FIMBANK
GROUP

Annual Report & Financial Statements 2021

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Chairman's statement to the shareholders

Dear Shareholder,

FIMBank's performance in 2021 continued to be impacted by the negative economic trail left behind by the COVID-19 pandemic. As the world works towards an exit from the pandemic, the effects of the measures and restrictions imposed by several countries around the world are expected to continue impacting global economies. Although we have seen remarkable efforts with respect to the vaccination campaigns across the continents, progress and recovery have been hindered by the emergence of new variants which, to varying extents, have led to a renewed rise in case numbers. Inflationary pressures have also made their mark, and show no signs of stopping anytime soon, also in view of the recent invasion of Ukraine by Russia.

Although 2021 displayed signs of recovery, world economies were still operating in the face of unprecedented challenges. In this regard, the Group has also been impacted, as it confronts significant challenges related to global supply chains, supply-side bottlenecks, lockdowns and travel restrictions, among others. Such challenges are expected to persist in characterising future developments. Research by the World Economic Forum suggests that commodity price shocks, growing inflation and a fragmented energy transition are amongst the greatest threats to global trade in 2022. Throughout the pandemic, the FIMBank Group has strived to constantly monitor, evaluate and adapt in order to maintain effective and efficient operations.

In this context, the year in review has served to highlight the Group's financial and business resilience, as evidenced by the fact that we managed to turn around a loss of USD47.0 million in 2020, to a contained deficit of USD3.6 million in 2021. Going forward our sights are firmly set on profitability. We have spent the last year tailoring and implementing measures designed to strengthen the Group's business fundamentals, which should lead to a significant boost in performance. This, together with the energy we have been dedicating towards securing planned recoveries and reducing the impact of non-performing exposures, will allow us to achieve our forecasted targets of sustainable profitability.

Maintaining high levels of operational and business continuity during such troubling times would not have been possible without the Group's consistent investment in advanced IT infrastructure. This has enabled our employees throughout our international network to work securely and remotely from their own home. The deployment of the latest technology has also been a steady feature in the way we operate and interact both internally, as well in relation to all our stakeholders. This is a reflection of our commitment to the digital transformation process which has been taking place throughout the Group.

The situation remains one that demands constant monitoring to mitigate against emerging threats. In this uncertain environment, customer centricity remains a fundamental pillar of our strategy. We see this mindset as critical to allow our people to create mutually beneficial solutions for our wide-ranging clientele, seeing them not just as customers, but as partners in growth. We look at the future with optimism, underlined by a commitment to continue enhancing our activities in markets where we have already have a presence, while strengthening our visibility in Malta, our home market, by expanding our product offering to provide a wider spectrum of services to corporate clients. We strongly believe in our capability in forging partnerships with our clients, and that the value of a dependable banking partner goes beyond the delivery of financial solutions. To that end, we strive to provide a high-quality banking experience to our customers, by building relationships and offering products and services designed to enable their business to grow and prosper.

Although developments in our operating environment induce a strong measure of prudence in our outlook for 2022, there is no doubt in the confidence we place in the measures put in place by our GCEO, Adrian A. Gostuski, and his senior management team, aimed at leading the Group towards operational success and sustainable growth and profitability.

Investor relations continue to play an important role for our institution, and throughout the year in review, we have continued to foster initiatives aimed at engaging with all stakeholders. On behalf of the Board, I would like to take this opportunity to extend our sincere gratitude for the constant demonstration of trust and loyalty by all our Shareholders, with a special mention going to our majority shareholder, the KIPCO Group, for their solid and continued backing during these challenging times.

Finally, I would like to conclude by expressing my thanks and appreciation to the Directors, management and employees of the FIMBank Group, for their commitment and dedication during these challenging times.

Signed by John C. Grech (Chairman) on 13 April 2022

FIMBank Group performance 2021

CEO's message

FIMBank's financial performance in 2021 continued to be materially impacted by COVID-19 and the new mutations of the virus. Although the financial and operating performance of the Group improved significantly, this was hindered by the implementation of lockdowns as well as travel restrictions, together with disruptions in global supply chains.

The pandemic left the global economy in disarray, upsetting supply chains across continents and leaving the world short of a plethora of goods, ranging from machinery and microchips, to container vessels that transport goods across the seas. As a result, many suppliers have not been able to keep up with the sudden surge in demand as economies have begun to reopen. Moreover, inflation has spiked in recent months, riding on a surge in energy prices. Production bottlenecks are pushing prices even higher, raising fears that a combination of government stimuli and the inevitable economic snapback will cause prices to overheat.

Overview of financial results

The FIMBank Group registered a post-tax loss of USD3.6 million for the financial year ended 31 December 2021, compared to a post-tax loss of USD47.0 million in 2020. Despite the unprecedented health and economic crises brought on by the COVID-19 pandemic, the Group's performance continues to reflect its resilience, loss-absorbing capacity and capability to recover rapidly. During the period in review, the Group retained its focus on safeguarding its capital and liquidity, which remain strong and well above regulatory minima. During 2021, the Group's net operating revenues rose by 6%, to USD41.2 million, while there was only a marginal increase of 4% in operating expenses, to reach USD40.5 million. The Group's net interest margins felt the impact of a persistently low global interest environment. As a result, net interest income dropped by 13% to USD24.9 million. This decrease was fully offset by the net fee and commission income, which increased by 21%, from USD9.0 million to USD10.8 million, together with a USD3.0 million gain from trading assets.

At the end of the period under review, the Group's total consolidated assets stood at USD1.79 billion, down by 2.5%, or USD45.6 million, when compared to 2020.

The Group's consolidated liabilities, standing at USD1.56 billion, reflected a 2.3% drop, equivalent to USD36.4 million, from the previous year. The Group raised USD233 million in long term funding, by participating in the Targeted Longer-Term Refinancing Operations (TLTRO) launched by the European Central Bank.

During the period under review, the Group's strategy was revitalised to counter the new economic realities, as well as addressing developments on the regulatory and compliance spheres. In line with its strong compliance-focused policy, the Group exited various business activities, jurisdictions, and customer groups. A combination of factors impacted market demand, productivity and trade flows, which resulted in difficulties in the origination of business within the context of the revised Group's risk appetite. This was reflected in a reduction of trade finance business of USD51 million. Momentum was, however, restored towards the end of the year, when encouraging growth was registered, resulting in a higher factoring balance to the tune of USD70 million.

During 2021, the Group was successful in recovering certain non-performing assets and has written-off some fully provided delinquent exposures. These developments, along with other measures, have contributed to lower non-performing ratios. Management is committed to continue with this recovery process. As at 31 December 2021, the Group's CET1 ratio stood at 18.7% and the Group's TCR at 18.7%. The average TCR for the year was 19.5%, well above the regulatory requirement which includes the SREP add-on.

Throughout the period under review, the Group did not require recourse to any of the COVID-19 capital relief measures, which had been announced by the ECB and the MFSA in 2020.

In November 2021, the Bank decided to close the Hellenic Branch in Greece, a process which was concluded in February 2022. This decision complements the overarching strategy of simplifying and reducing complexities, allowing the Group to focus on consolidating its position in specific target markets. Meanwhile, a Greek helpdesk has been set up in Malta in order to continue providing existing clients with a high level of service.

Business unit performance

London Forfaiting Company Ltd ("LFC")

During the period under review the trade finance market was subdued and margins remained depressed. Continued low commodity prices and increasing uncertainty in the market, arising from the repeated occurrences of COVID-19 outbreaks, gave rise to a challenging business environment for LFC. Notwithstanding this, the fully owned subsidiary was able to navigate through the changes with little disruption and by the end of the year matters were normalising.

Amidst these challenges, LFC only experienced isolated payment delays and by year-end there were nascent signs of a recovery as commodity prices stabilised and began an upward trend. Interest rates were also trending upwards in all major currencies. LFC demonstrated its resilience by registering a USD8.1 million profit for the year, an increase of 10% over the previous twelve-month period.

India Factoring and Finance Solutions Private Ltd ("India Factoring")

India Factoring retained its leadership position in the provision of factoring services in India for the fourth consecutive year. The company continues to support small and medium enterprises with tailor-made working capital solutions. Clients benefit from access to immediate liquidity, to smooth out cash requirements, improve financial planning, and more importantly, optimise their financials. During 2021, India Factoring proved to be very effective in onboarding new clients, growing and diversifying its portfolio and stabilising revenues. Despite the prevalent challenging environment, the company increased its factoring portfolio and delivered an encouraging financial result for 2021.

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

Egypt Factors experienced a slow first half of the year, mainly due to the second wave of the pandemic. However, it adapted successfully to the current environment, and rebounded with steady growth during the second half of the year, with increased volumes exceeding the targets set for the year, and with the company registering a profit for the year. During 2021, Egypt Factors received the highest rating for its import and export factoring services in Africa and the Middle East, based on the Factors Chain International (FCI) survey results, collected from 400 members in 90 countries. Egypt Factors was the first licensed Egyptian company specialising in factoring services, and this prestigious award was seen as recognising Egypt Factor's pioneering role in the financial services sector in Egypt.

Investment in technology

Technology is a critical component of modern banking, and throughout the past years, FIMBank has continued to invest in this area. During the year in review, we successfully completed the deployment of the second phase of our financial crime risk management platform. This allows for an integrated solution encompassing anti-money laundering, and internal fraud support, allowing the Compliance function to manage even more effectively money laundering risks. Moreover, the new platform provides advanced 'Know Your Customer' capabilities, and improved risk profiling, risk scoring and transaction monitoring. We also completed all the groundwork for the upgrade of the Bank's digital banking platform, FIMBank Direct, a project that will be completed in 2022. With the new version of FIMBank Direct, we primarily aim to improve our customer's digital journey and increase functional capabilities. This channel will continue to provide an integrated solution where customers can manage their banking requirements securely.

Our steady investment in technology platforms and infrastructure over the years has enabled the Bank to transition seamlessly to a remote working model for our employees. Going forward, the office will continue to play an important role as a place of work, not least due to social factors such as face-to-face collaboration, personal contact, and workplace interaction. The remote-working paradigm is however here to stay, albeit now converting into a hybrid model. Regardless, the Bank already had policies in place to allow employees flexibility in this regard.

Corporate Social Responsibility

In 2021, FIMBank contributed funds to the Research Trust of the University of Malta (RIDT) and the University of Malta to develop a research study based on the findings and remains resulting from the excavation of deposits, retrieval of faunal material and extraction of speleothems. This specialised research will require the valuable contribution of foreign scientists and should produce a series of major scientific peer-reviewed papers, each of which will contribute to existing knowledge on the subject. The project is being conducted in tandem with the Superintendence of Cultural Heritage.

Moreover, during the past year, FIMBank and its employees donated to several local philanthropic organisations, including Europa Donna, which is dedicated to providing support to breast cancer survivors and to bring about awareness of breast cancer in Malta.

The Environmental, Social and Governance (ESG) standards are increasingly taking on an even greater significance and organisations have a greater role to play. Businesses have a direct influence on the health of nations through their role as an employer, the products and services they offer as well as their external influence on the environment and the communities in which they operate. The FIMBank Group acknowledges its responsibility to share in the community's development and values. To this end we have engaged external consultants to assist us in implementing an ESG framework within the organisation that will allow us to support the European Union ESG objectives and to manage the risks posed by environmental change to the Group, its customers, and society as a whole. As we integrate ESG into our business strategy we will effectively promote sustainability in the investment decision-making process, working towards a more resilient future.

Outlook and way forward

Developments arising from the pandemic remain one of the main elements that will need to continue to be monitored going forward. Despite the implementation of comprehensive vaccination campaigns, the risk of the emergence of new COVID-19 variants continues to pose a threat to the progress made. The gradual removal of restrictions in many countries lets us dare to hope that a transition to normality is more imminent. Nevertheless, the pandemic has left the global economy in the shadow of two significant vulnerabilities, namely high inflation and volatile financial markets. Russia's recent invasion of Ukraine also carries additional and huge risks for a world economy that is yet to fully recover. The aftershocks arising from the invasion could easily worsen both inflation and financial market volatility.

In a more local context, the immediate removal of Malta's name from the Financial Action Task Force's advanced monitoring list remains a priority. This should come about through a commitment to have structures in place to safeguard Malta's reputation and avoid a repeat occurrence. We are confident that the country will demonstrate progress in its enforcement capabilities, in terms of its anti-money laundering and funding of terrorism framework and proliferation financing. The Group will continue to monitor developments, while remaining prepared to adjust to any changes in this respect.

Concluding remarks

In view of the challenging macroeconomic outlook, and amid concerns over high inflation and geopolitical uncertainty, FIMBank's projections remain grounded and cautious. The Group will continue to execute its strategy in search of business opportunities that match its risk appetite, on the principle of risk adjusted returns. This will result in moderate growth in diversified product offerings in business lines that provide superior returns. The Group's Balance Sheet is more resilient than previous years, with lower legacy exposures and improved sustainable revenue generation capabilities.

Our experience over the past year has demonstrated our ability to change and adapt, and it has shown us what we can achieve when we all work together to overcome such an unprecedented situation. The Bank has also enhanced its support to customers during this time. This is in line with our strong belief that once a relationship is created, the customer becomes an active stakeholder and an integral focal point for all decisions related to financial products and multi-channel service delivery. Our objective will be for this commitment to customer centricity, to be seamlessly integrated in a prudently designed ecosystem that guarantees realisation of mutual value. Customer centricity remains our primary mission and will continue to underly a continuous group-wide endeavour for the provision of a superior customer experience.

Finally, I would like to take this opportunity to express my sincere thanks and gratitude to our Board of Directors, management and all our employees for their dedication, hard work and support.

Signed by Adrian A. Gostuski (Chief Executive Officer) on 13 April 2022

Directors' report

For the year ended 31 December 2021

The Directors present their report together with the Audited Financial Statements of FIMBank p.l.c. (the "Bank"), and FIMBank Group of Companies (the "Group") for the year ended 31 December 2021. This report is prepared in accordance with Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta, ("The Companies Act")) including the further provisions as set out in the Sixth Schedule of the Companies Act.

Results for the year

The Group and the Bank reported a loss after tax of USD3,612,523 and USD663,219 respectively for the year under review.

Further information about the results are provided in the Statements of Profit or Loss and the Statements of Other Comprehensive Income on pages 30 and 31 and in the Review of Performance section within this report.

Group structure and principal activities

The Group comprises the Bank and its wholly owned subsidiaries, London Forfaiting Company Limited ("LFC"), FIM Business Solutions Limited ("FBS"), FIM Property Investment Limited ("FPI"), The Egyptian Company for Factoring S.A.E. ("Egypt Factors"), FIM Holdings (Chile) S.p.A. ("FHC") and FIMFactors B.V. ("FIMFactors"). LFC and FIMFactors are themselves parents of a number of subsidiaries as set out in Note 26 to the Financial Statements. The Group is supervised on a consolidated basis by the Malta Financial Services Authority ("MFSA"), whilst some of its subsidiaries and branches are subject to authorisation and regulation according to the respective jurisdictions in which they operate.

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

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

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

  During the Board of Directors' meeting held on 10 November 2021, a resolution was passed to close the Hellenic Branch in Greece. The closure was finalised on 28 February 2022.

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

- FBS (100%), registered in Malta, has as its primary purpose the provision of information technology and support services to the Group.

- FPI (100%), registered in Malta, owns and manages FIMBank's Head Office and other properties leased from third parties. FPI is responsible for facility management activities and the leasing of commercial and office space within Mercury Tower to related parties and third-party tenants.

- Egypt Factors (100%), registered in Egypt, is active in providing factoring services to Egyptian companies.

- FHC (100%), registered in Chile, previously served as a corporate vehicle. At reporting date FHC was in liquidation, which process was finalised in March 2022.

- FIMFactors (100%), registered in the Netherlands, is the corporate vehicle for the Bank's holdings in factoring subsidiaries and associated companies. These are:

  a. India Factoring and Finance Solutions (Private) Limited (88.16%), incorporated in Mumbai, India, to carry out the business of factoring in India. India Factoring is regulated by the Reserve Bank of India.

  b. BrasilFactors S.A. (50%), an equity-accounted investee incorporated in São Paulo, Brazil, with its core business focused on factoring services, targeting small and medium-sized companies. The other shareholder in this company is China Construction Bank (50%).

Review of performance

The financial period ended 31 December 2021 returned a loss of USD3.6 million for FIMBank Group, compared to a loss of USD47.0 million registered in 2020. This performance shows the Group's resilience and its ability to absorb a significant loss and recover in a relatively short period of time. In line with the strategy, the Group has positioned itself to capture further improvements in its performance, which shall allow the Group to reach its forecasted targets and improve profitably in a sustainable manner.

