BNF BANK

COMPANY ANNOUNCEMENT

Interim Financial Statements for the Six-Month Period Ended 30 June 2023

Date of Announcement:	27 July 2023
Reference:	BNF17

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 2023. The lending book grew by €34.0m and retained its level of credit quality, with non-performing exposure decreasing by €1.0m and remaining largely secured with collateral.

The Bank's Capital Adequacy Ratio as at June 2023 was 18.9% compared to 19.6% in December 2022, with the Bank's Liquidity Coverage Ratio amounting to 215.7% compared to 237.7% as at December 2022.

Net interest income remained the main driver of the Bank's profitability, and has increased by 28% to €16.1m in the first half of 2023. The increase in net interest income in the first half of 2023 pertained not only to loan book growth, but also due to an increasing interest rates.

Operating costs amounted to €10.7m for the first half of 2023 compared to €9.2m for the first half of 2022. Despite increasing inflationary pressures, the Bank recorded an improved cost-to-income ratio of 59.2% compared to 62.8% as at June 2022.

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 2023.

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 remains a source of economic uncertainty; energy shortages, food shortages, and other factors have created inflationary pressures which prompted the tightening of monetary policy by Central Banks. The challenges relating to global inflationary pressure continue to affect global economic activity in the first six months of 2023. Monetary policy changes could continue to expose financial vulnerabilities in entities with high debt positions, and could lower asset valuations. In July 2023, the Governing Council of the ECB raised the main refinancing rate and deposit facility rate by a further 0.25% to 3.5%. The intention of interest rate rises is for the ECB to deliver on its 2% inflation target over the medium term.

In the face of global macroeconomic developments, the Maltese economy remained resilient, with strong GDP growth, driven mainly by domestic demand and net exports. Inflation remains high due to rising international energy and food costs, although it is forecast to ease throughout 2023. 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 judgmental temporary post-model adjustment in its credit-related loss allowances.

Business Development

At the date of this report, the Bank launched its new website which aims to be a modern and user-friendly basis for upcoming digital initiatives. The Bank has also selected the key consultancy firms to assist with the second phase of its digital transformation, and works are well under way in this respect.

Financial Performance

Profit before tax amounted to €7.3m (June 2022: €5.7m) for the first half of 2023. Profitability continued to be driven predominantly by net interest income, which increased by 29.9% to €16.1 (June 2022: €12.4m). Net interest income together with net fees and commission income, and net trading, investment, and other income made up total net operating income of €18.1m, an increase of 23.4% over the first half of 2022 (€14.7m).

Operating expenses excluding movements in expected credit losses, incurred during the period up to June 2023, amounted to €10.7m (June 2022: €9.2m), generating an improved cost-to-income ratio of 59.2% (June 2022: 62.8%).

Expected credit losses in the first half of 2023 were of €0.05m (June 2022: reversals of €0.2m). During the period under review, the level of estimation uncertainty and judgement remained elevated, due to ongoing global economic uncertainty. To reflect the economic uncertainty, the Bank retained a judgemental temporary post-model adjustment in credit-related loss allowances.

Profit after tax for the first half of 2023 amounted to €5.0m (June 2022: €3.8m) and was net of income tax expense of €2.4m (June 2022: €1.8m).

Directors' Report – (continued)

Financial Position

As at 30 June 2023 the Bank's total assets amounted to €1,160.6m (December 2022: €1,163.0m), of which gross loans and advances to customers amounted to €953m (December 2022: €919m).

The percentage of total loans and advances to customers which were credit impaired remained at 2.6% (December 2022: 2.6%), and the total credit-impaired exposure amounted to €25.2m (December 2022: €24.2m). Credit-impaired and non-credit-impaired loans and advances to customers are largely secured with collateral.

The Bank's Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) remained above regulatory requirements throughout the first half of 2023 and as at 30 June 2023 amounted to 215.7% (December 2022: 237.7%) and 134.7% (December 2022: 139.8%) respectively. The Bank's Capital Adequacy Ratio as at 30 June 2023 was 18.9% compared to 19.6% in December 2022.

Approved by the Board of Directors and signed on its behalf on 27 July 2023 by:

DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

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 2023 portray a true and fair view of the Bank's financial position, financial performance and cash flows for the period ended 30 June 2023, 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.

DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

Statement of Financial Position

For the period ended 30 June 2023

	Note	30 June 2023 €000	31 December 2022 €000
ASSETS			
Balances with Central Bank of Malta and cash		83,989	124,264
Cheques in course of collection		2,708	6,515
Financial investments	4	94,855	91,420
Loans and advances to banks		13,501	10,730
Loans and advances to customers		937,504	903,688
Derivative financial assets		41	464
Property and equipment		5,481	5,582
Intangible assets		828	868
Right-of-use assets		1,328	1,493
Deferred tax assets		7,953	7,883
Prepayments and accrued income		7,406	4,803
Other assets		4,959	5,269
TOTAL ASSETS		1,160,553	1,162,979
EQUITY			
Share capital		74,544	74,544
Perpetual capital notes		10,000	10,000
Revaluation reserve		(2,462)	(2,543)
Reserve for general banking risks		992	992
Retained earnings		17,701	17,296
TOTAL EQUITY		100,775	100,289
LIABILITIES			
Amounts owed to banks		10,180	10,168
Amounts owed to customers		996,787	1,006,416
Derivative financial liabilities		109	29
Current tax liabilities		3,808	1,927
Other liabilities		22,524	18,960
Accruals		6,578	5,415
Debt securities in issue		19,792	19,775
TOTAL LIABILITIES		1,059,778	1,062,690
TOTAL EQUITY AND LIABILITIES		1,160,553	1,162,979
Memorandum Items			
Contingent liabilities		11,829	9,732
Commitments		244,482	255,468

These condensed interim financial statements were approved by the Board of Directors on 27 July 2023 and were signed on its behalf by:

DAVID POWER
Chief Executive Officer

MICHAEL FRENDO
Chairman

Income Statement
For the period ended 30 June 2023

	Notes	30 June 2023 €000	30 June 2022 €000
Interest receivable and similar income			
- on loans and advances, balances with Central Bank of Malta and other instruments	6	20,297	14,190
- on debt and other fixed income instruments	6	1,250	195
Interest payable and similar expense	7	(5,423)	(1,971)
Net interest income		16,124	12,414
Fees and commission income	8	2,181	2,189
Fees and commission expense	8	(451)	(449)
Net fees and commission income		1,730	1,740
Net trading and other income		233	32
Net gains from financial instruments at FVTPL		36	502
Net operating income		18,123	14,688
Employee compensation and benefits		(5,099)	(4,695)
Other administrative expenses		(5,052)	(3,911)
Depreciation of property and equipment and right-of-use assets		(425)	(458)
Amortisation of intangible assets		(153)	(154)
Movements in expected credit losses		(53)	198
Profit before tax		7,341	5,668
Income tax expense		(2,369)	(1,841)
Profit for the period		4,972	3,827
Earnings per share		5c0	3c9

Statement of Comprehensive Income

For the period ended 30 June 2023

	30 June 2023 €000	30 June 2022 €000
Profit for the period	4,972	3,827
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss		
Debt instruments measured at FVOCI:		
- Net gains/(losses) in fair value, before tax	254	(3,253)
- Changes in allowance for expected credit losses, before tax	(130)	56
Income taxes on the above	(43)	1,120
Other comprehensive income/(loss) for the period, net of	81	(2,077)
Total comprehensive income for the period, net of tax	5,053	1,750

Statement of Changes in Equity
For the period ended 30 June 2023

	Share capital €000	Perpetual capital notes €000	Revaluation reserve €000	Reserve for general banking risks €000	Retained earnings €000	Total €000
At 1 January 2022	74,544	10,000	38	992	12,137	97,711
Comprehensive income						
Profit for the period	-	-	-	-	3,827	3,827
Other comprehensive income						
Fair valuation of debt instruments measured at FVOCI:						
- net movement in fair value arising during the period	-	-	(2,114)	-	-	(2,114)
- changes in allowance for expected credit losses	-	-	37	-	-	37
Total other comprehensive loss for the period	-	-	(2,077)	-	-	(2,077)
Total comprehensive income	-	-	(2,077)	-	3,827	1,750
Transactions with owners						
Distributions to owners:						
Return 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
At 1 January 2023	**74,544**	**10,000**	**(2,543)**	**992**	**17,296**	**100,289**
Comprehensive income						
Profit for the period	-	-	-	-	4,972	4,972
Other comprehensive income						
Fair valuation of debt instruments measured at FVOCI:						
- net movement in fair value arising during the period	-	-	165	-	-	165
- changes in allowance for expected credit losses	-	-	(84)	-	-	(84)
Total other comprehensive income for the period	-	-	81	-	-	81
Total comprehensive income	-	-	81	-	4,972	5,053
Transactions with owners						
Distributions to owners:						
Return on perpetual capital notes	-	-	-	-	(528)	(528)
Dividends paid	-	-	-	-	(4,039)	(4,039)
Total transactions with owners	-	-	-	-	(4,567)	(4,567)
At 30 June 2023	**74,544**	**10,000**	**(2,462)**	**992**	**17,701**	**100,775**

