 1 to Stage 3	(286)	1	–	–	286	(1)	–	–
Stage 2 to Stage 1	4,622	(231)	(4,622)	231	–	–	–	–
Stage 2 to Stage 3	–	–	(316)	10	316	(10)	–	–
Stage 3 to Stage 1	1	(1)	–	–	(1)	1	–	–
Stage 3 to Stage 2	–	–	8,326	(558)	(8,326)	558	–	–
Net remeasurement of ECL arising from stage transfers and changes in risk parameters		226		118		(86)		258
At 30 June 2022	1,059,145	(2,560)	43,753	(1,612)	23,339	(12,362)	1,126,237	(16,534)
Total net income statement credit for the period								373

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

3. Financial instruments – (continued)

3.7 Loss allowances – (continued)

	2021							
	Stage 1		Stage 2		Stage 3		Total	
	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000	Gross amount €000	Expected credit losses €000
Total loans and advances to customers at amortised guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2021	816,731	(2,215)	67,790	(3,022)	25,996	(10,544)	910,517	(15,781)
Net of new and further lending, repayments and disposals	176,945	(508)	(12,861)	783	(2,031)	(790)	162,053	(515)
Transfers of financial instruments								
Stage 1 to Stage 2	(7,793)	20	7,793	(20)	–	–	-	-
Stage 1 to Stage 3	(1,260)	15	–	–	1,260	(15)	-	-
Stage 2 to Stage 1	10,909	(454)	(10,909)	454	–	–	-	-
Stage 2 to Stage 3	-	-	(9,229)	245	9,229	(245)	-	-
Stage 3 to Stage 1	3	-	–	–	(3)	–	-	-
Stage 3 to Stage 2	-	-	33	(33)	(33)	33	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters		439		(309)		(741)		(611)
At 31 December 2021	995,535	(2,703)	42,617	(1,902)	34,418	(12,302)	1,072,570	(16,907)
Total net income statement charge for the year								(1,126)

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

4. Fair values of financial assets and liabilities

The Bank's financial instruments as at 30 June 2022 which are carried at fair value include the Bank's financial investments measured at FVOCI and other financial investments measured at FVTPL. These fair value measurements follow the below fair value measurement hierarchy:

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

There were no changes to the valuation techniques applied in the *Annual Report and Financial Statements 2021.*

The following table reflects an analysis of the financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 June 2022				
Financial assets				
Derivative assets	–	104	–	104
Financial investments				
Government debt, fixed income instruments	29,532	–	–	29,532
Corporate debt, fixed income instruments	24,744	–	–	24,744
Equities	648	–	–	648
Total financial assets	54,924	104	–	55,028
Financial liabilities				
Derivative liabilities	–	121	–	121
Total financial liabilities	–	121	–	121
At 31 December 2021				
Financial assets				
Derivative assets	-	6	-	6
Financial investments				
Government debt, fixed income instruments	31,017	-	-	31,017
Corporate debt, fixed income instruments	39,702	-	170	39,872
Equities	1,246	-	-	1,246
Total financial assets	71,965	6	170	72,141
Financial liabilities				
Derivative liabilities	-	256	-	256
Total financial liabilities	-	256	-	256

There were no transfers between levels 1, 2 and 3 during the period.

5. Segmental reporting

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

Retail banking	-	Principally handling customers' deposits, providing consumer loans, overdrafts and funds transfer facilities.
Corporate banking	-	Principally handling local loans and other credit facilities and deposit and current accounts for corporate and institutional customers as well as the international lending portfolio which represents exposures originated by the Bank's branch in London which finances prime properties in the same city.
Other	-	Principally treasury and other central functions.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income or expense.

No reconciliation is required since there are no differences between the measurements of the reportable segments' profits or losses, assets and liabilities and the entity's profit or loss, assets and liabilities.

5. Segmental reporting - (continued)

The following tables present income, profit and certain asset and liability information regarding the Bank's business segments:

	As at 30 June 2022			
	Retail banking €000	Corporate banking €000	Other €000	Total €000
Net interest income	6,178	6,258	136	12,572
Net fees and commission income	875	632	75	1,582
Net trading income and other income	-	-	534	534
Net operating income	7,053	6,890	745	14,688
Employee compensation and benefits	(2,648)	(1,886)	(161)	(4,695)
Other administrative expenses	(2,062)	(1,671)	(178)	(3,911)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(417)	(176)	(19)	(612)
Credit impairment reversals/(losses)	166	182	(150)	198
Profit before tax				(5,668)
Income tax expense				(1,841)
Profit for the period				3,827
Assets				
Segment assets	537,964	313,215	209,201	1,060,380
Unallocated assets				16,480
Total assets				1,076,860
Liabilities				
Segment liabilities	586,045	370,239	667	956,951
Unallocated liabilities				20,901
Total liabilities				977,852

During 2021, the Bank's branch in London generated an operating income of €0.5 million as at June 2022 (June 2021: €0.2 million). The total carrying amount of loans and advances to customers as at 30 June 2022 amounted to €42.4 million (June 2021: €29 million).