Throughout the year the global economy has shown a strong recovery as the COVID-19 vaccination programs were rolled-out. However, recovery has proceeded at a slower pace than the world has hoped for, as new mutations in the COVID-19 virus have developed. The financial and operating performance of the Group, although importantly improved, remained marked by the disruptions in global supply chains, supply-side bottlenecks, lockdowns and travel restrictions among others.

Global fiscal policies remained strong and monetary policies remained expansionary particularly in U.S. and the EU, resulting into low interest rates for the key operational currencies of the Group. The Group's net interest margins felt the impact of this persistently low global interest environment. Ongoing headwinds from low interest rates were however offset by higher fee income and improved valuations of trading assets and other financial instruments.

The Group was successful in its effort to recover some legacy non-performing exposures and progress was made on other legacy clients for which recovery is expected in the immediate or near future. The pandemic has had its impact on various legal jurisdictions causing delays in arbitration proceedings.

The Group is reaping the tangible benefits of the de-risking process. This process commenced in year 2019 and while the key features are already in place, further calibration continued throughout the year under review. Despite the ongoing global turmoil, the Group has classified only one new exposure as non-performing, which was also non-material. In addition to the actual cash recoveries, the Group reviewed in depth the level of gross non-performing exposures and written-off some fully provided exposures which were not expected to be recovered. This has not only improved the Group's asset quality ratios, but it will also allow management to focus on other ongoing recovery streams and on maintaining and growing the performing portfolios.

The Group's strategy has been revitalised to adapt to the new economic realities and to developments in the regulatory and compliance fronts. Shifting away from business activities, jurisdictions and customer groups that do not comply with our improved compliance framework, the Group focused on solidifying its foundations of trade finance, forfaiting, factoring and real estate business. This allows the Group to capture business opportunities, the moment the right economic conditions present themselves, while maintaining the improved overall risk profile.

Continued low commodity prices, high market liquidity, depressed margins and market uncertainty gave rise to a challenging business environment for LFC. However, the Company experienced only isolated payment delays during the year and by year-end business practices were returning to normal. Forfaiting portfolio growth was cautious and limited by external and internal factors. LFC maintained its dynamic capability to quickly upscale or downsize the portfolio given the right parameters. LFC's resilience is substantiated by the USD8.1 million profits it returned for 2021, representing a 10% increase from the previous year.

Despite the various challenges formed by the multiple waves of the COVID-19 virus, India Factoring managed to gradually increase its factoring portfolio and exceeded the budget. The company closed the year with a profit after tax of USD1.9 million compared to a loss of USD1.1 million in 2020. The company onboarded new customers with robust financials and structures and continued to recover debt from legacy clients.

Egypt Factors had initially experienced a decline in its factoring portfolio due to the second pandemic wave, however, it picked-up and with steady growth exceeded budgeted portfolio by year-end. The company returned a profit of USD0.5 million, which was 142% higher than previous year. The company recorded recoveries and released some provisions for performing portfolios. In line with the rest of the Group, some fully provided legacy exposures which were not expected to be recovered were written-off, allowing management to focus on growing the performing portfolio.

Throughout the period under review, the Group did not require to utilize any of the COVID-19 capital relief measures, which were announced by the ECB and the MFSA in 2020. The Group's capital position remained strong with an average Total Capital Ratio ("TCR") of 19.5%. This was well above the 17.5% minimum TCR requirement which includes the Supervisory Review and Evaluation Process ("SREP") add-on. This relatively high requirement had a direct impact on business volumes and revenues however, management is committed to operate above these requirements. The MFSA concluded a SREP towards the end of the year under review, and a new decision has been issued and applicable as from 2022. The MFSA recognised the improvements and refinements the Group and its management have developed on various fronts and therefore reduced the Pillar 2 Requirement ("P2R") by 1.5% to 4.5% and upheld the Pillar 2 Guidance ("P2G") at 1%. This creates space for the Group to originate additional assets that fall within its risk appetite and that generate incremental revenue streams.

The Group maintained a strong liquidity position throughout the year with an average Liquidity Coverage Ratio ("LCR") of 243% and an average Net Stable Funding Ratio ("NSFR") of 139%. Both liquidity metrics were well above the regulatory minimum requirement and the Group's internal risk appetite level.

Statements of profit or loss

For the year ended 31 December 2021, the Group registered a post-tax loss of USD3.6 million compared to a post-tax loss of USD47.0 million in 2020. Group earnings per share were negative at US cents 0.74 (2020: negative US cents 8.98). The results for the year under review are summarised in the table below, which should be read in conjunction with the explanatory commentary that follows:

	Group		
	2021 USD	2020 USD	Movement USD
Net interest income	24,868,755	28,643,150	(3,774,395)
Net fee and commission income	10,837,563	8,969,681	1,867,882
Net results from trading assets and other financial instruments	3,027,000	(397,564)	3,424,564
Net results from foreign currency operations	612,647	553,537	59,110
Dividend income	1,089,189	240,817	848,372
Other operating income	728,990	893,869	(164,879)
Net operating revenues	**41,164,144**	**38,903,490**	**2,260,654**
Operating expenses	(40,549,282)	(39,036,105)	(1,513,177)
Operating income/(loss) before net impairment	**614,862**	**(132,615)**	**747,477**
Net impairment losses	(1,907,796)	(35,677,319)	33,769,523
Operating loss after net impairment	**(1,292,934)**	**(35,809,934)**	**34,517,000**
Taxation	(2,319,589)	(11,222,821)	8,903,232
Loss for the period	**(3,612,523)**	**(47,032,755)**	**43,420,232**

Net operating revenues rose by 6% to USD41.2 million. Net interest income (NII) dropped by USD3.8 million (13%) year on year, to USD24.9 million. While average volumes of interest-generating assets dropped by 3%, and average volumes of high liquid assets attracting lower or negative interest rates increased by 25%, the drop in NII was predominantly due to the impact of low global interest rates and narrowing spreads. The low interest environment and narrowing spreads had a negative impact on interest income which was USD4.7 million (11%) lower than previous year, however, this was partially offset by the positive impact that low interest rates had on interest expense. Borrowing and deposit-taking costs decreased by USD1.0 million (7%) year on year, despite that average volumes grew by 9%. At USD10.8 million, net fee income was USD1.9 million (21%) higher than previous year, as in 2021 LFC saw the highest transaction turnover recorded since LFC's acquisition by FIMBank.

The Group recognised net gains of USD3.0 million from trading assets and other financial instruments, compared to a net loss of USD0.4 million in prior year. Despite the challenging market conditions and low interest rates, forfaiting assets were the main contributors, registering a USD1.9 million gain. This was USD2.6 million higher than 2020, even though average balances were slightly lower during the year under review. Realised gains on financial assets at FVOCI at USD0.7 million were USD0.6 million (43%) lower than previous year. Gains on financial assets at FVTPL at USD0.4 million were USD1.4 million higher than the fair value loss recognised in the previous year.

In 2021, the Group recorded a USD1.1 million dividend from its investment in an unlisted sub-fund of a local collective investment scheme. Net results from foreign currency operations at USD0.6 million and other operating income at USD0.7 million were fairly stable compared to prior year.

Operating expenses were managed well with a 4% marginal increase to reach USD40.5 million. The Group continued investing in its human resources through the attraction, retention and training of employees. Technological investments continued, particularly in the business and regulatory space.

Driven by an improving credit environment, the Group recognised USD1.9 million net provisions for credit losses, compared to USD35.7 million recognised in 2020, which was the year subjected to a number of COVID-19 related impairment events. On performing Stage 1 and Stage 2 exposures, USD2.3 million of provisions were released, on the basis of lower expected credit losses, lower probabilities of default and improving macro-economic indicators. In comparison in 2020 the Group recorded an impairment charge of USD0.6 million.

During the year under review the Group has recovered over USD25.0 million of non-performing assets and recognised USD 1.4 million (2020: USD1.1 million) recoveries in the Income Statement. The Group had also written-off USD21.4 million (2020: USD 10.9 million) of fully provided non-performing exposures, on which the Group had no reasonable expectations of recovering the contractual cash flows. In the majority of cases, the Group had not forgiven the debt and is not precluded from enforcing, selling, or transferring the credit to another entity. These developments along with other measurements have helped the Group to lower its NPL Ratio by approximately 500 basis points within the year under review.

The Group reversed USD15.8 million of Stage 3 provision. USD28.1 million were reversed upon recovery or write-off of non-performing exposures, whereas USD12.3 million was a coverage increase for pre-existing non-performing exposures and coverage for legal fees incurred in the process of recovering the Group's delinquent portfolio.

The Group performed an impairment assessment of goodwill on two of its main subsidiaries (India Factoring and Egypt Factors). The concluded value-in-use from the valuations for both entities, supported the carrying amount of these two entities, as well as the goodwill on the Group's Balance Sheet. The value-in-use was based on a long-range plan that takes into account the long-term subsidiaries' prospects and business volumes. In 2020 goodwill for India Factoring was impaired by USD2.7 million.

Though an external valuation was performed on the Group's investment property, this did not result in any upward or downward movement as the market value of the property remained largely unvaried when compared to prior years.

Financial position

At 31 December 2021, total consolidated assets stood at USD1.79 billion, down by USD45.6 million or 2.5% from end-2020. Average total consolidated assets were 4% higher than the average for prior year.

Compared to previous year, the Group closed the year with higher balances in factoring (by USD70 million) and with lower balances in treasury assets which includes HQLA (by USD55 million), trade finance (by USD51 million), trading assets (by USD12 million) and loans to banks (by USD11 million).

Throughout the year the Group upheld its strategy to hold strong liquidity and capital positions, as many economies faced pandemic resurgences. Consequently, average balances for treasury assets were USD143 million higher than previous year.

Average factoring balances were also higher by USD28 million, whereas average balances were lower for trade finance (by USD35 million), loans to banks (by USD7 million) and trading assets (by USD5 million). The Group continued with its strong compliance focused strategy, thus has exited some business activities, jurisdiction and customer groups. The pandemic also had an impact on market demand, productivity and trade flows, creating difficulties in originating new business within the Group's risk appetite, monitoring transactions, completing documentation, and client onboarding, among other issues. Though this combination of factors did not present the Bank with the right opportunities to grow some of its portfolios earlier in the year, the Group gained momentum towards the end of the year and registered growth in areas that fall within the Group's risk appetite and compliance standards.

In performing its assessment on the carrying amounts of deferred tax, investment in subsidiaries and goodwill, management have weighed in the course of the COVID-19 pandemic and the progress made with vaccination programs, the global low interest rate environment and signs of increasing inflation rates, along with other factors having a significant impact on global economic activities. In their assessment, management have concluded that these balance sheet items were carried in the Balance Sheet at the appropriate value, and therefore did not require an impairment charge.

The Group had consolidated liabilities of USD1.56 billion as at 31 December 2021, a drop of USD36.4 million from prior year. Average balances for 2021 were higher than previous year by USD158 million for bank deposits and wholesale funding and lower for corporate and retail deposits (by USD37 million) and debt securities in issue (by USD17 million). The Group raised long-term funding by participating in the Targeted Longer-Term Refinancing Operations (TLTRO) launched by ECB in the wake of the COVID-19 pandemic. At as year-end this amounted to USD233 million.

Reflecting the loss for the year and other equity adjustments, total equity decreased by USD9.2 million to USD224.0 million. The Group's share capital remained unchanged throughout the year under review. At 31 December 2021 the Group's CET1 ratio stood at 18.7% (2020: 18.5%) and the Group's TCR at 18.7% (2020: 18.5%).

Total consolidated commitments at USD153.6 million consist mainly of confirmed letters of credit, documentary credits, commitments to purchase forfaiting assets and factoring commitments. As a consequence of Malta's grey-listing by the Financial Action Task Force, the Bank suffered in particular a reduction in letters of credit. Total consolidated contingent liabilities, principally consisting of outstanding guarantee obligations, stood at USD2.0 million.

Principal risks and uncertainties

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

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

On 11 March 2020, the World Health Organisation declared that the novel Coronavirus ("COVID-19") could be characterized as a pandemic. The impact of the outbreak is widespread across the globe and has distressed many countries including those markets where the Group operates. The circumstances have rapidly evolved, forcing Governments to implement severe measures and restrictions, including partial or full lockdowns, restrictions on business activities, public gatherings, public spaces, travel, transportation, schools, retail stores, and various other activities. Businesses were forced to close or restrict their activities including restricted access to offices, outlets, warehouses and production plants. The pandemic, as well as these restrictive measures, have created a significant amount of uncertainty and disruption in economic activity and have impacted all industries.

Further disclosures on the Group's principal risks and uncertainties are provided in Note 5 of this Annual Report and the 2021 Pillar III Disclosures Report published on the Bank's website.

Outlook for 2022

While there was hope that the world conquers the pandemic also with good vaccination progress, new Covid-19 variants have emerged. Although the recent signs indicate that the new variants are more manageable than what the world has seen in the past, pandemic development remain one of the relevant items to observe over the course of the upcoming year. We are hopeful that the current situation, that of gradually removing restrictions, will soon transform into a new norm which is sustainable and closer to 'business-as-usual', reducing the level of uncertainty caused by the pandemic.

After the expansionary monetary measures introduced during the past years, reports of increasing inflation beyond the target levels emerged. The policy reaction of Governments and Central Banks are another important indicator to follow. We are already observing increasing key interest rates, which is in line with the market consensus expectation. The Group's Balance Sheet structure is positioned favourably for the increasing interest rates scenario.

While today's interconnected world calls for close watch of the geopolitical situation and specific tensions which might impact among others global supply chains, trade volumes and commodity prices, other Malta specific developments like the grey-listing have to be continually monitored and addressed with due attention.

Having noted this, the Group will continue executing its strategy pursuing business opportunities within its risk appetite on the principle of risk adjusted returns. The Group's Balance Sheet is more resilient than in previous years with lower legacy exposures and improved sustainable revenue generating capabilities.

Within our customer centric focus, we project moderate growth in diversified product offerings, in business lines and in geographies that provide superior returns and pose less risks, to generate consistent value to the organisation. Complex structures are being gradually eliminated and business lines are being streamlined, including the closure of our Hellenic Branch in Greece. While simplifying the Group structure, we shall aim to solidify our local presence in Malta.

The recent conclusion of the MFSA in the Supervisory Review and Evaluation Process (SREP) that resulted in a reduced Pillar 2 Requirement (P2R) by 1.5% is welcomed by the Group. This result allows for growth in asset portfolios and creates an opportunity for the Group to convert its asset origination power into incremental tangible revenue streams. In continuation of the 2021 success in decreasing the absolute amount of non-performing assets and improvement in coverage ratios, the fully dedicated Recovery function shall support the Group in maintaining this momentum. The frontline teams are also equipped to originate business that results in improved credit quality ratios and revenue generation.

In a context of developing regulatory framework including the very relevant ESG topic, the Group's ongoing drive to improve governance and controls shall be a source of future sustainable growth. Having a pool of human capital, that are highly skilled across multiple disciplines, continued investment in IT infrastructure and having the backup of a solid shareholder base, FIMBank is well positioned to progress towards its strategic objectives in a steady, sustainable manner.

Dividends and reserves

As none of the reserves are available for distribution, the Board of Directors will not be recommending the payment of a dividend to the Annual General Meeting of Shareholders (2020: Nil).

Standard licence conditions and regulatory sanctions

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

Approvals at the annual general meeting of shareholders

The Bank convened its Annual General Meeting on 15 July 2021 and all statutory Ordinary Resolutions were approved.