Statement of Cash Flows
For the period ended 30 June 2022

	30 June 2023 €000	30 June 2022 €000
Cash flows from operating activities		
Interest, fees and commission received	22,007	16,573
Interest, fees and commission paid	(4,714)	(2,763)
Net return from trading activities	301	180
Payments to employees and suppliers	(11,373)	(9,109)
Cash flows from operating activities before changes in operating assets and liabilities	6,221	4,881
Movement in operating assets:		
Balances with Central Bank of Malta	(613)	(634)
Loans and advances to customers	(33,969)	(51,852)
Other assets and cheques in course of collection	4,088	(2,128)
Movement in operating liabilities:		
Amounts owed to customers	(9,639)	96,564
Other liabilities	3,673	2,065
Net cash flows (used in)/generated from operating activities before tax	(30,239)	48,896
Income tax paid	(602)	(395)
Net cash flows (used in)/generated from operating activities	(30,841)	48,501
Cash flows from investing activities		
Net interest on financial assets	178	33
Purchase of property, equipment and intangible assets	(230)	(247)
Purchase of financial investments	(14,482)	(5,037)
Proceeds from disposal and redemption of financial investments	11,974	19,208
Net cash flows (used in)/generated from investing activities	(2,560)	13,957
Cash flows from financing activities		
Return on perpetual capital notes	(528)	(453)
Dividends paid	(4,039)	-
Principal payments of lease liabilities	(163)	(214)
Net cash flows used in financing activities	(4,730)	(667)
Net (decrease)/increase in cash and cash equivalents	(38,131)	61,791
Cash and cash equivalents at beginning of period	117,219	78,137
Cash and cash equivalents at end of period	79,088	139,928

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 the year ended 31 December 2022 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 2022. 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 2022.

The condensed interim financial information has been extracted from the Bank's management accounts for the six months ended 30 June 2023.

2.2 Significant accounting policies

In 2023, the Bank adopted amendments and interpretations to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2023. The adoption of these revisions to the requirements of IFRSs as adopted by the EU, did not result in changes to the 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 2023 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 2022*.

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.

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 behavior 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 2022 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 war in Ukraine and potential impacts from top and emerging risks resulting in increasing interest rates. Although global supply chain disruptions have somewhat eased, inflation is expected to remain elevated and widespread as recent increases in costs are being transmitted onto import and consumer prices.

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 2022*, 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.

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 2023		At 31 December 2022	
	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	78,681	(11)	117,616	(14)
Cheques in course of collection	2,708	-	6,515	-
Financial investments measured at amortised cost	37,656	(29)	32,444	(69)
Loans and advances to banks	13,507	(6)	10,736	(6)
Loans and advances to customers				
- Corporate	340,491	(11,262)	332,618	(10,783)
- Retail	612,962	(4,687)	586,866	(5,013)
Accrued income	3,959	-	2,563	-
Financial investments measured at FVOCI	56,801	(112)	58,655	(242)
Not subject to IFRS 9 impairment allowance				
Derivative financial instruments	41	-	464	-
Financial investments measured at FVTPL	427	-	390	-
Credit risk exposure	1,147,233	(16,107)	1,148,867	(16,127)
Credit risk exposure relating to off-balance sheet instruments				
Contingent liabilities	11,829	(120)	9,732	(48)
Undrawn commitments to lend	244,352	(289)	255,438	(327)
Credit risk exposure	256,181	(409)	265,170	(375)

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

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 set out information on the credit quality of financial assets measured at amortised cost and financial investments measured at FVOCI:

	At 30 June 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Balances with Central Bank of Malta at amortised cost				
Gross carrying amount	78,681	-	-	78,681
Loss allowance	(11)	-	-	(11)
Carrying amount	78,670	-	-	78,670

	At 30 June 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Carrying amount – fair value	56,801	-	-	56,801
Loss allowance	(112)	-	-	(112)

	At 30 June 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at amortised cost				
Gross carrying amount	37,656	-	-	37,656
Loss allowance	(29)	-	-	(29)
Carrying amount	37,627	-	-	37,627

	At 30 June 2023			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Gross carrying amount	13,507	-	-	13,507
Loss allowance	(6)	-	-	(6)
Carrying amount	13,501	-	-	13,501