5. Segmental reporting - (continued)

	As at 30 June 2021			
	Retail banking €000	Corporate banking €000	Other €000	Total €000
Net interest income	5,702	5,200	30	10,932
Net fees and commission income	723	786	(5)	1,504
Net trading income and other income	-	-	564	564
Net operating income	6,425	5,986	589	13,000
Employee compensation and benefits	(2,285)	(1,853)	(147)	(4,285)
Other administrative expenses	(1,506)	(1,573)	(129)	(3,208)
Depreciation of property and equipment depreciation of right-of-use assets and amortisation of intangible assets	(399)	(197)	(16)	(612)
Credit impairment reversals/(losses)	(342)	(784)	107	(1,019)
Profit before tax				3,876
Income tax expense				(1,348)
Profit for the period				2,528
	As at 31 December 2021			
Assets				
Segment assets	495,339	303,636	190,043	989,018
Unallocated assets				15,680
Total assets				1,004,698
Liabilities				
Segment liabilities	535,971	323,632	29,691	889,294
Unallocated liabilities				17,693
Total liabilities				906,987

6. Interest receivable and similar income

	At 30 June 2022 €000	At 30 June 2021 €000
On loans and advances to banks	**31**	4
On loans and advances to customers	**14,324**	12,903
On balances with Central Bank of Malta	**(165)**	(123)
	14,190	12,784
On debt and other fixed income instruments	**388**	340
Net amortisation of discounts and premiums	**(193)**	(187)
	195	153
Total interest receivable and similar income	**14,385**	12,937

7. Interest payable and similar expense

	At 30 June 2022 €000	At 30 June 2021 €000
On amounts owed to banks and other institutions	(93)	(17)
On amounts owed to customers	1,888	2,001
On lease liabilities	18	21
	1,813	2,005

8. Net fees and commission income

	At 30 June 2022 €000	At 30 June 2021 €000
Fees and commission income		
Credit related fees and commissions	948	870
Other fees	1,241	1,350
	2,189	2,220
Fees and commission expense		
Credit related fees and commissions	(127)	(132)
Other fees	(480)	(584)
	(607)	(716)
Net fees and commission income	1,582	1,504

9. Related Parties

9.1 Identification of related parties

The majority shareholding of the Bank is held by JUD Investment Group Limited, a subsidiary of Al Faisal International for Investment Company Q.P.S.C. headquartered in Qatar.

All entities which are ultimately controlled by Al Faisal International for Investment Company Q.P.S.C., together with the other minority shareholders and entities controlled by them, are considered to be related parties. Key management personnel of the Bank, being the Bank's directors and executive officers, and close family members of key management personnel are also considered to be related parties.

The Bank's related party transactions mainly comprise transactions with shareholders and other entities controlled by the same shareholders. These transactions principally include loans, deposits and issuance of capital notes.

Related party transactions do not impact on the Bank's financial results and financial position taking cognisance of the normal commercial terms and conditions of such transactions.

9. Related parties – (continued)

9.2 Transactions with shareholders

(a) Major shareholder

During the period under review, the following transactions were undertaken by the Bank with entities ultimately controlled by Al Faisal International for Investment Company Q.P.S.C.

	At 30 June 2022 €000	At 30 June 2021 €000
Income Statement		
Interest and similar expense	7	7

	At 30 June 2022 €000	At 31 December 2021 €000
Statement of Financial Position		
Other assets	199	199
Amounts owed to parent company	32,020	32,546

Total interest payable on perpetual capital notes during the first six months of 2022 amounted to €448,000 (June 2021: €448,000).

(b) Other minority shareholders

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

	At 30 June 2022 €000	At 30 June 2021 €000
Income Statement		
Interest and similar income	128	190
Other administrative expenses	15	78

	At 30 June €000	At 31 December 2021 €000
Statement of Financial Position		
Loans and advances to customers	8,515	9,165
Prepayments and accrued income	–	11
Amounts owed to customers	19,054	8,792
Accruals and deferred income	10	5

Total interest payable on perpetual capital notes during the first six months of 2022 amounted to €5,000 (June 2021: €5,000).