Shareholder register information pursuant to Capital Markets Rule 5.64

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

a. details of the structure of the share capital, the class of shares and the rights and obligations attached to it and the percentage of total share capital that it represents are, unless otherwise stated in this report, disclosed in the Notes to the Financial Statements;

b. except as provided for by Article 41 of the Articles of Association of the Bank, or where the consent of the Supervisory Authority may be required, there are no restrictions on the transfer of securities, or limitations on the holding of securities, or the need to obtain the approval of the Bank or other holders of securities of the Bank for any such transfer or holding. Shareholders holding 5% or more of the share capital as at 31 December 2021 are as follows

	No of shares	% holding
United Gulf Holding Company B.S.C	410,812,110	78.63%
Burgan Bank K.P.S.C. ("BBK")	44,394,499	8.50%

In addition to the Shareholders listed in the above table, as at 31 December 2021, Tunis International Bank S.A. (a subsidiary of BBK) holds 9,207,000 shares (1.76%);

c. there is no share scheme in place which gives employees the rights to any form of control;

d. the Bank's Articles of Association do not contain more stringent provisions than the ones contained in the Companies Act governing the changes or variations in the rights attached to shares;

e. in terms of Article 12 of the Bank's Articles of Association, the rights attached to any class of shares may be varied either with the consent in writing of the holders of not less than 80% of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of shares of that class. The Banking Act obliges the Bank to obtain the consent of the Supervisory Authority (MFSA) to effect any material change in voting rights;

f. the rules and procedures governing the appointment and replacement of Board Members are provided by the Articles of Association and are referred to in the Statement of Compliance with the Principles of Good Corporate Governance. Any amendments to the Articles shall be by means of an extraordinary resolution in accordance with the provisions of Articles 90 and 91;

g. unless otherwise disclosed in this Annual Report, there are no significant agreements to which the Bank is a party and which take effect, alter or terminate upon a change of control of the Bank following a takeover bid and the effects thereof; and

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

At 31 December 2021 the Bank had no securities with special control rights in accordance with the Capital Markets Rule 5.64.4.

Events after the financial reporting date

On 28 February 2022, the Hellenic Branch in Athens, Greece was officially closed.

On 2 March 2022, FIM Holdings (Chile) S.p.A. was officially liquidated. FIM Holdings (Chile) S.p.A. was a wholly owned subsidiary registered in Chile and served as the corporate vehicle for Latam Factors S.A., which entity was sold to third parties during 2018. FIM Holdings (Chile) S.p.A. was put into liquidation during 2019 and its liquidation had no financial impact on the Financial Statements as at reporting date.

The conflict in Ukraine has prompted management to take the appropriate steps to monitor the possible impact this might have on the Group both directly and indirectly. The Group's direct exposure to Russia and Ukraine is limited, with USD1.3 million outstanding to a state-owned bank in Ukraine. Several client limits were reduced and country limits were suspended. Increased monitoring was put in place on customers that could be indirectly impacted by the war, either through their trading activity, commodity volatility, sanctions or other general impacts. A portfolio review concluded that our clients are well positioned to absorb any impact from the current situation. We will continue to take appropriate actions as needed, to protect the quality of the Group's portfolio.

Going concern

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

Directors

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

John C. Grech (Chairman)	CGC, BCC, BRIC	
Masaud M.J. Hayat (Vice Chairman)	NRC	
Abdel Karim A.S. Kabariti	CGC, NRC	
Claire Imam Thompson	CGC, BAC, BRC	
Edmond Brincat	BAC, NRC	
Hussain Abdul Aziz Lalani	BAC, BRC, BRIC	
Majed Essa Ahmed Al-Ajeel	CGC, NRC	
Mohamed Fekih Ahmed	BCC	
Osama Talat Al-Ghoussein	BRC	Retired on 31 March 2022
Rabih Soukarieh	BCC	
Rogers David LeBaron	CGC, NRC	

Denotes membership of:

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

Statement of responsibility

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

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

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

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

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

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

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

Independent auditors

KPMG have expressed their willingness to continue in office as auditors of the Bank. A resolution proposing their re-appointment will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 13 April 2022

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

Statement of compliance with the principles of good corporate governance

For the year ended 31 December 2021

Introduction

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

Part 1: Compliance with the principles

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

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

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

Principle 1: Roles and responsibilities of the board

The Board of Directors' terms of reference are included in the relevant charter and can be summarised as follows:

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

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

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

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

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

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

The Chairman is a non-executive officer who is selected from amongst the Directors. The Chairman is responsible for leading the Board and setting its agenda, ensuring that the Directors receive precise, timely and objective information so that they can properly execute their duties, encouraging their active engagement in meetings and issues brought before the Board and ensuring effective communication with Shareholders.

The GCEO is the most senior executive of the Group and is appointed by the Board of Directors. He is responsible for leading the management in the execution of the strategy and to run the day-to-day activities of the Group.

Principle 3: Board composition and appointment of directors

The Bank's Articles of Association (the "Articles") contain detailed provisions (in Clauses 93 to 114) as to the manner of appointment and retirement of the Directors. Directors hold office from the close of the Annual General Meeting at which they are appointed until the day of the consecutive Annual General Meeting, at which they become eligible for re-election. The Articles also provide that the Chairman and Vice Chairman are to be appointed by the Directors from amongst their number and shall hold office for a period of one year, unless otherwise decided by a simple majority of the Board. Any Member may nominate an individual in the manner prescribed by the Articles, provided that such nomination is seconded by a Member or Members who in aggregate hold at least twenty thousand shares between them.

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

	Year when first appointed
John C. Grech (Chairman)	2004
Rogers David LeBaron	2006
Majed Essa Ahmed Al-Ajeel	2013
Masaud M.J. Hayat (Vice Chairman)	2013
Mohamed Fekih Ahmed	2013
Rabih Soukarieh	2013
Osama Talat Al-Ghoussein	2014
Edmond Brincat (Independent Director)	2017
Hussain Abdul Aziz Lalani	2017
Abdel Karim A.S. Kabariti	2020
Claire Imam Thompson * (Independent Director)	2020

' * ' Claire Imam Thompson was appointed by the Shareholders on 30 November 2020 and regulatory approval was obtained on 23 February 2021.

Except for their involvement in Board Committees as described below, all Directors hold office in a non-executive capacity.

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

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

Another written declaration of independence shall be signed by all the Non-Executive Directors in April 2022. In addition to the declaration provided, the Board considers such Directors to bring a sufficiently balanced character and frame of mind to their duties and judgment that they are consequently deemed to be independent. The Bank monitors that each Director limits the number of any directorships held in other companies. The Bank considers that the Directors have sufficient time to perform their duties and responsibilities in terms of law. The management body of the Group is deemed to be the Board of Directors, which is appointed in accordance with the Bank's Articles of Association.

As at 31 December 2021, the Board of Directors consisted of:

	Number of directorships held (including FIMBank p.l.c. and its subsidiaries)
John C. Grech (Chairman)	12
Masaud M. J. Hayat (Vice Chairman)	12
Abdel Karim Kabariti	4
Claire Imam Thompson	2
Edmond Brincat	14
Hussain Abdul Aziz Lalani	4
Majed Essa Ahmed Al-Ajeel	3
Mohamed Fekih Ahmed	5
Osama Talat Al-Ghoussein	4
Rabih Soukarieh	4
Rogers David LeBaron	1

The directorships held by the Directors in non-EU entities are not subject to MFSA approval.

Principles 4 and 5: Duties and proceedings of directors

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

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

The Board held five meetings in 2021. All Members of the Board were present for all five meetings except for Masaud M.J. Hayat, who was excused in May and November and Abdel Karim A.S. Kabariti, who was excused for the December meeting. Meetings include presentations by management, whilst other information and documentation is made available for perusal by the Directors at their request. Members of senior management attend Board Meetings by invitation depending on the agenda content and relevance. The Board also might request that the Meetings be attended by other employees or by professional advisors, as and when necessary. In all other circumstances, the Directors are expected to play a full and constructive role in the Group's affairs. As soon as possible after a Meeting, draft minutes are circulated amongst the Members for their information. Minutes are then read and approved at the following Meeting. Directors are provided with Board documents and can also be provided with all past minutes of Board and Committee Meetings upon request.

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

Principle 6: Information and professional development

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

Training sessions have been held in 2021 in order for Directors to have the necessary knowledge on their duties and responsibilities.

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

Principle 7: Evaluation of the board's performance

Members of the Board of Directors are subject to comprehensive 'fit and proper' tests by the Supervisory Authorities before they are formally cleared for appointment to the Board. The Board undertakes an annual evaluation of its own performance and that of its Committees. The evaluation forms are then evaluated by a Committee, which function has been entrusted to the Nomination and Remuneration Committee, which then reports directly to the Board Chairman who is required to act on the results of the performance evaluation process. The outcome would be to ascertain the strengths and to address the weaknesses of the Board and its Committees and to report this to the Board itself and, where appropriate, to report at the Annual General Meeting. This exercise began in 2013 and has been repeated annually ever since. The self-evaluation of the Board and its Committees and the addition of the two new Directors, led to some changes to the Committee composition. Details regarding the changes to Committee composition have been disclosed under Principle 8: Changes to committee memberships during 2021. The last evaluations from Directors were requested in the last quarter of 2021 and were presented to the Nomination and Remuneration Committee in April 2022.

Principle 8: Board committees

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

Accordingly, the Board has established the following Committees:

- Board Review and Implementation Committee
- Board Audit Committee
- Board Risk Committee
- Assets Liabilities Committee
- Nomination and Remuneration Committee (further information can be found in the Remuneration Report on page 23)
- Board Credit Committee
- Corporate Governance Committee

Board review and implementation committee

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

The Members of the Board Review and Implementation Committee as at 31 December 2021 are the following:

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

The Board Review and Implementation Committee met on nine occasions during 2021.

Board audit committee

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

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

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

The Members of the Board Audit Committee as at 31 December 2021 are the following:

Edmond Brincat (Chairman – Independent Director)
Hussain Abdul Aziz Lalani (Vice Chairman)
Claire Imam Thompson (Member– Independent Director)

Rogers David LeBaron is a non-voting, permanent invitee of the BAC.

In line with Capital Markets Rule 5.117.4, the Chairman of the Board Audit Committee is appointed by the Board of Directors and with reference to Capital Markets Rule 5.117.3, all Members of the Board Audit Committee are designated as competent in auditing and/or accounting as per qualifications listed hereunder.

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

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

Claire Imam Thompson currently holds the position of Executive Vice President, Head of Global Trade, Enterprise Partnerships at Mastercard. Claire Imam Thompson is an accountant by profession and also holds a Bachelor of Science (Hons) in Business Studies which she obtained from the University of Bradford.

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

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

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

The Board Audit Committee held nine meetings during 2021 and all Members were present for all nine meetings. The Group Head of Internal Audit was invited and attended all meetings. The External Auditors were invited to seven of the Board Audit Committee Meetings (February 2021, April 2021, May 2021, August 2021 and December 2021). The External Auditors were only present for the agenda item which considered and discussed the 2020 Statutory External Audit (February 2021), 2020 Annual Report (April 2021), 2020 Management Letter (April 2021), Interim Report for the period ended 30 June 2021 (August 2021) and Statutory Audit Plan for Financial Year ending 31 December 2021 (December 2021).

Board risk committee

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

The Board Risk Committee Members as at 31 December 2021 are the following:

Hussain Abdul Aziz Lalani (Chairman)
Osama Talat Al-Ghoussein (Vice Chairman)
Claire Imam Thompson (Member)

During 2021, the Board Risk Committee met on thirteen occasions.

Assets liabilities committee

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

The ALCO is composed of representatives of senior management, vested with the power to make decisions. As at 31 December 2021, the voting members of the ALCO were the following:

Zbigniew Makula (Chairman)
Adrian A. Gostuski (Member)
Julio Bonifacino (Member)
Ronald Haverkorn (Member)
Juraj Beno (Member)
Simon Lay (Member)

Chris Trapani (Head of Cash Management & Central Customer Services), Tiziri Hamidouche (Deputy Head of Treasury), Corinne Lanfranco (Head of Financial Institutions & Deposits), Simon Vickery (Head of Non-Credit Risk Management), Kamel Moris (Chief Commercial Officer Trade & Commodity Finance) and Clinton Bonnici (Asset Liabilities Management Manager) are non-voting, permanent invitees of the ALCO.

During 2021, the Assets Liabilities Committee met on five occasions.

Board credit committee

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

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

The Board Credit Committee Members as at 31 December 2021 are the following:

John C. Grech (Chairman)
Rabih Soukarieh (Vice Chairman)
Mohamed Fekih Ahmed (Member)

Adrian A. Gostuski (GCEO) and Ronald Haverkorn (GCRO) are non-voting, permanent invitees of the BCC.

During 2021, the Board Credit Committee met on seventeen occasions.

Corporate governance committee

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

The Corporate Governance Committee Members as at 31 December 2021 are the following:

Majed Essa Ahmed Al-Ajeel (Chairman)
John C. Grech (Vice Chairman)
Abdel Karim A.S. Kabariti (Member)
Claire Imam Thompson (Member)
Rogers David LeBaron (Member)

During 2021, the Corporate Governance Committee met on four occasions.

Nomination and remuneration committee

The Nomination and Remuneration Committee ("NRC") is currently composed of five members, one of whom is an independent director. The Nomination and Remuneration Committee is governed by the NRC's Charter as may be amended by the Board of Directors ("Board") in line with the relevant laws and regulations. The Charter establishes the authority and responsibilities conferred by the Board to the NRC in line with Appendix 5.1 (8) (A) & (B) of the Code of Principles of Good Corporate Governance. Inter alia the NRC carries out the following tasks:

- presents recommendations to the Board regarding nomination to the Board's membership in accordance with approved policies, standards, and instructions on nomination regulations for the Board of Director's membership;
- performs an annual review of the needs required with regard to suitable skills for Board membership and performs an annual review of the Board of Directors' structure and presents recommendations on the changes which can be performed in accordance with the Bank's interest;
- performs an annual evaluation of the Board's overall performance and the performance of each Member and the Board Committees; and
- conducts as and when required, including on an annual basis, suitability assessments of prospective/appointed Directors, officers holding a senior management position and key function holders.

In addition to the above, the NRC provides information and summaries on the background of some important issues of the Bank and presents the reports and information to the Board. It ensures that the Board is continuously updated on the latest issues related to the banking profession.

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

The Nomination and Remuneration Committee Members as at 31 December 2021 are the following:

Masaud M.J. Hayat (Chairman)
Majed Essa Ahmed Al-Ajeel (Vice Chairman)
Abdel Karim A.S. Kabariti (Member)
Edmond Brincat (Member)
Rogers David LeBaron (Member)

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

During 2021, the Nomination and Remuneration Committee met on four occasions.

All members were present for all four meetings except for Majed Essa Ahmed Al-Ajeel who was excused for the April meeting. Abdel Karim A.S. Kabariti was appointed as member in May 2021 and was excused for the May and December meetings.

Changes to committee membership during 2021

During 2021, Claire Imam Thompson was appointed Member of the Board Risk Committee and Edmond Brincat is no longer a Member of the Board Risk Committee.

Claire Imam Thompson and Abdel Karim A.S. Kabariti were appointed Members of the Corporate Governance Committee.

Abdel Karim A.S. Kabariti was appointed Member of the Nomination and Remuneration Committee.

Claire Imam Thompson was appointed Member of the Board Audit Committee.

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

The Chairman arranges for all Directors including the Chairmen of all the Committees to be available to answer questions at the Annual General Meeting. All eligible Shareholders are served with a notice to attend the Annual General Meeting, which is usually held during the first half of the year, however as a result of the pandemic and further to legislative amendments carried out to the Companies Act in this respect, during the year 2021 the Annual General Meeting of the Bank was held in July. The notice contains all the resolutions proposed for approval by the Annual General Meeting and, as necessary, notes accompanying such resolutions. Pursuant to the Companies Act, notices are delivered to Shareholders at least fourteen clear days before the date of the Annual General Meeting. Advance notification of the resolutions proposed for approval is also given by way of a Company Announcement as soon as these are decided and approved, normally at the same Board Meeting that approves the Annual Financial Statements. The Board also considers the Annual Report to be an effective document which, in addition to the statutory disclosures, contains detailed information about the Group's performance. Moreover, the Board ensures that the Annual General Meeting serves as a medium at which information is communicated to Shareholders in a transparent and accountable manner. Additionally, the Bank holds meetings from time to time with financial intermediaries and financial market practitioners to disseminate information about the Group's progress, activities and financial performance. These meetings are usually organised to follow the publication of the half yearly and annual financial results as well as in connection with other Group developments and events. Procedures are in place to resolve conflicts between minority shareholders and controlling shareholders.

The Board complies with the provisions of the Bank's Memorandum and Articles of Association, as well as all legislation, rules and regulations that require it to maintain a fair and informed market in the Bank's equity securities. It discharges its obligations by having in place, formal procedures for dealing with potentially price-sensitive information and ensuring the proper conduct of its officers and employees in that regard. Regular contact with Shareholders and the general market is maintained through Company Announcements, which are issued in conformity with the obligations arising from the Capital Markets Rules. During 2021 the Bank issued fourteen announcements.