	At 30 June 2023			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to customers at amortised cost				
Corporate				
Gross carrying amount	305,952	18,814	15,725	340,491
Loss allowance	(1,567)	(506)	(9,189)	(11,262)
Carrying amount	304,385	18,308	6,536	329,229
Retail				
Gross carrying amount	594,027	9,457	9,478	612,962
Loss allowance	(1,357)	[illegible]	[illegible]	[illegible]
Carrying amount	592,670	8,974	6,631	608,275
Total				
Gross carrying amount	899,979	28,271	25,203	953,453
Loss allowance	(2,924)	[illegible]	[illegible]	[illegible]
Carrying amount	897,055	27,282	13,167	937,504
Total loans and advances to customers at amortised cost, guarantees, documentary credits, and undrawn commitments to lend				
Corporate				
Gross carrying amount	467,754	21,035	15,817	504,606
Loss allowance	(1,746)	(556)	(9,214)	(11,516)
Carrying amount	466,008	20,479	6,603	493,090
Retail				
Gross carrying amount	685,436	9,730	9,863	705,029
Loss allowance	(1,385)	(495)	(2,962)	(4,842)
Carrying amount	684,051	9,235	6,901	700,187
Total				
Gross carrying amount	1,153,190	30,765	25,680	1,209,635
Loss allowance	(3,131)	(1,051)	(12,176)	(16,358)
Carrying amount	1,150,059	29,714	13,504	1,193,277

	At 31 December 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	117,616	-	-	117,616
Loss allowance	(14)	-	-	(14)
Carrying amount	117,602	-	-	117,602

	At 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at FVOCI				
Carrying amount – fair value	58,655	-	-	58,655
Loss allowance	(242)	-	-	(242)

	At 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Financial investments measured at amortised cost				
Gross carrying amount	32,444	-	-	32,444
Loss allowance	(69)	-	-	(69)
Carrying amount	32,375	-	-	32,375

	At 31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to banks at amortised cost				
Gross carrying amount	10,736	-	-	10,736
Loss allowance	(6)	-	-	(6)
Carrying amount	10,730	-	-	10,730

	At 31 December 2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	€000	€000	€000	€000
Loans and advances to customers at amortised cost				
Corporate				
Gross carrying amount	296,039	22,485	14,094	332,618
Loss allowance	(1,346)	(626)	(8,811)	(10,783)
Carrying amount	294,693	21,859	5,283	321,835
Retail				
Gross carrying amount	565,561	11,183	10,122	586,866
Loss allowance	(1,319)	(598)	(3,096)	(5,013)
Carrying amount	564,242	10,585	7,026	581,853
Total				
Gross carrying amount	861,600	33,668	24,216	919,484
Loss allowance	(2,665)	(1,224)	(11,907)	(15,796)
Carrying amount	858,935	32,444	12,309	903,688

	At 31 December 2022			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	€000	€000	€000	€000
Total loans and advances to customers at amortised cost, guarantees, documentary credits, and undrawn commitments to lend				
Corporate				
Gross carrying amount	450,502	25,919	14,115	490,536
Loss allowance	(1,440)	(726)	(8,836)	(11,002)
Carrying amount	449,062	25,193	5,279	479,534
Retail				
Gross carrying amount	672,030	11,589	10,499	694,118
Loss allowance	(1,346)	(625)	(3,198)	(5,169)
Carrying amount	670,684	10,964	7,301	688,949
Total				
Gross carrying amount	1,122,532	37,508	24,614	1,184,654
Loss allowance	(2,786)	(1,351)	(12,034)	(16,171)
Carrying amount	1,119,746	36,157	12,580	1,168,483

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 developments in the international financial markets and geopolitical tensions, which have in turn created inflationary pressures and stresses on the supply chain which spillover to the local economy, the Bank continues to account for a judgemental temporary post model adjustment which increases the expected credit losses being accounted for on Stage 1 and Stage 2 exposures as at 30 June 2023. 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 2022,* adjusted to reflect forward-looking information as described in Note 3.2.3.4 in the *Annual Report and Financial Statements 2022.*

Due to the lack of internal history of defaults on the international lending portfolio, the Bank applies PDs which are 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 the macroeconomic environment in which the entity operates. Furthermore, these 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 significant changes were made to this methodology during the first half of 2023. 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, given the significant impact they have on local investment and the labour market. The performance of these economic indicators affects repayment feasibility of secured and unsecured facilities.

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 judgement, 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 2023, the Bank updated its macroeconomic forecasts until the end of 2025. 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 2023.

The most significant period-end assumptions used for the ECL estimate as at 30 June 2023 and 31 December 2022 are set out below.