9. Related parties – (continued)

9.3 Transaction arrangements and agreements involving key management personnel

During the period under review, the following transactions were carried out with the Bank's directors and executive officers, being the Bank's key management personnel:

	At 30 June 2022 €000	At 30 June 2021 €000
Income Statement		
Interest and similar income	23	22

	At 30 June 2022 €000	At 31 December 2021 €000
Statement of Financial Position		
Loans and advances to customers	2,024	2,054
Amounts owed to customers	3,069	2,841

The above mentioned outstanding balances arose from the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees. Total directors' fees and emoluments for the first six months of 2022 amounted to €859,000 (June 2021: €774,000).

10. Impact of COVID-19 and the Russia-Ukraine War

The first six months of 2022 were characterised by a release of a number of restrictive measures relating to the COVID-19 pandemic, as businesses started returning to normality. As the local economy entered into a phase of post-COVID economic rebound, new challenges were being faced due to global inflationary pressures as a result of the pandemic, further magnified by the Russia-Ukraine war. The Bank has no direct exposure to Russia and Ukraine.

Save for the effects of the COVID-19 pandemic, inflationary pressures and the Russia-Ukraine war, the Directors of the Bank are not aware of any other factors or events that could influence the Bank's prospects in the current financial year.

Additional Regulatory Disclosures

1. Asset Encumbrance

In terms of Banking Rule 07, which transposes the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03), the following disclosure is intended to highlight the available and unrestricted assets available to sustain potential funding requirements. An asset is deemed to be encumbered when it is pledged as collateral in respect of an existing liability and consequentially is rendered out of reach to the Bank. The Bank is not able to sell encumbered assets or pledge them as collateral to raise funds.

At 30 June 2022	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000	Total carrying amount €000
Central governments or Central Banks:	10,795	10,795	149,700	160,887	160,495
Reserve deposit	*7,425*	*7,425*	-	-	-
Cash pledged for DCS	*3,370*	*3,370*	-	-	-
Institutions	-	-	26,171	26,245	26,171
Corporate	-	-	133,171	200,368	133,171
Retail	-	-	77,057	264,649	77,057
Secured by mortgages on immovable property	-	-	559,685	574,724	559,685
Items associated with particularly high risk	-	-	58,673	66,192	58,673
Exposures in default	-	-	11,093	23,364	11,093
Equity	-	-	9,225	9,244	9,225
Other items	2,944	2,944	28,806	43,686	31,750
of which: Visa collateral	*2,944*	*2,944*	-	-	-
Total credit risk	13,739	13,739	1,053,581	1,369,359	1,067,320

At 31 December 2021	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000	Total carrying amount €000
Central governments or Central Banks:	10,162	10,162	117,588	128,044	127,750
Reserve deposit	*6,792*	*6,792*	-	-	-
Securities pledged for DCS	*3,370*	*3,370*	-	-	-
Institutions	-	-	46,437	46,495	46,437
Corporate	-	-	131,376	185,865	131,376
Retail	-	-	73,618	256,934	73,618
Secured by mortgages on immovable property	-	-	514,632	530,302	514,632
Items associated with particularly high risk	-	-	57,376	67,226	57,376
Exposures in default	-	-	21,166	33,226	21,166
Equity	-	-	6,552	6,554	6,552
Other items	2,953	2,953	25,499	39,996	28,452
of which: Visa collateral	*2,953*	*2,953*	-	-	-
Total credit risk	13,115	13,115	994,244	1,294,642	1,007,359

2. Key Regulatory Ratios

	At 30 June 2022	At 31 December 2021
Common Equity Tier 1 (CET 1) ratio	**15.40%**	15.64%
Tier 1 ratio	**17.20%**	17.48%
Total capital ratio	**17.20%**	17.48%
Leverage ratio	**8.49%**	8.99%
Liquidity Coverage Ratio (LCR)	**151.38%**	129.11%
Net stable funding ratio (NSFR)	**137.05%**	130.78%

Independent auditor's review report

To the Board of Directors of BNF Bank p.l.c.

Report on review of interim financial information

Introduction

We have reviewed the accompanying condensed interim statement of financial position of BNF Bank plc as at 30 June 2022 and the related condensed interim statements of income statement, comprehensive income, changes in equity and cash flows for the six-month period then ended and notes, comprising significant accounting policies and other explanatory notes. The Directors are responsible for the preparation and presentation of this condensed interim financial information in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU applicable to interim financial reporting (International Accounting Standard 34 'Interim Financial Reporting'). Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

Other matters

This report, including the conclusion, has been prepared for and only for the Bank and for no other purpose. We do not, in producing this report, 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 consent in writing.

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Malta

Simon Flynn
Partner

30 August 2022