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

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

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

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

Principle 11: Conflicts of interest

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

The number of shares held in the Bank by Directors directly in their name as at 31 December 2021 is as follows:

John C. Grech (Chairman) *	1,760,000
Abdel Karim A.S. Kabariti *	Nil
Claire Imam Thompson	Nil
Edmond Brincat	Nil
Hussain Abdul Aziz Lalani *	Nil
Majed Essa Ahmed Al-Ajeel *	Nil
Masaud M.J. Hayat (Vice Chairman) *	Nil
Mohamed Fekih Ahmed *	Nil
Osama Talat Al-Ghoussein *	Nil
Rabih Soukarieh *	Nil
Rogers David LeBaron	Nil

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

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

Principle 12: Corporate social responsibility

The Board of Directors encourages that sound principles of corporate social responsibility are adhered to in the ongoing management practices of the Group. As a result, from time to time the Bank and its subsidiaries are involved in supporting initiatives at both national and community level aimed at contributing economic and societal development. They also assist and promote small-scale projects of a charitable and humanitarian nature. Further details of corporate social responsibility initiatives undertaken by the Group in 2021 are explained in the CEO's Message of the Annual Report.

Part 2: Non-compliance with the principles

Principle 2.3: Chairman and chief executive

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

Principle 3: Composition of the board

Principle 3 in Appendix 5.1 of the Capital Market Rules requires that the Board should be composed of executive and non-executive directors including independent non- executives. The Board of Directors of FIMBank is comprised solely of Non-Executive Directors. This notwithstanding, the Bank considers the non-compliance with this Principle not to be of concern in view of the fact that members of senior management and the Group Chief Executive Officer attend Board Meetings by invitation depending on the agenda content and relevance. Furthermore, the Board Review and Implementation Committee already consists of a mix of Non-Executive Directors and a member that forms part of the Bank's Executive Management. This provides the balance suggested in Principle 3.The Bank considers the non-compliance with principle 3.4 not to be of concern in view of the fact that all Directors with the exception of two signed the written declaration of independence by 2021 and the other two signed a written declaration in February 2022, whereby they all declared that they undertake to maintain in all circumstances their independence of analysis, decision and action, not to seek or accept any unreasonable advantages that could be considered as compromising their independence and to clearly express their opposition in the event that they find that a decision of the Board may harm the Bank.

Principle 4: Succession policy for directors

Whereas Capital Markets Rule 4.2.7 calls on the Directors to develop a succession policy for the future composition of the Board, and 'particularly the executive component thereof, for which the Chairman should hold key responsibility', this is considered to be not applicable in view of the fact that the Board is composed solely of non-executive members. During the May and August NRC meetings of 2021, the Nomination and Remuneration Committee discussed the management succession plan. The Nomination and Remuneration Committee ensures that a succession plan for management is updated and outlines interim and long-term successors.

Principle 8: Nomination and remuneration committee

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

The existing Chairman and Vice Chairman of the Nomination and Remuneration Committee are not independent members in terms of the Capital Markets Rules, as set out in terms of Principle 8.A.1 of the Code of Principles of Good Corporate Governance. This notwithstanding, the Bank considers the non-compliance with this Principle not to be of concern in view of the fact that both the Chairman and Vice Chairman of the NRC have signed a written declaration whereby they have declared that they undertake to maintain in all circumstances their independence of analysis, decision and action.

Internal control

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

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

Capital Markets Rule 5.97.5 and Rule 5.97.8

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

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

Approved by the Board of Directors and signed on its behalf by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 13 April 2022

Remuneration report

For the year ended 31 December 2021

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

Statement of the Nomination and Remuneration Committee (as per Section 8 of the Principles)

Terms of reference and membership

The Nomination and Remuneration Committee ("NRC") is responsible for ensuring that the Directors and Executive Management of FIMBank Group have the appropriate mix of skills, qualifications and experience necessary to fulfil their supervisory and management responsibilities. The NRC also reviews on an annual basis, the remuneration of the Board of Directors and that of Executive Management and ensures that it is in line with principles of good governance.

As at 31 December 2021, the NRC was composed of five members, Masaud M.J. Hayat (Chairperson), Majed Essa Ahmed Al-Ajeel (Vice-Chairperson), Rogers David LeBaron, Edmond Brincat (Independent Member) and Abdel Karim A.S. Kabariti. John C. Grech and Adrian A. Gostuski in their capacity as Chairman of the Group and Group Chief Executive Officer ("GCEO") respectively, attended the NRC's meetings as permanent invitees, Simon Lay in his capacity as CEO of LFC was invited to present one agenda item in the NRC meeting held August 2021. The Group Chief Human Resources Officer ("GCHRO") acted as Board Committee Secretary.

Meetings

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

Members	**Attended**
Masaud M.J. Hayat (Chairperson)	4
Majed Essa Ahmed Al-Ajeel (Vice-Chairperson)	3
Abdel Karim A.S. Kabariti (appointed as Member in May 2021)	1
Edmond Brincat (Member)	4
Rogers David LeBaron (Member)	4

The following matters were discussed and, or determined:

a. New independent Directors and Group appointed Directors;
b. Chairman's role and performance;
c. Directors' remuneration;
d. Board of Directors evaluation, Director's self-assessment and Board Committees self-assessment;
e. NRC charter;
f. Board Committees memberships;
g. Remuneration Policy and CRD V;
h. Executive Management recruitment, appointments, performance, promotions, succession and remuneration;
i. Group salary review, bonus allocation and out of cycle increases/payments;
j. Succession planning for all entities;
k. Control functions (independence, recruitment, succession and performance);
l. Subsidiary CEOs;
m. HR Policies; and
n. NRC and Remuneration Policy statements for Annual Report.

Remuneration statement

The NRC has the role of making recommendations on the Board of Directors' remuneration. The guiding principle, as outlined in the Remuneration Policy and the Remuneration Policy Supplement, is that the remuneration for the Directors shall be competitive to ensure that the Group attracts and retains outstanding individuals of integrity, calibre, credibility and who have the necessary skills and experience to bring an independent judgement to bear on the issues of strategy, performance and resources for the success of the Group. Directors are remunerated through a fixed-fee structure which varies according to whether the appointment is that of an Independent Director or otherwise and to whether the directors are chairpersons or members of the other respective Board Committees.

The Annual General Meeting of Shareholders approves the maximum annual aggregate remuneration which the Directors may receive for the holding of their office. At the Annual General Meeting held remotely on 15 July 2021, the Shareholders approved the maximum aggregate emoluments of the Directors for the financial year ending 31 December 2021 at USD450,000 (2020: USD450,000). Directors, in their capacity as Directors of the Bank, are not entitled to profit sharing, share options or pension benefits. The total fees paid specifically for Board of Directors Meetings for the financial year ending 31 December 2021 amounted to USD204,918.

Code provision 8.A.5

For 2021, the total payments received by the Directors from the Bank and the Group were:

- fixed remuneration USD414,833
- variable remuneration Nil
- executive share options Nil
- expenses relating to meetings Nil
- fringe benefits USD1,032

The fixed annual remuneration is inclusive of remuneration with respect to Committee/s the Directors are members of.

The NRC ensures that while its remuneration practices are in compliance with existing EU/Maltese directives and regulations, including the applicable Capital Requirements Directive V and the Capital Requirements Regulation, it also ensures that the remuneration packages reflect industry benchmarks. This makes it possible for the Group to attract and retain Executives with the right qualities and skills for the proper management of the Group as well as the proper execution of the strategy as laid down by the Board of Directors. Unless the current economic scenario changes materially, no new significant changes are envisaged for the financial year ending 2022.

The various remuneration components, including that for Executive Management are:

- fixed remuneration;
- variable remuneration; and
- fringe benefits.

These components are combined to ensure an appropriate and balanced remuneration package that reflects the employee's grade and professional activity within the Group. Executive Management are not entitled to supplementary pension or early retirement schemes.

For 2021, the total payments received by Executive Management (members within the C-suite) from the Bank and the Group were:

- fixed remuneration USD1,943,103
- variable remuneration USD233,452
- executive share options granted Nil
- fringe benefits USD467,237

Additional disclosures on the governance process related to the variable portion of remuneration have been made under the Directors' Remuneration Report and under the Remuneration Policy which can be found in the 2021 Pillar III Disclosures Report published on the Bank's website.

Executive Management of the Bank hold both definite and indefinite contracts with varying notice periods, all of which are in line with local legislation. The contracts of Directors and Executive Management do not include provisions for termination payments and other payments linked to early termination, except for those required by law.

NRC decisions are determined by the guidelines set by the Board of Directors when reviewing the Group budget.

Directors' Remuneration Report (as per Capital Market Rules 12.26K)

This report is being included with the purpose of providing the level of transparency as required with effect from reporting year 2020, following the enactment of Directive EU2017/828 (often referred to as "SRD II") and the consequential changes to the Capital Markets Rules, more specifically Chapter 12 which deals with shareholders' rights. The amounts disclosed reflect the Remuneration Policy Supplement ("Policy") as approved by the Annual General Meeting held on 30 November 2020 and published on the Bank's website. The Policy was implemented without making any derogations and, or deviations from the procedure for the implementation of the Remuneration Policy as defined in Chapter 12 of the Capital Markets Rules.

The total remuneration of each individual Director is detailed in the tables below. The Non-Executive Directors only receive fixed fees per meeting for their participation at Board and Committee level. Consequently, the percentage split between fixed and variable should be taken as 100% vs 0%. The tables include remuneration received by the Bank's Directors, the GCEOs (former and current) from the Bank. They did not receive any remuneration from the Bank's subsidiaries. The Deputy CEO, also included in the tables below in line with the requirement of Chapter 12 of the Capital Markets Rules, received all his remuneration from London Forfaiting Company Ltd (LFC), the subsidiary where he holds the position of CEO. For information about the general performance and events of material importance of the Group refer to the Statements of Profit or Loss and the Statements of Other Comprehensive Income on pages 30 and 31 and in the Review of Performance section within the Director's Report. These did not impact the total remuneration of Directors. The Group's approach to remuneration is that of ensuring that the Group is able to attract and retain talented and high performing directors by recognising, valuing and fairly rewarding their contributions while remaining aligned to the Group's long-term strategy, risk appetite, sustainable performance and corporate values.

The Non-Executive Directors did not receive any base salary, variable remuneration or compensation in respect of extraordinary items and pension contributions.

Name of director	Directors remuneration			Notes
	2021 USD	2020 USD	* Difference %	
John C. Grech	101,032	98,240	2.84	No change in fee structure. Difference due to number of sittings held in 2021
Masaud M.J. Hayat	17,000	20,512	(17.12)	No change in fee structure. Difference due to number of sittings held in 2021 and 2020
Abdel Karim A.S. Kabariti	17,667	1,835	140.69	Remuneration for 2020 is for part year in quarter 4 and was only in respect to his membership on the Board of Directors. Annualized % increase is mainly due to fees for new memberships on CGC and NRC in 2021
Claire Imam Thompson	38,333	-	-	Started receiving fees in March 2021
Edmond Brincat	47,333	46,569	1.64	Difference due to two changes in Committee membership in 2021 and 2020 respectively
Hussain Abdul Aziz Lalani	36,750	34,857	5.43	No change in fee structure. Difference due to number of sittings held in 2021 and 2020
Majed Essa Ahmed Al-Ajeel	25,750	21,117	21.94	No change in fee structure. Difference due to number of sittings held in 2021 and 2020
Mohamed Fekih Ahmed	27,000	28,344	(4.74)	No change in fee structure. Difference due to number of sittings held in 2021 and 2020
Osama Talat Al-Ghoussein	19,000	19,308	(1.60)	No change in fee structure
Rabih Soukarieh	23,000	26,067	(11.77)	No change in fee structure. Difference due to number of sittings held in 2021 and 2020
Rogers David LeBaron	63,000	63,043	(0.07)	No change in fee structure

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

Name of director	Position
John C. Grech	Chairperson FIMBank BoD, Chairperson LFC BoD, Chairperson BRIC, Chairperson BCC, Vice Chairperson CGC, Permanent Invitee NRC
Masaud M.J. Hayat	Vice Chairperson BoD, Chairperson NRC
Abdel Karim A.S. Kabariti	Member BoD, Member CGC, Member NRC
Claire Imam Thompson	Member BoD (independent member), Member BAC, Member BRC, Member CGC
Edmond Brincat	Member BoD (independent member), Chairperson BAC, Member NRC
Hussain Abdul Aziz Lalani	Member BoD, Chairperson BRC, Vice Chairperson BAC, Vice Chairperson BRIC, Member LFC BoD
Majed Essa Ahmed Al-Ajeel	Member BoD, Chairpeson CGC, Vice Chairperson NRC, Member LFC BoD
Mohamed Fekih Ahmed	Member BoD, Member BCC, Member LFC BoD
Osama Talat Al-Ghoussein	Member BoD, Vice Chairperson BRC
Rabih Soukarieh	Member BoD, Vice Chairperson BCC
Rogers David LeBaron	Member BoD, Member CGC, Member NRC, Permanent Invitee BAC

Name of executive	Executive remuneration 2021 USD	2020 USD	* Difference %	Notes
Adrian A. Gostuski	634,882	412,029	15.56	Remuneration for 2020 is for his part year in his capacity as AGCEO. ** Increase in remuneration in 2021 is mainly due to variable remuneration and salary review following his confirmation in the capacity of GCEO
Simon Lay	782,889	727,920	7.55	Increase in remuneration in 2021 is mainly due to a one-time long service award and national insurance contributions
Murali Subramanian	-	696,705	-	

' * ' Differences also include fluctuation in rate of exchange.
' ** ' Adrian A. Gostuski was appointed as AGCEO on 30 March 2020 and GCEO on 7 April 2021.

Name of executive	Position
Adrian A. Gostuski	GCEO FIMBank, Chairperson MCC, Member ALCO, Member ERPC, Member ITSC, Member ORMC, Non-Voting Member BRIC, Chairperson Egypt Factors BoD, Chairperson India Factoring BoD, Chairperson FPI BoD, Member Brasil Factors BoD, Member FBS BoD
Simon Lay	Deputy CEO FIMBank, CEO LFC, Member MCC, Member ALCO, Member ERPC
Murali Subramanian ***	GCEO FIMBank; Chairperson EXCO, Chairperson MCC, Member ALCO, Member ORMC, Chairperson Egypt Factors BoD, Chairperson India Factoring BoD, Member FBS BoD, Member Brasil Factors BOD, Member FBS BOD

' *** ' The definite contract of Murali Subramanian expired on 5 August 2020.

The Executives received all remuneration from the Bank with the exception of Simon Lay whose remuneration is received from a subsidiary of the Bank.

FIMBank performance

Performance indicators	2021 USD	2020 USD	* Difference %
Operating income/(loss) before net impairment	614,682	(132,615)	563.51
Loss for the period	(3,612,523)	(47,032,755)	92.32
Gross non-performing assets	148,726,146	226,803,023	34.42

Average remuneration on full-time equivalent basis of employee	2021 USD	2020 USD	* Difference %
Employees of the Company	76,206	69,573	9.53
Employees of the Group	73,137	64,944	12.62

' * ' Percentages in respect of FIMBank Performance between 2021 and 2020 are being shown as positive given that all denote improvements.

Remuneration for executives for the 2021

Name of executive	Fixed remuneration: Base salary USD	Fees USD	Fringe benefits USD	Variable remuneration: One-year variable USD	Multi-year variable USD	Extraordinary items USD	Pension expense USD	Total remuneration USD	Proportion of fixed and variable remuneration
Adrian A. Gostuski	377,283	-	144,336	113,263	-	-	-	634,882	82% - 18%
Simon Lay	* 491,830	-	82,466	** 120,189	-	-	88,404	782,889	85% - 15%

' * ' This amount includes USD32,411 awarded to Simon Lay as a long term service award.
' ** ' This amount corresponds to EUR100,000 as awarded by the NRC. This amount is converted to GBP, the currency in which the Director receives his remuneration and thereafter converted to the reporting currency (USD).

The remuneration of the Non-Executive Directors is the same as reported in the tabulation above and comprises fees only, except for the case of the Chairman of the Board of Directors whose total emoluments for the 2021 comprise USD100,000 in fees and USD1,032 in fringe benefits.

The variable remuneration awarded to the Executives during the reporting year (performance bonus in respect of financial year 2020) reflects their overall performance. In determining the variable remuneration of both the former GCEO and the current Deputy CEO, their performance was assessed by the NRC against specific goals related to financials as well as other criteria namely, service/client delivery, risk and control, leadership and people management, market position and project and initiatives. On the basis of this assessment, the NRC approved an award of 100% of the maximum awardable performance bonus to both the GCEO and the Deputy CEO. This in view of the GCEO's extraordinary efforts to strategically redirect the Group towards a more sustainable business model and Deputy CEO's material contribution in ensuring that LFC remains a profit-making entity for the Group also in 2020.