	As at 30 June 2023		
	2023	2024	2025**
Average gross salary rate (YoY)*			
'Baseline'	1.11%	2.73%	3.16%
Range of forecasts for alternative scenarios	[-0.4 – 1.4]%	[0.5 – 3.2]%	[0.3 – 3.8]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-15.43%	-10.14%	-6.28%
Range of forecasts for alternative scenarios	[-17.9 - -12.2]%	[-13.9 - -5.2]%	[-10.9 - -0.1]%
Real GDP rate (YoY)*			
'Baseline'	1.64%	3.45%	3.33%
Range of forecasts for alternative scenarios	[-1.1 – 2.6]%	[-0.7 – 4.9]%	[-1.9 – 5.2]%
Unemployment rate (YoY)*			
'Baseline'	3.01%	3.14%	3.27%
Range of forecasts for alternative scenarios	[3.1 – 2.9]%	[3.3 – 3.0]%	[3.5 – 3.0]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	4.83%	4.55%	4.48%
Range of forecasts for alternative scenarios	[4.2 – 5.2]%	[3.6 – 5.0]%	[3.4 – 5.1]%

	As at 31 December 2022		
	2023	2024	2025**
Average gross salary rate (YoY)*			
'Baseline'	2.92%	3.49%	3.18%
Range of forecasts for alternative scenarios	[0.8 – 3.7]%	[0.6 – 4.5]%	[-0.2% – 4.3]%
Gross Fixed Capital Formation (GFCF) (YoY)*			
'Baseline'	-3.61%	-0.27%	-0.04%
Range of forecasts for alternative scenarios	[-6.9 – -0.9]%	[-4.7 – 3.3]%	[-5.2% – 4.1]%
Real GDP rate (YoY)*			
'Baseline'	3.67%	3.53%	3.35%
Range of forecasts for alternative scenarios	[0.2– 4.9]%	[-1.2 – 5.2]%	[-2.1% – 5.3]%
Unemployment rate (YoY)*			
'Baseline'	3.11%	3.25%	3.35%
Range of forecasts for alternative scenarios	[3.0 – 3.2]%	[3.0 – 3.4]%	[3.1% – 3.6]%
Real Estate Price Growth rate (REPI) (YoY)*			
'Baseline'	4.92%	4.60%	4.53%
Range of forecasts for alternative scenarios	[4.2 – 5.4]%	[3.6 – 5.2]%	[3.4% – 5.2]%

*YoY = year on year

** 2025 Q3 data forecast

3.5 Economic scenarios sensitivity analyses of ECL estimates

The weightings assigned to each economic scenario were 50% (2022: 50%) for the 'baseline' scenario, 25% (2022: 25%) for the 'downside' scenario and 25% (2022: 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 €0.8 million (December 2022: €0.6 million) if the provisions had to be calculated solely on the 'baseline' scenario; ECL would increase by €2.0 million (December 2022: €1.7 million) if these had to be estimated using only the 'downside' scenario and would reduce by €1.7 million (December 2022: €1.7 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.

As previously explained in Note 3.3, in view of the prevailing economic uncertainty, the Bank continues to account for a temporary judgemental post model adjustment which increases the ECL on Stage 1 and Stage 2 exposures as at 30 June 2023.

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 2022*.

The movement in the carrying amount of forborne loans and advances, before impairment allowances, is analysed below.

	Forborne exposures	
	At 30 June 2023	At 31 December 2022
	€000	€000
At 1 January	9,457	12,417
Loans to which forbearance measures have been extended during the period	839	713
Repayments	(356)	(297)
Retired from forborne	(573)	(3,376)
At end of period	9,367	9,457

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.

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

	2023			
	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 2023	117,616	(14)	117,616	(14)
New financial assets originated or purchased	71,375	-	71,375	-
Net movement in EAD and changes in risk parameters (PD/LGD)	5,890	(9)	5,890	(9)
Financial assets derecognised during the period	(116,200)	12	(116,200)	12
At 30 June 2023	78,681	(11)	78,681	(11)
Total net income statement credit for the period				3

	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)
New financial assets originated or purchased	109,968	(3)	109,968	(3)
Net movement in EAD and changes in risk parameters (PD/LGD)	(89,326)	232	(89,326)	232
At 31 December 2022	117,616	(14)	117,616	(14)
Total net income statement credit for the year				229