The Group did not reward any of its Directors with any share-based remuneration. Likewise, there was no need to reclaim any variable remuneration, neither in the form of malus nor in the form of clawback.

Denotes membership of:

- FIMBank Board of Directors (BoD)
- Board Audit Committee (BAC)
- Board Credit Committee (BCC)
- Board Review and Implementation Committee (BRIC)
- Board Risk Committee (BRC)
- Corporate Governance Committee (CGC)
- Nomination and Remuneration Committee (NRC)
- Asset Liabilities Committee (ALCO)
- Management Credit Committee (MCC)
- Emerging Risk and Provisioning Committee (ERPC)
- IT Steering Committee (ITSC)
- Operational Risk Management Committee (ORMC)

In accordance with Capital Markets Rule 12.26N, the External Auditors have checked that all information, as required in terms of Appendix 12.1 of Chapter 12 of the Capital Markets Rules, has been included in the Directors' Remuneration Report within this Remuneration Report.

Statements of financial position

As at 31 December 2021

	Note	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	18	239,998,839	319,287,524	239,982,048	319,267,749
Derivative assets held for risk management	19	841,688	991,624	841,688	1,019,288
Trading assets	20	439,985,203	452,326,547	-	-
Loans and advances to banks	21	198,488,576	193,139,577	182,458,548	179,364,067
Loans and advances to customers	22	628,912,340	591,995,726	745,564,139	779,834,360
Financial assets at fair value through profit or loss	23	19,966,163	20,385,323	19,966,163	20,385,323
Financial assets at fair value through other comprehensive income	24	162,408,542	153,327,686	162,408,542	153,327,686
Investments at amortised cost	25	9,914,754	9,839,457	9,914,754	9,839,457
Investments in subsidiaries	26	-	-	159,448,858	147,436,214
Property and equipment	27	30,910,454	32,166,816	1,965,249	3,507,509
Investment property	28	17,223,820	17,223,820	-	-
Intangible assets and goodwill	29	9,376,595	9,698,335	3,774,315	4,008,725
Current tax assets		1,280,465	1,397,553	66,667	76,225
Deferred tax assets	30	24,920,527	25,875,734	16,336,538	15,590,955
Other assets	31	4,244,384	6,390,301	3,848,321	5,570,562
Total assets		**1,788,472,350**	**1,834,046,023**	**1,546,575,830**	**1,639,228,120**
Liabilities and equity					
Liabilities					
Derivative liabilities held for risk management	19	1,499,026	1,629,434	1,533,556	1,629,434
Amounts owed to banks	32	563,553,044	429,443,480	497,633,356	387,900,641
Amounts owed to customers	33	934,096,196	1,101,570,295	838,675,598	1,037,118,337
Debt securities in issue	34	45,345,575	50,832,661	-	-
Current tax liabilities		567,144	337,725	-	-
Deferred tax liabilities	30	4,215,075	4,215,075	-	-
Provision for liabilities and charges	35	356,722	275,889	201,775	173,051
Other liabilities	36	14,859,385	12,583,335	7,921,481	7,645,488
Total liabilities		**1,564,492,167**	**1,600,887,894**	**1,345,965,766**	**1,434,466,951**
Equity					
Share capital	37	261,221,882	261,221,882	261,221,882	261,221,882
Share premium	37	858,885	858,885	858,885	858,885
Reserve for general banking risks	37	2,218,995	3,358,738	2,218,995	3,358,738
Currency translation reserve	37	(10,941,184)	(10,011,229)	-	-
Fair value reserve	37	9,879,740	13,367,626	(1,074,305)	2,413,581
Other reserve	37	2,982,435	2,982,435	2,681,041	2,681,041
Accumulated losses	37	(42,869,373)	(39,027,680)	(65,296,434)	(65,772,958)
Total equity attributable to equity holders of the Bank		**223,351,380**	**232,750,657**	**200,610,064**	**204,761,169**
Non-controlling interests	38	628,803	407,472	-	-
Total equity		**223,980,183**	**233,158,129**	**200,610,064**	**204,761,169**
Total liabilities and equity		**1,788,472,350**	**1,834,046,023**	**1,546,575,830**	**1,639,228,120**

Statements of financial position

As at 31 December 2021

		Group		Bank	
		2021	2020	2021	2020
	Note	USD	USD	USD	USD
Memorandum items					
Contingent liabilities	39	**1,950,534**	**1,910,418**	**39,327,362**	**44,246,902**
Commitments	40	**153,618,234**	**105,043,456**	**107,469,111**	**105,245,766**

The official middle rate of exchange issued by the European Central Bank between US Dollar and Euro as at 31 December 2021 was 1.1326 (2020: 1.2271).

The Notes on pages 38 to 152 are an integral part of these Financial Statements.

The Financial Statements on pages 28 to 152 were approved and authorised for issue by the Board of Directors on 13 April 2022.

Signed by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 13 April 2022

Statements of profit or loss

For the year ended 31 December 2021

	Note	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Interest income	9	37,472,230	42,210,926	19,588,232	22,721,724
Interest expense	9	(12,603,475)	(13,567,776)	(10,457,006)	(11,482,001)
Net interest income	9	**24,868,755**	**28,643,150**	**9,131,226**	**11,239,723**
Fee and commission income	10	15,899,548	14,256,769	4,940,843	5,366,867
Fee and commission expense	10	(5,061,985)	(5,287,088)	(2,165,538)	(2,552,278)
Net fee and commission income	10	**10,837,563**	**8,969,681**	**2,775,305**	**2,814,589**
Net trading results	11	2,502,426	(121,164)	(594,353)	(831,244)
Net gain from other financial instruments carried at fair value	12	1,137,221	277,137	1,137,221	277,137
Dividend income	13	1,089,189	240,817	16,989,049	7,240,817
Losses on lease modifications		-	-	(27,037)	-
Other operating income	14	728,990	893,869	133,940	120,725
Other operating expenses		(128,908)	-	(128,906)	-
Operating income before net impairment		**41,035,236**	**38,903,490**	**29,416,445**	**20,861,747**
Net impairment charge on financial assets	5	(1,907,796)	(32,990,319)	(3,699,557)	(34,272,400)
Impairment of goodwill		-	(2,687,000)	-	-
Impairment of investments in subsidiaries		-	-	(87,356)	(9,314,000)
Operating income/(expense)		**39,127,440**	**3,226,171**	**25,629,532**	**(22,724,653)**
Administrative expenses	15	(37,085,595)	(35,610,076)	(23,213,366)	(23,722,803)
Depreciation and amortisation	27/29	(3,334,779)	(3,426,029)	(2,965,967)	(2,962,370)
Total operating expenses		**(40,420,374)**	**(39,036,105)**	**(26,179,333)**	**(26,685,173)**
Loss before tax		**(1,292,934)**	**(35,809,934)**	**(549,801)**	**(49,409,826)**
Taxation	16	(2,319,589)	(11,222,821)	(113,418)	(6,566,776)
Loss for the year		**(3,612,523)**	**(47,032,755)**	**(663,219)**	**(55,976,602)**
Loss attributable to:					
Owners of the Bank		(3,840,703)	(46,898,575)	(663,219)	(55,976,602)
Non-controlling interests	38	228,180	(134,180)	-	-
		(3,612,523)	**(47,032,755)**	**(663,219)**	**(55,976,602)**
Earnings per share					
Basic loss per share (US cents)	17	**(0.74)**	**(8.98)**	**(0.13)**	**(10.71)**

The Notes on pages 38 to 152 are an integral part of these Financial Statements.

Statements of other comprehensive income

For the year ended 31 December 2021

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Loss for the year	**(3,612,523)**	**(47,032,755)**	**(663,219)**	**(55,976,602)**
Other comprehensive expense:				
Items that will not be reclassified to profit or loss:				
Movement in fair value reserve:				
– Property and equipment - net change in fair value	(399,566)	-	-	-
	(399,566)	**-**	**-**	**-**
Items that are or may be reclassified subsequently to profit or loss:				
Movement in translation reserve:				
– Foreign operations - foreign currency translation differences	(1,677,971)	(2,878,066)	-	-
Movement in fair value reserve:				
– Debt investments in fair value through other comprehensive income - net change in fair value	(3,484,283)	3,784,630	(3,484,283)	3,784,630
– Debt investments in fair value through other comprehensive income - reclassified to profit or loss	(749,186)	(1,308,075)	(749,186)	(1,308,075)
Related tax	745,583	(420,207)	745,583	(420,207)
	(5,165,857)	**(821,718)**	**(3,487,886)**	**2,056,348**
Other comprehensive (expense)/income, net of tax	**(5,565,423)**	**(821,718)**	**(3,487,886)**	**2,056,348**
Total comprehensive expense	**(9,177,946)**	**(47,854,473)**	**(4,151,105)**	**(53,920,254)**
Total comprehensive expense attributable to:				
Owners of the Bank	(9,399,277)	(47,767,412)	(4,151,105)	(53,920,254)
Non-controlling interests	221,331	(87,061)	-	-
	(9,177,946)	**(47,854,473)**	**(4,151,105)**	**(53,920,254)**

Statements of changes in equity

For the year ended 31 December 2021

Group

	Attributable to equity holders of the Bank									
	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Accumulated loss USD	Total USD	Non-controlling interests USD	Total equity USD
Balance at 1 January 2021	**261,221,882**	**858,885**	**3,358,738**	**(10,011,229)**	**13,367,626**	**2,982,435**	**(39,027,680)**	**232,750,657**	**407,472**	**233,158,129**
Total comprehensive expense										
Loss for the year	-	-	-	-	-	-	(3,840,703)	(3,840,703)	228,180	**(3,612,523)**
Other comprehensive expense:										
Fair value reserve:										
– Debt investments at fair value through other comprehensive income - net change in fair value	-	-	-	-	(2,738,700)	-	-	(2,738,700)	-	**(2,738,700)**
– Debt investments at fair value through other comprehensive income - reclassified to profit or loss	-	-	-	-	(749,186)	-	-	(749,186)	-	**(749,186)**
– Property and equipment - net change in fair value	-	-	-	-	-	-	(399,566)	(399,566)	-	**(399,566)**
Translation reserve:										
– Foreign operations - foreign translation difference	-	-	-	(1,671,122)	-	-	-	(1,671,122)	(6,849)	**(1,677,971)**
Total other comprehensive expense	**-**	**-**	**-**	**(1,671,122)**	**(3,487,886)**	**-**	**(399,566)**	**(5,558,574)**	**(6,849)**	**(5,565,423)**
Total comprehensive expense	**-**	**-**	**-**	**(1,671,122)**	**(3,487,886)**	**-**	**(4,240,269)**	**(9,399,277)**	**221,331**	**(9,177,946)**
Transfer between reserves	-	-	(1,139,743)	741,167	-	-	398,576	-	-	**-**
Balance at 31 December 2021	**261,221,882**	**858,885**	**2,218,995**	**(10,941,184)**	**9,879,740**	**2,982,435**	**(42,869,373)**	**223,351,380**	**628,803**	**223,980,183**

Statements of changes in equity

For the year ended 31 December 2020

Group

	Attributable to equity holders of the Bank									
	Share capital USD	Share premium USD	Reserve for general banking risks USD	Currency translation reserve USD	Fair value reserve USD	Other reserve USD	Retained earnings/ (Accumulated loss) USD	Total USD	Non-controlling interests USD	Total equity USD
Balance at 1 January 2020	**261,221,882**	**858,885**	**2,323,486**	**(7,086,044)**	**11,311,278**	**2,916,863**	**10,937,616**	**282,483,966**	**(1,471,364)**	**281,012,602**
Total comprehensive expense										
Loss for the year	-	-	-	-	-	-	(46,898,575)	(46,898,575)	(134,180)	**(47,032,755)**
Other comprehensive expense:										
Fair value reserve:										
– Debt investments at fair value through other comprehensive income - net change in fair value	-	-	-	-	3,364,423	-	-	3,364,423	-	**3,364,423**
– Debt investments at fair value through other comprehensive income - reclassified to profit or loss	-	-	-	-	(1,308,075)	-	-	(1,308,075)	-	**(1,308,075)**
Translation reserve:										
– Foreign operations - foreign translation difference	-	-	-	(2,925,185)	-	-	-	(2,925,185)	47,119	**(2,878,066)**
Total other comprehensive expense	**-**	**-**	**-**	**(2,925,185)**	**2,056,348**	**-**	**-**	**(868,837)**	**47,119**	**(821,718)**
Total comprehensive expense	**-**	**-**	**-**	**(2,925,185)**	**2,056,348**	**-**	**(46,898,575)**	**(47,767,412)**	**(87,061)**	**(47,854,473)**
Transfer between reserves	-	-	1,035,252	-	-	65,572	(3,066,721)	(1,965,897)	1,965,897	-
Balance at 31 December 2020	**261,221,882**	**858,885**	**3,358,738**	**(10,011,229)**	**13,367,626**	**2,982,435**	**(39,027,680)**	**232,750,657**	**407,472**	**233,158,129**

Statements of changes in equity

For the year ended 31 December 2021

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 1 January 2021	**261,221,882**	**858,885**	**3,358,738**	**2,413,581**	**2,681,041**	**(65,772,958)**	**204,761,169**
Total comprehensive expense							
Loss for the year	-	-	-	-	-	(663,219)	**(663,219)**
Other comprehensive expense:							
Fair value reserve:							
– Debt investments at fair value through other comprehensive income - net change in fair value	-	-	-	(2,738,700)	-	-	**(2,738,700)**
– Debt investments at fair value through other comprehensive income - reclassified to profit or loss	-	-	-	(749,186)	-	-	**(749,186)**
Total other comprehensive expense	**-**	**-**	**-**	**(3,487,886)**	**-**	**-**	**(3,487,886)**
Total comprehensive expense	**-**	**-**	**-**	**(3,487,886)**	**-**	**(663,219)**	**(4,151,105)**
Transfer between reserves	-	-	(1,139,743)	-	-	1,139,743	**-**
Balance at 31 December 2021	**261,221,882**	**858,885**	**2,218,995**	**(1,074,305)**	**2,681,041**	**(65,296,434)**	**200,610,064**

Statements of changes in equity

For the year ended 31 December 2020

Bank

	Share capital USD	Share premium USD	Reserve for general banking risks USD	Fair value reserve USD	Other reserve USD	Accumulated losses USD	Total equity USD
Balance at 1 January 2020	**261,221,882**	**858,885**	**2,323,486**	**357,233**	**2,681,041**	**(8,761,104)**	**258,681,423**
Total comprehensive expense							
Loss for the year	-	-	-	-	-	(55,976,602)	**(55,976,602)**
Other comprehensive income:							
Fair value reserve:							
– Debt investments at fair value through other comprehensive income - net change in fair value	-	-	-	3,364,423	-	-	**3,364,423**
– Debt investments at fair value through other comprehensive income - reclassified to profit or loss	-	-	-	(1,308,075)	-	-	**(1,308,075)**
Total other comprehensive income	**-**	**-**	**-**	**2,056,348**	**-**	**-**	**2,056,348**
Total comprehensive expense	**-**	**-**	**-**	**2,056,348**	**-**	**(55,976,602)**	**(53,920,254)**
Transfer between reserves	-	-	1,035,252	-	-	(1,035,252)	**-**
Balance at 31 December 2020	**261,221,882**	**858,885**	**3,358,738**	**2,413,581**	**2,681,041**	**(65,772,958)**	**204,761,169**