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

	2023			
	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 2023	58,655	(242)	58,655	(242)
New financial assets originated or purchased	9,275	(7)	9,275	(7)
Net movement in EAD and changes in risk parameters (PD/LGD)	214	116	214	116
Financial assets derecognised during the period	(11,343)	21	(11,343)	21
At 30 June 2023	**56,801**	**(112)**	**56,801**	**(112)**
Total net income statement credit for the period				**130**

	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	12,976	(18)	12,976	(18)
Net movement in EAD and changes in risk parameters (PD/LGD)	(2,331)	(90)	(2,331)	(90)
Financial assets derecognised during the year	(22,709)	10	(22,709)	10
At 31 December 2022	58,655	(242)	58,655	(242)
Total net income statement charge for the year				(98)

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

	2023			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at amortised cost				
At 1 January 2023	32,444	(69)	32,444	(69)
New financial assets originated or purchased	5,152	(2)	5,152	(2)
New movement in EAD and changes in risk parameters (PG/LGD)	60	42	60	42
At 30 June 2023	37,656	(29)	37,656	(29)
Total net income statement credit for the period				40

	2022			
	Stage 1		Total	
	Gross carrying amount €000	Expected credit losses €000	Gross carrying amount €000	Expected credit losses €000
Financial investments measured at amortised cost				
At 1 January 2022	-	-	-	-
New financial assets originated or purchased	32,444	(69)	32,444	(69)
At 31 December 2022	32,444	(69)	32,444	(69)
Total net income statement charge for the year				(69)

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

	2023			
	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 2023	10,736	(6)	10,736	(6)
New financial assets originated or purchased	9,292	-	9,292	-
Net movement in EAD and changes in risk parameters (PD/LGD)	2,527	-	2,527	-
Financial assets derecognised during the period	(9,048)	-	(9,048)	-
At 30 June 2023	13,507	(6)	13,507	(6)
Total net income statement charge for the period				-

	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	9,048	(1)	9,048	(1)
Net movement in EAD and changes in risk parameters (PD/LGD)	(479)	(4)	(479)	(4)
Financial assets derecognised during the year	(9,547)	-	(9,547)	-
At 31 December 2022	10,736	(6)	10,736	(6)
Total net income statement charge for the year				(5)

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

	2023							
	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 cost, guarantees, documentary credits and undrawn commitments to lend								
At 1 January 2023	1,122,532	(2,786)	37,508	(1,351)	24,614	(12,034)	1,184,654	(16,171)
New and further lending	197,124	(892)	802	(117)	948	(439)	198,874	(1,448)
Repayments and disposals	(164,961)	545	(6,867)	385	(2,065)	618	(173,893)	1,548
Transfers of financial instruments								
Stage 1 to Stage 2	(1,966)	2	1,966	(2)	-	-	-	-
Stage 1 to Stage 3	(572)	2	-	-	572	(2)	-	-
Stage 2 to Stage 1	1,031	(52)	(1,031)	52	-	-	-	-
Stage 2 to Stage 3			(1,710)	27	1,710	(27)	-	-
Stage 3 to Stage 1	2	(1)	-	-	(2)	1	-	-
Stage 3 to Stage 2			97	(17)	(97)	17	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	51	-	(28)	-	(310)	-	(287)
At 30 June 2023	**1,153,190**	**(3,131)**	**30,765**	**(1,051)**	**25,680**	**(12,176)**	**1,209,635**	**(16,358)**
Total net income statement charge for the period								**(187)**

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

	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 cost, 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)
New and further lending	362,774	(1,116)	1,769	(125)	819	(865)	365,362	(2,106)
Repayments and disposals	(238,986)	1,029	(9,928)	584	(4,364)	963	(253,278)	2,576
Transfers of financial instruments								
Stage 1 to Stage 2	(5,242)	10	5,242	(10)	-	-	-	-
Stage 1 to Stage 3	(941)	4	-	-	941	(4)	-	-
Stage 2 to Stage 1	9,389	(531)	(9,389)	531	-	-	-	-
Stage 2 to Stage 3	-	-	(875)	45	875	(45)	-	-
Stage 3 to Stage 1	3	(2)	-	-	(3)	2	-	-
Stage 3 to Stage 2	-	-	8,072	(552)	(8,072)	552	-	-
Net remeasurement of ECL arising from stage transfers and changes in risk parameters	-	523	-	78	-	(335)	-	266
At 31 December 2022	1,122,532	(2,786)	37,508	(1,351)	24,614	(12,034)	1,184,654	(16,171)
Total net income statement credit for the year								736

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 2023 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 2022.*

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 2023				
Financial assets				
Derivative financial assets	-	41	-	41
Financial investments				
Government debt instruments	31,612	-	-	31,612
Corporate debt instruments	25,189	-	427	25,616
Total financial assets	56,801	41	427	57,269
Financial liabilities				
Derivative financial liabilities	-	109	-	109
Total financial liabilities	-	109	-	109
At 31 December 2022				
Financial assets				
Derivative financial assets	-	464	-	464
Financial investments				
Government debt instruments	36,447	-	-	36,447
Corporate debt instruments	22,208	-	390	22,598
Total financial assets	58,655	464	390	59,509
Financial liabilities				
Derivative financial liabilities	-	29	-	29
Total financial liabilities	-	29	-	29

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.