Statements of cash flows

For the year ended 31 December 2021

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Cash flows from operating activities				
Interest and commission receipts	55,525,226	67,872,276	28,973,357	25,609,316
Exchange received/(paid)	8,927,656	(12,300,696)	9,317,492	(11,405,644)
Interest and commission payments	(12,647,022)	(37,471,828)	(13,639,330)	(13,793,109)
Payments to employees and suppliers	(34,541,419)	(36,713,674)	(21,384,875)	(27,271,356)
Operating profit /(loss) before changes in operating assets/liabilities	**17,264,441**	**(18,613,922)**	**3,266,644**	**(26,860,793)**
Decrease/(Increase) in operating assets:				
– Trading assets	11,562,138	11,620,752	-	-
– Loans and advances to customers and banks	(49,314,586)	(117,922,078)	9,902,960	(132,591,160)
– Other assets	1,887,605	4,763,352	1,878,571	4,068,416
(Decrease)/Increase in operating liabilities:				
– Amounts owed to customers and banks	(102,639,099)	204,687,776	(114,492,171)	216,340,869
– Other liabilities	(40,600)	(2,133,345)	(31,993)	(1,965,939)
– Net advances from subsidiary companies	-	-	(19,141,340)	3,250,217
Net cash (absorbed by)/generated from operating activities before income tax	**(121,280,101)**	**82,402,535**	**(118,617,329)**	**62,241,610**
Income tax paid	(409,062)	(829,093)	(115,683)	(393,419)
Net cash flows (used in)/from operating activities	**(121,689,163)**	**81,573,442**	**(118,733,012)**	**61,848,191**
Cash flows from investing activities				
Proceeds to acquire financial assets at fair value through other comprehensive income	(74,874,050)	(109,616,706)	(74,874,050)	(109,616,706)
Payments to acquire shares in subsidiary companies	-	-	-	(1,801,829)
Payments to acquire property and equipment	(518,656)	(477,381)	(399,511)	(142,744)
Payments to acquire intangible assets	(779,861)	(393,096)	(779,881)	(393,096)
Proceeds on disposal of financial assets at fair value through profit or loss	160,770	105,639,259	160,770	105,639,259
Proceeds on disposal of financial assets at fair value through other comprehensive income	50,918,619	49,246,582	50,918,619	49,246,582
Proceeds on disposal of property and equipment	9,751	328	9,751	-
Receipt of dividend	1,089,189	240,817	4,889,049	240,817
Net cash flows (used in)/from investing activities	**(23,994,238)**	**44,639,803**	**(20,075,253)**	**43,172,283**
(Decrease)/Increase in cash and cash equivalents c/f	**(145,683,401)**	**126,213,245**	**(138,808,265)**	**105,020,474**

Statements of cash flows

For the year ended 31 December 2021

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
(Decrease)/Increase in cash and cash equivalents b/f	**(145,683,401)**	**126,213,245**	**(138,808,265)**	**105,020,474**
Cash flows from financing activities				
– Net movement in debt securities	(5,490,217)	(28,492,240)	-	-
– Payment of lease liabilities	(1,139,127)	(967,167)	(1,787,096)	(997,729)
Net cash flows used in financing activities	**(6,629,344)**	**(29,459,407)**	**(1,787,096)**	**(997,729)**
(Decrease)/Increase in cash and cash equivalents	**(152,312,745)**	**96,753,838**	**(140,595,361)**	**104,022,745**
Analysed as follows:				
– Effect of exchange rate changes on cash and cash equivalents	(24,586,990)	27,958,339	(26,036,980)	29,536,105
– Net (decrease)/increase in cash and cash equivalents	(127,725,755)	68,795,499	(114,558,381)	74,486,640
(Decrease)/Increase in cash and cash equivalents	**(152,312,745)**	**96,753,838**	**(140,595,361)**	**104,022,745**
Cash and cash equivalents at beginning of year	**241,923,849**	**145,170,011**	**267,909,686**	**163,886,941**
Cash and cash equivalents at end of year	**89,611,104**	**241,923,849**	**127,314,325**	**267,909,686**

Notes to the financial statements

For the year ended 31 December 2021

Notes to the financial statements

For the year ended 31 December 2021

1 Reporting entity

FIMBank p.l.c. (the "Bank") is a company domiciled in Malta. The address of the Bank's registered office is Mercury Tower, The Exchange Financial and Business Centre, Elia Zammit Street, St. Julian's STJ 3155, Malta. The Financial Statements of the Bank as at and for the year ended 31 December 2021 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

2 Basis of preparation

2.1 Statement of compliance

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

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

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

On 11 March 2020, the World Health Organisation declared that the novel Coronavirus ("COVID-19") could be characterized as a pandemic. The impact of the outbreak was widespread across the globe and has distressed many countries including those markets where the Group operates. The circumstances have forced Governments to implement severe measures and restrictions, including partial or full lockdowns, restrictions on business activities, public gatherings, public spaces, travel, transportation, schools, retail stores, and various other activities. Businesses were forced to close or restrict their activities including restricted access to offices, outlets, warehouses and production plants. The pandemic, as well as these restrictive measures, have created a significant amount of uncertainty and disruption in economic activity and had an impact across all industries.

The Group ensured that all stakeholders, particularly its customers and employees were supported in more ways than one. As expected, the pandemic and its effects on the global economy had a significant impact on the banking industry, client services, asset valuations, expected credit losses and revenues to name a few. The Group has taken necessary measures to maintain a strong balance sheet and liquidity buffers whilst also recognising any deterioration of asset value where appropriate.

Although the financial performance has been significantly impacted by the pandemic and although there is still a high degree of uncertainty and risk associated with the pandemic and the global economic forecasts, the Board of Directors confirm that, at the time of approving these Financial Statements, the Group is capable of continuing to operate as a going concern for the foreseeable future.

In preparing these Financial Statements, consideration has also been given to the Public Statement ESMA 32-63-1186, issued by the European Securities and Markets Authority on 29 October 2021, which promotes transparency and consistent application of European requirements for information provided in the annual financial reports of listed companies under the current circumstances related to the COVID-19 pandemic.

The Financial Statements were authorised for issue by the Board of Directors on 13 April 2022.

2.2 Basis of measurement

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

- derivatives held for risk management;
- trading assets;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- freehold land and premises and improvement to premises; and
- investment property.

2.3 Functional and presentation currency

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

2.4 Use of judgements and estimates

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

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

In preparing these Financial Statements, the significant judgments made by management in applying the Group's Accounting Policies and the key sources of estimation uncertainty were impacted by the volatility resulting from the COVID-19 pandemic. Such impact on specific areas of significant judgement is separately disclosed in Notes 5, 26, 27, 28, 29 and 30 of these Financial Statements.

2.4.1 Judgements

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

- Accounting Policy 3.10.2 – classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are Solely Payments of Principle and Interest ("SPPI") on the principal amount outstanding; and

- Note 5.2.1.3 – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of the Expected Credit Losses ("ECL") and selection and approval of models used to measure ECL.

2.4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2021 is set out below in relation to the impairment of financial instruments and in the following Notes in relation to other areas:

- Accounting Policy 3.10.8 – impairment of financial instruments: key assumptions used in estimating recoverable cash flows;
- Note 2.4.2.1 – determination of the fair value of financial instruments with significant unobservable inputs;
- Note 5 – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information;
- Note 29.2 – impairment testing for CGUs containing goodwill: key assumptions underlying recoverable amounts; and
- Note 30 – recognition of deferred tax assets: availability of future taxable profit against which carry-forward tax losses can be used.

2.4.2.1 Determining fair values

A number of the Group's Accounting Policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This framework includes reports to the Group's Chief Financial Officer and Executive Management having overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Market risk and related exposure to fair value movement is also a key function of the Group's Assets Liabilities Committee and all valuations of financial instruments are reported to the Committee for review and approval. Significant valuation issues are reported to the Group's Board Audit Committee.

The Group measures fair values of an asset or liability using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes assets or liabilities, valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all assets or liabilities for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category also includes assets or liabilities that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

Further information about the assumptions made in measuring fair values is included in the following Notes:

- Note 6 – fair values of financial instruments;
- Note 27 – property and equipment; and
- Note 28 – investment property.

3 Significant accounting policies

The Group has consistently applied the following Accounting Policies to all periods presented in these Consolidated Financial Statements, except as mentioned otherwise (Refer to Note 4).

3.1 Basis of consolidation

3.1.1 Business combinations

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

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

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

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

3.1.2 Subsidiaries

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

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

3.1.3 Interests in equity-accounted investees

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

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

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

3.1.4 Non-controlling interests

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

3.1.5 Discontinued operations

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

1. represents a separate major line of business or geographic areas of operations;
2. is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
3. is a subsidiary acquired exclusively with a view to re-sell.

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

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

3.1.6 Transactions eliminated on consolidation

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

3.1.7 Loss of control

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

3.2 Foreign currency

3.2.1 Foreign currency transactions

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

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

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

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

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective (see Accounting Policy 3.13.1); and
- qualifying cash flow hedges to the extent that the hedge is effective.

3.2.2 Foreign operations

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

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

When a foreign operation is disposed of such that control is lost, the cumulative amount in the currency translation reserve is transferred to profit or loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation whilst retaining control then the relevant proportion of the cumulative amount is re-attributed to non-controlling interest.

3.3 Interest

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

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

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

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

For information on when financial assets are credit-impaired see Accounting Policy 3.10.8.

Presentation

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

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

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

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

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

3.4 Fees and commissions

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

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

Other fees and commission income, including account servicing fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed.

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

3.5 Net trading results

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

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

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

3.7 Dividends

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

3.8 Leases

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

3.8.1.1 Group acting as a lessee

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

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

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

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Short-term leases and leases of low-value assets

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

3.8.1.2 Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

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

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see Accounting Policies 3.10.3 and 3.10.8). The Group further regularly views estimated unguaranteed residual values used in calculating the gross investment in the lease.

3.9 Income tax

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

The Group has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

Current tax

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

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

Deferred tax

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

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

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

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

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

3.10 Financial assets and liabilities

3.10.1 Recognition and initial measurement

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

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

3.10.2 Classification

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

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI (see Accounting Policy 3.15). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at fair value through profit or loss.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income at fair value through profit or loss, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise (see Accounting Policy 3.10.9).

Business model assessment

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

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

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

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

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

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

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Equity instruments have contractual cash flows that do not meet the SPPI criterion. Accordingly, all such financial assets are measured at FVTPL unless the FVOCI option is selected.

Non-recourse loans

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

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

See Accounting Policies 3.12, 3.13, 3.14 and 3.15.

3.10.2.1 Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

See Accounting Policies 3.12, 3.13, 3.21 and 3.23.

3.10.3 Derecognition

3.10.3.1 Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also Accounting Policy 3.10.4), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated at fair value through other comprehensive income is not recognised in profit or loss on derecognition of such securities, as explained in Accounting Policy 3.15. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

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

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

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

3.10.3.2 Financial liabilities

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

3.10.4 Modifications of financial assets and financial liabilities

3.10.4.1 Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see Accounting Policy 3.10.3) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written-off before the modification takes place (see Note 5.2.1.5 for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

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

If such a modification is carried out because of financial difficulties of the borrower (see Accounting Policy 3.10.8), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see Accounting Policy 3.3).

3.10.4.2 Financial liabilities

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

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

Interest rate benchmark reform

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

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

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

3.10.5 Offsetting

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

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

3.10.6 Amortised cost measurement

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

3.10.7 Fair value measurement

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

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

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

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

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

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

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

Further details on the determination of fair values are disclosed in Note 2.4.2.1.

3.10.8 Identification and measurement of impairment

The Group recognises loss allowances for the ECL on the following financial instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities and loans and advances that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition (see Note 5.2.1.8).

The Group considers a debt investment security or a loan to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12-months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

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

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

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

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

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

In light of the spread of COVID-19 across the globe, the Group has assessed the impact of the outbreak on the credit risk over the expected life of its financial assets.

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

The model used for this review period was based on three possible scenarios covering a wide range of possible outcomes. Each scenario assumed different epidemiological and economic circumstances, recoveries from the COVID-19-induced recession that played out differently in different parts of the world and different use of monetary and fiscal policies, including different levels of:

- infection spread, fatality rates, hospitalisation rates, Omicron outbreak of COVID-19, vaccine efficacy;
- financial market conditions, geopolitical tensions, debt sustainability, pace of domestic recovery, fiscal stimulus;
- oil prices, interest rates, unemployment rates, GDP rates, global demand, supply chain disruptions, shortages and delays, surging energy costs; and
- business bankruptcies, consumer and business confidence, stock, money and bond market sentiment, tourism and business travel.

See also Note 5.2.1.8.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see Accounting Policy 3.10.3) and ECL are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset (see Note 5.2.1.8); and
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

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

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

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

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

POCI financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the Statement of Financial Position as follows:

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

Write-off

Loans and debt securities are written-off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written-off are included in 'net impairment charge on financial assets' in the Statement of Profit or Loss and OCI.

Financial assets that are written-off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3.10.9 Designated at fair value through profit or loss

Financial assets

On initial recognition, the Group has designated certain financial assets as at fair value through profit or loss because this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

The Group has designated certain financial liabilities as at fair value through profit or loss in either of the following circumstances:
- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 7 sets out the amount of each class of financial asset or financial liability that has been designated as at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

3.11 Cash and cash equivalents

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

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

3.12 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term or holds as part of a portfolio that is managed together for short-term profit or position taking.

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

Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may be reclassified out of the fair value through profit or loss (i.e. trading) category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met:

- if the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity; and
- if the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.13 Derivatives held for risk management purposes

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. All derivatives are measured at fair value in the Statement of Financial Position.

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

Derivatives are initially measured at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised in profit or loss.

3.13.1 Net investment hedges

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

3.14 Loans and advances

The loans and advances to banks caption in the Statement of Financial Position includes loans and advances measured at amortised cost (see Accounting Policy 3.10.2); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans and advances to customers caption in the Statement of Financial Position include:

- loans and advances measured at amortised cost (see Accounting Policy 3.10.2); they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- loans and advances mandatorily measured at fair value through profit or loss or designated at fair value through profit or loss (see Accounting Policy 3.10.2); these are measured at fair value with changes recognised immediately in profit or loss; and
- finance lease receivables (see Accounting Policy 3.8).

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the consideration paid is accounted for as a loan or advance, and the underlying asset is not recognised in the Group's financial statements.

3.15 Investment securities

The investment securities in the Statement of Financial Position include:

- debt investment securities measured at amortised cost (see Accounting Policy 3.10.2); these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities mandatorily measured at fair value through profit or loss or designated at fair value through profit or loss (see Accounting Policy 3.10.2); these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at fair value through other comprehensive income; and
- equity investment securities designated at fair value through other comprehensive income.

For debt securities measured at fair value through other comprehensive income, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL and reversals; and
- foreign exchange gains and losses.

When a debt security measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss (see Accounting Policy 3.10.2) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

3.16 Investments in subsidiaries, associates and jointly-controlled entities

Investments in subsidiaries, associates and joint ventures are shown in the separate statements of financial position at cost less any impairment losses (see Accounting Policy 3.20).

3.17 Property and equipment

3.17.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

Items of property and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

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

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

3.17.2 Subsequent costs

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

3.17.3 Depreciation

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

Land is not depreciated.

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

• building	50 years
• computer system	7 years
• computer equipment	5 years
• others	4 – 14 years

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

3.17.4 Reclassification to investment property

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

3.18 Investment property

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

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

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

Investment property is derecognised either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve (see Accounting Policy 3.17.4) is transferred to retained earnings.

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

3.19 Intangible assets and goodwill

3.19.1 Recognition and measurement

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

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

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

3.19.2 Subsequent expenditure

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

3.19.3 Amortisation

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

- software 7 years
- other intangible assets 5 years

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

3.20 Impairment of non-financial assets

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

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

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

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

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

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

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

3.21 Deposits, debt securities in issue and subordinated liabilities

Deposits, debt securities in issue and subordinated liabilities are the Group's sources of debt funding.

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

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities in issue and subordinated liabilities are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. The Group did not choose to carry any non-derivative liabilities at fair value through profit or loss.

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

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

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

3.22 Provisions

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.23 Financial guarantees and loan commitments

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

Financial guarantees issued and loan commitments are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies in Accounting Policy 3.10.3 are applied to loan commitments issued and held.

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

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

3.24 Employee benefits

3.24.1 Defined contribution plans

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

3.24.2 Share-based payment transactions

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

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

The fair value of the amount payable to employees in respect of SARs, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the SARs. Any changes in the liability are recognised as personnel expenses in profit or loss

3.25 Share capital

3.25.1 Ordinary shares

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

3.25.2 Repurchase of share capital

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

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

3.26 Earnings per share

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

As at December 2021, basic and diluted earnings per share were equal.

3.27 Segment reporting

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

3.28 Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted, however, the Group has not early adopted them in preparing these Financial Statements.

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

- amendments to IAS 1 – presentation of financial statements: classification of liabilities as current or non-current;
- amendments to IAS 1 – presentation of financial statements and IFRS practice statement 2: disclosure of accounting policies;
- amendments to IAS 8 – accounting policies, changes in accounting estimates and errors: definition of accounting estimates;
- amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction;
- amendments to IAS 16 – property, plant and equipment: proceeds before intended use;
- amendments to IAS 37 – onerous contracts – cost of fulfilling a contract;
- amendments to IFRS 3 – reference to conceptual framework;
- amendments to IFRS 16 – leases: COVID-19 related rent concessions beyond 30 June 2021;
- amendments to IFRS 17 – insurance contracts; and
- annual improvements to IFRS Standards 2018-2020.

4 Changes in accounting policies

4.1 Interest rate benchmark reform

Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) (the "Phase 2 amendments") became effective on 1 January 2021. While the amendments to IAS 39, IFRS 4 and IFRS 16 did not impact the Group, the amendments to IFRS 9 has provided certain reliefs which the Group has applied on its transition to the IBOR Reform. The reliefs allow an entity, when changing the basis for determining contractual cash flows for financial assets and liabilities that are necessary as a direct consequence of IBOR Reform and which are considered economically equivalent, to not account for an immediate gain or loss in the income statement, but instead to adjust the effective interest rate of the instruments. The Group has applied the practical expedient for the 'Phase 2 amendments' offered under IFRS9 on its contract modifications as a result of the IBOR Reform.

Further information about the interest rate benchmark reform is disclosed in Note 5.4.3.

5 Financial risk review

5.1 Introduction and overview

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

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

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

5.1.1 Risk management framework

The risk factors associated with the banking industry are multiple and varied. Exposure to the above-mentioned risks arises in the normal course of both the Bank's and the Group's business. As the Group is mainly engaged in trade finance business, control over contingent liabilities and commitments is fundamental since the risks involved are substantively the same as with on-balance sheet items. The Board is ultimately responsible for the identification and evaluation of key risks applicable to the different areas of the business of the Group and for ensuring that proper systems of internal controls are in place. The Board Risk Committee ("BRC"), a Board committee, has the aim of assisting the Board in fulfilling its responsibilities concerning the establishment and implementation of the Group's risk management strategy, systems and policies. The scope of the Committee's responsibility covers the Bank and all its Group entities. Management is ultimately delegated with the task of creating an effective control environment to the highest possible standards. The Internal Audit function monitors compliance with policies, standards and procedures and the effectiveness of the internal control environment of the Group. The Internal Auditor periodically reviews and tests the internal systems of control independently from management, adopting a risk-based approach. The Internal Auditor reports to the Board Audit Committee. All reports are circulated and also copied to the Chairman of the Board of Directors.

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

5.2 Credit risk

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

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

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

The Group's credit risk management practises adopted in the previous reporting period, in response to the COVID -19 pandemic persisted during the year of review, with a more cautious approach maintained when measuring ECL. The Group's assumption in determining whether the credit risk of a financial instrument has increased significantly since initial recognition was updated to provide for exposures were the Group applied moratoria on loan repayments. In addition, the Group performed a number of sensitivity tests when measuring ECL, including the following:

- calculating lifetime ECL on exposures were the Group applied moratoria on loan repayments;
- altering the weighting of the upside, downside and base case economic scenarios;
- disregarding the upside scenario and applying a 50%-50% weighting on the downside and base case economic scenarios; and
- assessing the impact of having a 100% downside economic scenario.

For more information on how the COVID-19 considerations were incorporated in the methods, assumptions and information used to measure ECL, please see Accounting Policy 3.10.8.

5.2.1 Default Risk

Default risk is the chance that a borrower, whether corporate or personal or other, becomes unable to repay their credit obligations to the Bank.

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

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

All on- and off- balance sheet exposures are approved after a thorough review of the counterparties' creditworthiness. Whilst any external rating of the counterparty by established Credit Rating Agencies is taken into account, an internal rating is given to each obligor and credit support provider. The Group has access to a host of analytical aids, including Moody's CreditLens, which is used to assign internal credit ratings. Whilst the credit review process makes use of the Moody's tool, which is used to assess customers' financial statements and other qualitative data, it also includes an analysis of: relevant markets and sectors, the outlook for commodity prices, the structure of proposed transactions, the market position of the relevant counterparties and other assessments appropriate to the specific exposure to the customer.

5.2.1.1 Credit quality analysis

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

Group – 31 December 2021

	2021				
	12-month PD ranges	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.06% - 0.2%	223,146,495	-	-	**223,146,495**
Grades 5+ to 5- fair risk	0.26% - 0.26%	16,971,941	-	-	**16,971,941**
		240,118,436	**-**	**-**	**240,118,436**
Loss allowance		(119,597)	-	-	**(119,597)**
Carrying amount		**239,998,839**	**-**	**-**	**239,998,839**
Loans and advances to banks					
Grades 1 to 4- low risk	0.17% - 0.72%	111,995,895	-	-	**111,995,895**
Grades 5+ to 5- fair risk	0.92% - 3.55%	6,611,439	-	-	**6,611,439**
Grades 6+ to 7 substandard	1.27% - 9.23%	78,180,723	2,086,670	-	**80,267,393**
		196,788,057	**2,086,670**	**-**	**198,874,727**
Loss allowance		(363,708)	(22,443)	-	**(386,151)**
Carrying amount		**196,424,349**	**2,064,227**	**-**	**198,488,576**
Loans and advances to customers					
Grades 1 to 4- low risk	0.03% - 0.71%	26,462,373	7,434,690	-	**33,897,063**
Grades 5+ to 5- fair risk	0.2% - 1.67%	146,280,818	22,137,848	-	**168,418,666**
Grades 6+ to 7 substandard	0.35% - 7.39%	223,231,799	97,784,507	-	**321,016,306**
Grade 7- to 8- doubtful	2.07% - 100%	626,142	47,403,330	2,356,861	**50,386,333**
Grade 9 to 10 loss	100%	-	35,656	137,943,170	**137,978,826**
		396,601,132	**174,796,031**	**140,300,031**	**711,697,194**
Loss allowance		(1,267,844)	(2,740,295)	(78,776,715)	**(82,784,854)**
Carrying amount		**395,333,288**	**172,055,736**	**61,523,316**	**628,912,340**
Financial assets at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.02% - 0.23%	164,896,615	-	-	**164,896,615**
Carrying amount at cost		**164,896,615**	**-**	**-**	**164,896,615**
Carrying amount at fair value		**162,408,542**	**-**	**-**	**162,408,542**
Loss allowance		(82,065)	-	-	**(82,065)**
Investments at amortised cost					
Grades 1 to 4- low risk	0.99%	9,972,376	-	-	**9,972,376**
		9,972,376	**-**	**-**	**9,972,376**
Loss allowance		(57,622)	-	-	**(57,622)**
Carrying amount		**9,914,754**	**-**	**-**	**9,914,754**
Contingent liabilities					
Grades 1 to 4- low risk	0.38% - 0.6%	100,294	-	-	**100,294**
Grades 5+ to 5- fair risk	0.2% - 2.38%	70,855	61,015	-	**131,870**
Grades 6+ to 7 substandard	0.54% - 4.44%	1,152,054	-	-	**1,152,054**
Grade 9 to 10 loss	100%	-	-	566,316	**566,316**
Carrying amount		**1,323,203**	**61,015**	**566,316**	**1,950,534**
Loss allowance		(823)	-	(161,243)	**(162,066)**
Commitments					
Grades 1 to 4- low risk	0.06% - 0.6%	38,795,787	-	-	**38,795,787**
Grades 5+ to 5- fair risk	0.2% - 1.67%	44,960,903	-	-	**44,960,903**
Grades 6+ to 7 substandard	0.55% - 9.75%	69,390,613	470,931	-	**69,861,544**
Carrying amount		**153,147,303**	**470,931**	**-**	**153,618,234**
Loss allowance		(94,841)	(2,421)	-	**(97,262)**

Group – 31 December 2020

	2020				
	12-month PD ranges	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.08% - 0.51%	307,168,780	12,271,444	-	**319,440,224**
		307,168,780	**12,271,444**	**-**	**319,440,224**
Loss allowance		(131,651)	(21,049)	-	**(152,700)**
Carrying amount		**307,037,129**	**12,250,395**	**-**	**319,287,524**
Loans and advances to banks					
Grades 1 to 4- low risk	0.17% - 1.85%	109,041,004	-	-	**109,041,004**
Grades 5+ to 5- fair risk	1.20% - 3.71%	4,701,296	583	-	**4,701,879**
Grades 6+ to 7 substandard	2.18% - 12.71%	70,572,317	2,623,574	-	**73,195,891**
Grade 9 to 10 loss	100%	-	-	10,192,358	**10,192,358**
		184,314,617	**2,624,157**	**10,192,358**	**197,131,132**
Loss allowance		(775,489)	(75,487)	(3,140,579)	**(3,991,555)**
Carrying amount		**183,539,128**	**2,548,670**	**7,051,779**	**193,139,577**
Loans and advances to customers					
Grades 1 to 4- low risk	0.05% - 0.80%	14,320,509	8,418,899	-	**22,739,408**
Grades 5+ to 5- fair risk	0.27% - 2.38%	116,289,685	22,669,330	-	**138,959,015**
Grades 6+ to 7 substandard	1.00% - 28.01%	167,842,212	138,235,845	-	**306,078,057**
Grade 7- to 8- doubtful	7.43% - 43.25%	-	29,097,910	-	**29,097,910**
Grade 9 to 10 loss	100%	-	-	196,700,238	**196,700,238**
		298,452,406	**198,421,984**	**196,700,238**	**693,574,628**
Loss allowance		(2,069,713)	(3,618,347)	(95,890,842)	**(101,578,902)**
Carrying amount		**296,382,693**	**194,803,637**	**100,809,396**	**591,995,726**
Financial assets at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.02% - 0.51%	147,700,809	-	-	**147,700,809**
Carrying amount at cost		**147,700,809**	**-**	**-**	**147,700,809**
Carrying amount at fair value		**153,327,686**	**-**	**-**	**153,327,686**
Loss allowance		(71,827)	-	-	**(71,827)**
Investments at amortised cost					
Grades 1 to 4- low risk	1.35%	9,910,131	-	-	**9,910,131**
		9,910,131	**-**	**-**	**9,910,131**
Loss allowance		(70,674)	-	-	**(70,674)**
Carrying amount		**9,839,457**	**-**	**-**	**9,839,457**
Contingent liabilities					
Grades 1 to 4- low risk	0.21% - 0.34%	418,921	-	-	**418,921**
Grades 5+ to 5- fair risk	0.28% - 3.05%	444,468	-	-	**444,468**
Grades 6+ to 7 substandard	1.78% - 14.4%	1,047,029	-	-	**1,047,029**
Carrying amount		**1,910,418**	**-**	**-**	**1,910,418**
Loss allowance		(9,611)	-	-	**(9,611)**
Commitments					
Grades 1 to 4- low risk	0.04% - 0.23%	8,156,224	-	-	**8,156,224**
Grades 5+ to 5- fair risk	0.27% - 1.58%	48,548,128	-	-	**48,548,128**
Grades 6+ to 7 substandard	1.10% - 28.10%	44,800,227	3,538,877	-	**48,339,104**
Carrying amount		**101,504,579**	**3,538,877**	**-**	**105,043,456**
Loss allowance		(14,808)	(153,176)	-	**(167,984)**

Bank – 31 December 2021

	2021				
	12-month PD ranges	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.06% - 0.2%	223,129,704	-	-	**223,129,704**
Grades 5+ to 5- fair risk	0.26% - 0.26%	16,971,941	-	-	**16,971,941**
		240,101,645	**-**	**-**	**240,101,645**
Loss allowance		(119,597)	-	-	**(119,597)**
Carrying amount		**239,982,048**	**-**	**-**	**239,982,048**
Loans and advances to banks					
Grades 1 to 4- low risk	0.17% - 0.63%	110,813,293	-	-	**110,813,293**
Grades 6+ to 7 substandard	1.27% - 9.23%	70,214,711	1,798,907	-	**72,013,618**
		181,028,004	**1,798,907**	**-**	**182,826,911**
Loss allowance		(345,928)	(22,435)	-	**(368,363)**
Carrying amount		**180,682,076**	**1,776,472**	**-**	**182,458,548**
Loans and advances to customers					
Grades 1 to 4- low risk	0.04% - 0.71%	355,864,012	-	-	**355,864,012**
Grades 5+ to 5- fair risk	0.2% - 1.42%	105,212,988	16,868,547	-	**122,081,535**
Grades 6+ to 7 substandard	0.35% - 7.39%	152,994,192	57,893,853	-	**210,888,045**
Grade 7- to 8- doubtful	2.07% - 30.46%	-	7,149,724	-	**7,149,724**
Grade 9 to 10 loss	100%	-	35,656	118,502,153	**118,537,809**
		614,071,192	**81,947,780**	**118,502,153**	**814,521,125**
Loss allowance		(1,663,749)	(2,051,951)	(65,241,286)	**(68,956,986)**
Carrying amount		**612,407,443**	**79,895,829**	**53,260,867**	**745,564,139**
Financial assets at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.02% - 0.23%	164,896,615	-	-	**164,896,615**
Carrying amount at cost		**164,896,615**	**-**	**-**	**164,896,615**
Carrying amount at fair value		**162,408,542**	**-**	**-**	**162,408,542**
Loss allowance		(82,065)	-	-	**(82,065)**
Investments at amortised cost					
Grades 1 to 4- low risk	0.99%	9,972,376	-	-	**9,972,376**
		9,972,376	**-**	**-**	**9,972,376**
Loss allowance		(57,622)	-	-	**(57,622)**
Carrying amount		**9,914,754**	**-**	**-**	**9,914,754**
Contingent liabilities					
Grades 1 to 4- low risk	0.38% - 0.6%	37,895,938	-	-	**37,895,938**
Grades 5+ to 5- fair risk	0.2% - 2.38%	70,854	61,015	-	**131,869**
Grades 6+ to 7 substandard	0.54% - 4.44%	733,239	-	-	**733,239**
Grade 9 to 10 loss	100%	-	-	566,316	**566,316**
Carrying amount		**38,700,031**	**61,015**	**566,316**	**39,327,362**
Loss allowance		(752)	-	(161,243)	**(161,995)**
Commitments					
Grades 1 to 4- low risk	0.06% - 0.6%	19,960,002	-	-	**19,960,002**
Grades 5+ to 5- fair risk	0.2% - 1.67%	34,662,969	-	-	**34,662,969**
Grades 6+ to 7 substandard	0.55% - 9.75%	52,375,209	470,931	-	**52,846,140**
Carrying amount		**106,998,180**	**470,931**	**-**	**107,469,111**
Loss allowance		(37,358)	(2,422)	-	**(39,780)**

Bank – 31 December 2020

	2020				
	12-month PD ranges	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with the Central Bank of Malta, treasury bills and cash					
Grades 1 to 4- low risk	0.08% - 0.51%	307,149,005	12,271,444	-	**319,420,449**
		307,149,005	**12,271,444**	**-**	**319,420,449**
Loss allowance		(131,651)	(21,049)	-	**(152,700)**
Carrying amount		**307,017,354**	**12,250,395**	**-**	**319,267,749**
Loans and advances to banks					
Grades 1 to 4- low risk	0.17% - 0.7%	101,823,439	-	-	**101,823,439**
Grades 6+ to 7 substandard	2.18% - 12.37%	68,841,826	2,423,043	-	**71,264,869**
Grade 9 to 10 loss	100%	-	-	10,192,358	**10,192,358**
		170,665,265	**2,423,043**	**10,192,358**	**183,280,666**
Loss allowance		(704,578)	(71,442)	(3,140,579)	**(3,916,599)**
Carrying amount		**169,960,687**	**2,351,601**	**7,051,779**	**179,364,067**
Loans and advances to customers					
Grades 1 to 4- low risk	0.05% - 0.8%	6,213,969	498	-	**6,214,467**
Grades 5+ to 5- fair risk	0.27% - 2.24%	388,936,722	22,669,330	-	**411,606,052**
Grades 6+ to 7 substandard	1.16% - 27.59%	184,578,519	83,770,273	-	**268,348,792**
Grade 7- to 8- doubtful	7.43% - 43.25%	-	7,396,380	-	**7,396,380**
Grade 9 to 10 loss	100%	-	-	164,144,690	**164,144,690**
		579,729,210	**113,836,481**	**164,144,690**	**857,710,381**
Loss allowance		(1,866,268)	(2,328,744)	(73,681,009)	**(77,876,021)**
Carrying amount		**577,862,942**	**111,507,737**	**90,463,681**	**779,834,360**
Financial assets at fair value through other comprehensive income					
Grades 1 to 4- low risk	0.02% - 0.51%	147,700,809	-	-	**147,700,809**
Carrying amount at cost		**147,700,809**	**-**	**-**	**147,700,809**
Carrying amount at fair value		**153,327,686**	**-**	**-**	**153,327,686**
Loss allowance		(71,827)	-	-	**(71,827)**
Investments at amortised cost					
Grades 1 to 4- low risk	1.35%	9,910,131	-	-	**9,910,131**
		9,910,131	**-**	**-**	**9,910,131**
Loss allowance		(70,674)	-	-	**(70,674)**
Carrying amount		**9,839,457**	**-**	**-**	**9,839,457**
Contingent liabilities					
Grades 1 to 4- low risk	0.21% - 0.34%	418,921	-	-	**418,921**
Grades 5+ to 5- fair risk	0.28% - 3.05%	43,193,696	-	-	**43,193,696**
Grades 6+ to 7 substandard	1.78% - 14.4%	634,285	-	-	**634,285**
Carrying amount		**44,246,902**	**-**	**-**	**44,246,902**
Loss allowance		(5,067)	-	-	**(5,067)**
Commitments					
Grades 1 to 4- low risk	0.17% - 0.23%	9,720,642	-	-	**9,720,642**
Grades 5+ to 5- fair risk	0.27% - 1.58%	58,717,340	-	-	**58,717,340**
Grades 6+ to 7 substandard	1.1% - 28.1%	33,268,907	3,538,877	-	**36,807,784**
Carrying amount		**101,706,889**	**3,538,877**	**-**	**105,245,766**
Loss allowance		(14,809)	(153,175)	-	**(167,984)**