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

	30 June 2023			
	Retail banking	Corporate banking	Other	Total
	€000	€000	€000	€000
Net interest income	6,754	7,178	2,192	16,124
Net fees and commission income	845	836	49	1,730
Net trading income (including net gains from financial instruments at FVTPL and gains on disposal of debt instruments at FVOCI)	-	-	269	269
Net operating income	7,599	8,014	2,510	18,123
Employee compensation and benefits	(2,754)	(1,836)	(509)	(5,099)
Other administrative expenses	(2,452)	(1,914)	(686)	(5,052)
Depreciation of property and equipment, depreciation of right-of-use assets and amortisation of intangible assets	(374)	(150)	(54)	(578)
Credit impairment reversals/(losses)	344	(570)	173	(53)
Profit before tax	2,363	3,544	1,434	7,341
Income tax expense				(2,369)
Profit for the period				4,972
Assets				
Segment assets	613,448	329,367	197,420	1,140,235
Unallocated assets				20,318
Total assets				1,160,553
Liabilities				
Segment liabilities	711,699	285,497	10,180	1,007,376
Unallocated liabilities				52,402
Total liabilities				1,059,778
Additions to non-current assets	12	-	172	184

During 2023, the Bank's branch in London generated an operating income of €0.7 million as at 30 June 2023 (30 June 2022: €0.5 million). The total carrying amount of loans and advances to customers as at 30 June 2023 amounted to €54.6 million (30 June 2022: €42.4 million).

	Retail banking €000	Corporate banking €000	Other €000	Total €000
	30 June 2022			
Net interest income	6,020	6,258	136	12,414
Net fees and commission income	962	703	75	1,740
Net trading income (including net gains from financial instruments at FVTPL and gains on disposal of debt instruments at FVOCI)	-	-	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	2,092	3,339	237	5,668
Income tax expense				(1,841)
Profit for the period				3,827
Assets				
Segment assets	582,071	327,140	235,812	1,145,023
Unallocated assets				17,956
Total assets				1,162,979
Liabilities				
Segment liabilities	674,589	332,203	10,197	1,016,989
Unallocated liabilities				45,701
Total liabilities				1,062,690
Additions to non-current assets	7	-	834	841

6. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 30 June 2023 €000	2022 €000
On loans and advances to banks	234	31
On loans and advances to customers	18,899	14,324
On balances with Central Bank of Malta	1,164	(165)
	20,297	14,190
On debt and other fixed income instruments:		
Financial investments measured at FVOCI	536	388
Financial investments measured at amortised cost	842	-
Net amortisation of discounts and premiums	(128)	(193)
	1,250	195
Total interest receivable and similar income	21,547	14,385

7. INTEREST PAYABLE AND SIMILAR EXPENSE

	Period ended 30 June 2023 €000	2022 €000
On amounts owed to banks	(28)	(93)
On amounts owed to customers	4,966	2,046
On debt securities in issue	453	-
Amortisation of debt issuance costs	17	-
On lease liabilities	15	18
	5,423	1,971

8. NET FEES AND COMMISSION INCOME

	Period ended 30 June 2023 €000	2022 €000
Fees and commission income		
Credit related fees and commissions	747	948
Other fees	1,434	1,241
	2,181	2,189
Fees and commission expense		
Credit related fees and commissions	(148)	(127)
Other fees	(303)	(322)
	(451)	(449)
Net fees and commission income	1,730	1,740

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.

9.2 Transactions with shareholders

a) Majority 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.

	Period ended	
	30 June 2023	30 June 2022
	€000	€000
Income Statement		
Interest and similar expense	634	7

	At 30 June 2023	At 31 December 2022
	€000	€000
Statement of Financial Position		
Other assets	199	199
Amounts owed to customers	35,279	33,350

Total interest payable on perpetual capital notes, which is accounted for as 'transactions with owners' in the Statement of Changes in Equity, during the first six months of 2023 amounted to €523,000 (June 2022: €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:

	Period ended	
	30 June 2023	30 June 2022
	€000	€000
Income Statement		
Interest and similar income	237	128
Interest and similar expense	46	-
Other administrative expenses	55	15

	At 30 June 2023	At 31 December 2022
	€000	€000
Statement of Financial Position		
Loans and advances to customers	10,093	15,111
Prepayments and accrued income	3	16
Amounts owed to customers	28,600	31,857
Accruals	24	24
Other liabilities	2	4

Total interest payable on perpetual capital notes during the first six months of 2023 amounted to €5,000 (June 2022: €5,000).

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, who are considered to be the Bank's key management personnel:

	Period ended	
	30 June 2023	30 June 2022
	€000	€000
Income Statement		
Interest and similar income	10	23

	At 30 June 2023	At 31 December 2022
	€000	€000
Statement of Financial Position		
Loans and advances to customers	1,334	1,195
Amounts owed to customers	2,953	4,508

The above-mentioned outstanding balances arose from the ordinary course of business on terms which are substantially comparable to the ones of transactions entered into with persons of a similar standing, or where applicable, other employees. Total directors' fees and emoluments for the first six months of 2023 amounted to €711,000 (June 2022: €859,000).

10. IMPACT OF THE RUSSIA-UKRAINE WAR AND OTHER INTERNATIONAL DEVELOPMENTS

The challenges relating to the global inflationary pressures principally driven by the war in Ukraine and the aftermath of the COVID-19 pandemic, continue to characterise the global economic activity in the first six months of 2023. The Russia-Ukraine war is a source of economic uncertainty; the energy shortages, food shortages, and other factors have created inflationary pressures, which prompted the tightening of monetary policy by Central Banks. The impact from monetary policy changes could continue to expose financial vulnerabilities in entities with high debt positions and could lower asset valuations.

Given the Bank's current business model and client base, the geopolitical tensions in Eastern Europe between Russia and Ukraine do not have a direct impact on the Bank. Currently, the Bank does not have any customers who are resident in either Russia or Ukraine. Nonetheless, the Bank could be impacted through its customers, and due to inflation and rising interest rates.

Moreover, in March 2023, the international financial sector was hit by stress events resulting in the collapse of a number of U.S. Regional Banks, and in a government brokered deal between two major banks in Switzerland. This created further turmoil and uncertainty in the international financial markets. In wake of these developments, the Bank is prepared to continue to navigate this period of uncertainty.

Save for the indirect impacts, 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 2023	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:	10,870	10,870	99,516	110,448	110,386
Reserve deposit	*8,239*	*8,239*			
Securities pledged for DCS	*2,631*	*2,631*			
Institutions			46,345	46,400	46,345
Corporate			159,961	231,866	159,961
Retail			80,544	244,079	80,544
Secured by mortgages on immovable property			624,199	637,698	624,199
Items associated with particularly high risk			59,000	74,865	59,000
Exposures in default			12,778	25,401	12,778
Equity			6,581	6,585	6,581
Covered bonds			23,276	23,297	23,276
Other items	2,967	2,967	28,349	44,360	31,316
of which: Visa collateral	*2,967*	*2,967*			
Total credit risk	13,837	13,837	1,140,549	1,444,999	1,154,386

At 31 December 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:	9,633	9,633	144,365		153,998
Reserve deposit	*7,627*	*7,627*			
Securities pledged for DCS	*2,006*	*2,006*			
Institutions			37,517	37,606	37,517
Corporate			140,681	215,177	140,681
Retail			79,478	253,797	79,478
Secured by mortgages on immovable property			595,852	611,489	595,852
Items associated with particularly high risk			70,424	85,201	70,424
Exposures in default			12,592	24,641	12,592
Equity			8,147	8,167	8,147
Covered bonds			18,630	18,665	18,630
Other items	2,939	2,939	32,769	48,486	35,708
of which: Visa collateral	*2,939*	*2,939*			
Total credit risk	12,572	12,572	1,140,455	1,303,229	1,153,027

2. KEY REGULATORY RATIOS

	At 30 June 2023 %	At 31 December 2022 %
Common Equity Tier 1 (CET 1) ratio	14.07	14.60
Tier 1 ratio	15.68	16.26
Total capital ratio	18.89	19.57
Leverage ratio	8.07	8.09
Liquidity Coverage Ratio (LCR)	215.7	237.7
Net Stable Funding Ratio (NSFR)	134.7	139.8

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 2023 and the related condensed interim income statement and statements of 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. Management is 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'.

Simon Flynn
Principal

For and on behalf of
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27 July 2023