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

Group – 31 December 2021

	2021			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Loans and advances to banks				
Current	196,788,057	2,063,270	-	**198,851,327**
Overdue < 30 days	-	23,400	-	**23,400**
Overdue > 30 days	-	-	-	**-**
Total	**196,788,057**	**2,086,670**	**-**	**198,874,727**
Loans and advances to customers				
Current	357,154,217	150,204,216	-	**507,358,433**
Overdue < 30 days	39,446,915	15,646,321	-	**55,093,236**
Overdue > 30 days	-	8,945,494	140,300,031	**149,245,525**
Total	**396,601,132**	**174,796,031**	**140,300,031**	**711,697,194**

Group – 31 December 2020

	2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Loans and advances to banks				
Current	184,314,617	2,624,157	-	**186,938,774**
Overdue < 30 days	-	-	-	**-**
Overdue > 30 days	-	-	10,192,358	**10,192,358**
Total	**184,314,617**	**2,624,157**	**10,192,358**	**197,131,132**
Loans and advances to customers				
Current	255,311,775	98,118,764	4	**353,430,543**
Overdue < 30 days	43,140,631	81,551,810	2,093	**124,694,534**
Overdue > 30 days	-	18,751,410	196,698,141	**215,449,551**
Total	**298,452,406**	**198,421,984**	**196,700,238**	**693,574,628**

Bank – 31 December 2021

	2021			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Loans and advances to banks				
Current	181,028,006	1,775,507	-	**182,803,513**
Overdue < 30 days	-	23,400	-	**23,400**
Overdue > 30 days	-	-	-	**-**
Total	**181,028,006**	**1,798,907**	**-**	**182,826,913**
Loans and advances to customers				
Current	584,475,445	65,703,700	-	**650,179,145**
Overdue < 30 days	29,595,747	15,082,474	-	**44,678,221**
Overdue > 30 days	-	1,161,606	118,502,153	**119,663,759**
Total	**614,071,192**	**81,947,780**	**118,502,153**	**814,521,125**

Bank – 31 December 2020

	2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Loans and advances to banks				
Current	170,665,265	2,423,043	-	**173,088,308**
Overdue < 30 days	-	-	-	**-**
Overdue > 30 days	-	-	10,192,358	**10,192,358**
Total	**170,665,265**	**2,423,043**	**10,192,358**	**183,280,666**
Loans and advances to customers				
Current	538,461,019	64,326,592	4	**602,787,615**
Overdue < 30 days	41,268,191	45,235,754	2,093	**86,506,038**
Overdue > 30 days	-	4,274,135	164,142,593	**168,416,728**
Total	**579,729,210**	**113,836,481**	**164,144,690**	**857,710,381**

In 2021, there were no overdue balances for 'balances with the Central Bank of Malta and treasury bills', 'financial assets at fair value through other comprehensive income' and 'investments at amortised cost' (2020: Nil).

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

	Group	
	2021 USD	2020 USD
Trading assets		
Rated AAA	-	-
Rated AA- to AA+	-	4,312,015
Rated A- to A+	244,584	1,300,437
Rated BBB+ below	234,848,775	255,103,459
Unrated	204,891,844	191,610,636
Carrying amount	**439,985,203**	**452,326,547**

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

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

The contractual terms of a loan may be modified for a number of reasons including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of a customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with Accounting Policy 3.10.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime 'Probability of Default' ("PD") at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both bank and corporate loans are subject to the forbearance policy.

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Accounting Policy 3.10.8). A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

During the financial years ended 31 December 2021 and 2020 there have been no changes in the forbearance criteria applied to renegotiated facilities. Following the impact of COVID-19 on the economy, governments of those countries in which the Group operates in, allowed institutions to apply a payment moratorium on existing facilities. These schemes are preventative in nature, are applicable to a large group of obligors and offer the same conditions to all borrowers that apply.

Based on these criteria being fulfilled, EBA/GL/2020/02 Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis, clarifies that the application of such moratorium schemes to the Group's facilities should not change the classification of exposures under the definition of forbearance in accordance with Article 47b of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/630 or change whether they are treated as distressed restructuring in accordance with Article 178(3)(d) of that Regulation. Accordingly, applying such a moratorium in itself should not lead to reclassification of the exposure as forborne, unless the facility was already classified as forborne.

For the Group, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD20,167,453 (2020: USD27,715,364), of which USD4,330,159 are performing (2020: USD3,225,698), whilst USD15,837,294 (2020: USD24,489,666) are non-performing with an extendible collateral value of USD1,979,638 (2020: USD234,923). Interest income recognised during 2021 in respect to renegotiated and forborne assets amounts to USD854,315 (2020: USD896,923).

For the Bank, the aggregate amount of renegotiated and forborne loans at reporting date amounted to USD15,517,797 (2020: USD13,957,686), of which USD1,948,525 (2020: USD nil) are performing, whilst USD13,569,272 (2020: USD13,957,686) are non-performing with an extendible collateral value of USD1,964,585 (2020: USD234,923). Interest income recognised during 2021 in respect to renegotiated and forborne assets amounts to USD396,968 (2020: USD195,283).

Movement in forbearance activity during the year is as follows:

Group – 31 December 2021

	2021		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	3,225,698	24,489,666	**27,715,364**
Additions	2,342,499	3,728,355	**6,070,854**
Recovered	(1,238,038)	(12,596,111)	**(13,834,149)**
Written-off	-	215,384	**215,384**
Reclassified	-	-	**-**
At 31 December	**4,330,159**	**15,837,294**	**20,167,453**

Group – 31 December 2020

	2020		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	4,095,780	26,318,611	**30,414,391**
Additions	2,776,034	4,263,248	**7,039,282**
Recovered	(2,610,299)	(215,003)	**(2,825,302)**
Written-off	-	(6,913,007)	**(6,913,007)**
Reclassified	(1,035,817)	1,035,817	**-**
At 31 December	**3,225,698**	**24,489,666**	**27,715,364**

Bank – 31 December 2021

	2021		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	-	13,957,686	**13,957,686**
Additions	1,948,525	2,972,186	**4,920,711**
Recovered	-	(3,360,600)	**(3,360,600)**
Written off	-	-	**-**
Reclassified	-	-	**-**
At 31 December	**1,948,525**	**13,569,272**	**15,517,797**

Bank – 31 December 2020

	2020		
	Stage 2 USD	Stage 3 USD	Total USD
At 1 January	1,634,801	20,180,830	**21,815,631**
Additions	-	904,866	**904,866**
Recovered	(1,634,801)	(215,003)	**(1,849,804)**
Written off	-	(6,913,007)	**(6,913,007)**
Reclassified	-	-	**-**
At 31 December	**-**	**13,957,686**	**13,957,686**

5.2.1.3 Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default ("PD");
- loss given default ("LGD"); and
- exposure at default ("EAD").

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

The methodology of estimating PDs is discussed below under the heading 'generating the term structure of PD'.

LGD is the magnitude of the likely loss if there is a default. The Group uses LGD rates derived from Moody's data for the credit quality and industry in which a client is classified, while also including tailormade qualitative overlays and collateral where applicable. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are based on estimated credit conversion factors. For financial guarantees, the EAD represents the expected amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

In measuring expected credit losses, the Group relies on risk and economic data and modelling techniques provided by Moody's Analytics.

Post-model adjustments

Post-model adjustments (PMAs) are short-term adjustments to the ECL balance as part of the year-end reporting process to reflect late updates to market data, known model deficiencies and expert credit judgement.

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

5.2.1.4 Loss allowance

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

Group – 31 December 2021

	2021			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with Central Bank of Malta, treasury bills and cash				
Balance at 1 January	131,651	21,049	-	**152,700**
Net remeasurement of loss allowance	(25,242)	-	-	**(25,242)**
New financial assets originated or purchased	19,318	-	-	**19,318**
Financial assets that have been derecognised	(6,130)	(21,049)	-	**(27,179)**
Balance at 31 December	**119,597**	**-**	**-**	**119,597**
Loans and advances to banks				
Balance at 1 January	775,489	75,487	3,140,579	**3,991,555**
Transfer to Stage 1	166	(166)	-	**-**
Net remeasurement of loss allowance	(70,359)	(53,941)	-	**(124,300)**
New financial assets originated or purchased	263,977	1,063	-	**265,040**
Financial assets that have been derecognised	(605,269)	-	(1,349,148)	**(1,954,417)**
Interest and fee in suspense	-	-	(1,728,518)	**(1,728,518)**
Foreign exchange and other movements	(296)	-	(62,913)	**(63,209)**
Balance at 31 December	**363,708**	**22,443**	**-**	**386,151**
Loans and advances to customers				
Balance at 1 January	2,069,713	3,618,347	95,890,842	**101,578,902**
Transfer to Stage 1	34,852	(34,852)	-	**-**
Transfer to Stage 2	(4,348)	4,348	-	**-**
Transfer to Stage 3	-	(88,319)	88,319	**-**
Net remeasurement of loss allowance	(621,888)	(583,301)	4,253,102	**3,047,913**
New financial assets originated or purchased	186,900	263,390	-	**450,290**
Financial assets that have been derecognised	(394,698)	(438,004)	2,457,793	**1,625,091**
Write-offs	-	-	(21,313,112)	**(21,313,112)**
Interest and fee in suspense	-	-	(4,629,946)	**(4,629,946)**
Foreign exchange and other movements	(2,687)	(1,314)	2,029,717	**2,025,716**
Balance at 31 December	**1,267,844**	**2,740,295**	**78,776,715**	**82,784,854**
Financial assets at fair value through other comprehensive income				
Balance at 1 January	71,827	-	-	**71,827**
Net remeasurement of loss allowance	(8,849)	-	-	**(8,849)**
New financial assets originated or purchased	34,115	-	-	**34,115**
Financial assets that have been derecognised	(15,028)	-	-	**(15,028)**
Balance at 31 December	**82,065**	**-**	**-**	**82,065**
Investments at amortised cost				
Balance at 1 January	70,674	-	-	**70,674**
Net remeasurement of loss allowance	(13,052)	-	-	**(13,052)**
Balance at 31 December	**57,622**	**-**	**-**	**57,622**
Contingent liabilities				
Balance at 1 January	9,611	-	-	**9,611**
Net remeasurement of loss allowance	(1,226)	-	-	**(1,226)**
New financial assets originated or purchased	212	-	161,243	**161,455**
Financial assets that have been derecognised	(7,774)	-	-	**(7,774)**
Balance at 31 December	**823**	**-**	**161,243**	**162,066**
Commitments				
Balance at 1 January	14,808	153,176	-	**167,984**
Net remeasurement of loss allowance	(6,885)	-	-	**(6,885)**
New financial assets originated or purchased	94,840	2,421	-	**97,261**
Financial assets that have been derecognised	(7,922)	(153,176)	-	**(161,098)**
Balance at 31 December	**94,841**	**2,421**	**-**	**97,262**

Group – 31 December 2020

	2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with Central Bank of Malta, treasury bills and cash				
Balance at 1 January	-	-	-	**-**
Net remeasurement of loss allowance	125,521	-	-	**125,521**
New financial assets originated or purchased	6,130	21,049	-	**27,179**
Balance at 31 December	**131,651**	**21,049**	**-**	**152,700**
Loans and advances to banks				
Balance at 1 January	542,278	117,390	2,559,841	**3,219,509**
Transfer to Stage 1	51	(51)	-	**-**
Transfer to Stage 2	(4,564)	4,564	-	**-**
Net remeasurement of loss allowance	(80,628)	(46,390)	-	**(127,018)**
New financial assets originated or purchased	664,990	-	-	**664,990**
Financial assets that have been derecognised	(346,075)	(26)	-	**(346,101)**
Interest and fee in suspense	-	-	461,295	**461,295**
Foreign exchange and other movements	(563)	-	119,443	**118,880**
Balance at 31 December	**775,489**	**75,487**	**3,140,579**	**3,991,555**
Loans and advances to customers				
Balance at 1 January	973,713	4,395,859	71,037,784	**76,407,356**
Transfer to Stage 1	7,018	(7,018)	-	**-**
Transfer to Stage 2	(68,074)	68,074	-	**-**
Transfer to Stage 3	(2,926)	(366,741)	369,667	**-**
Net remeasurement of loss allowance	29,929	(328,070)	25,813,877	**25,515,736**
New financial assets originated or purchased	1,903,735	513,739	5,215,423	**7,632,897**
Financial assets that have been derecognised	(765,963)	(649,167)	1,854,327	**439,197**
Write-offs	-	-	(10,752,659)	**(10,752,659)**
Interest and fee in suspense	-	-	817,911	**817,911**
Foreign exchange and other movements	(7,719)	(8,329)	1,534,512	**1,518,464**
Balance at 31 December	**2,069,713**	**3,618,347**	**95,890,842**	**101,578,902**
Financial assets at fair value through other comprehensive income				
Balance at 1 January	91,978	-	-	**91,978**
Net remeasurement of loss allowance	(4,283)	-	-	**(4,283)**
New financial assets originated or purchased	71,666	-	-	**71,666**
Financial assets that have been derecognised	(87,534)	-	-	**(87,534)**
Balance at 31 December	**71,827**	**-**	**-**	**71,827**
Investments at amortised cost				
Balance at 1 January	179,444	-	-	**179,444**
New financial assets originated or purchased	70,674	-	-	**70,674**
Financial assets that have been derecognised	(179,444)	-	-	**(179,444)**
Balance at 31 December	**70,674**	**-**	**-**	**70,674**
Contingent liabilities				
Balance at 1 January	9,751	391	-	**10,142**
Net remeasurement of loss allowance	162	-	-	**162**
New financial assets originated or purchased	9,329	-	-	**9,329**
Financial assets that have been derecognised	(9,631)	(391)	-	**(10,022)**
Balance at 31 December	**9,611**	**-**	**-**	**9,611**
Commitments				
Balance at 1 January	56,870	21,423	-	**78,293**
Transfer to Stage 2	(88)	88	-	**-**
Net remeasurement of loss allowance	(16,682)	171	-	**(16,511)**
New financial assets originated or purchased	12,651	152,917	-	**165,568**
Financial assets that have been derecognised	75,153	(21,423)	-	**53,730**
Write-offs	(113,096)	-	-	**(113,096)**
Balance at 31 December	**14,808**	**153,176**	**-**	**167,984**

Bank – 31 December 2021

	2021 Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with Central Bank of Malta, treasury bills and cash				
Balance at 1 January	131,651	21,049	-	**152,700**
Net remeasurement of loss allowance	(25,242)	-	-	**(25,242)**
New financial assets originated or purchased	19,318	-	-	**19,318**
Financial assets that have been derecognised	(6,130)	(21,049)	-	**(27,179)**
Balance at 31 December	**119,597**	**-**	**-**	**119,597**
Loans and advances to banks				
Balance at 1 January	704,578	71,442	3,140,579	**3,916,599**
Net remeasurement of loss allowance	(6,814)	(50,070)	-	**(56,884)**
New financial assets originated or purchased	251,152	1,063	-	**252,215**
Financial assets that have been derecognised	(602,988)	-	(1,349,148)	**(1,952,136)**
Interest and fee in suspense	-	-	(1,728,518)	**(1,728,518)**
Foreign exchange and other movements	-	-	(62,913)	**(62,913)**
Balance at 31 December	**345,928**	**22,435**	**-**	**368,363**
Loans and advances to customers				
Balance at 1 January	1,866,268	2,328,744	73,681,009	**77,876,021**
Transfer to Stage 1	1,485	(1,485)	-	**-**
Transfer to Stage 2	(4,348)	4,348	-	**-**
Transfer to Stage 3	-	(179)	179	**-**
Net remeasurement of loss allowance	(164,405)	(104,477)	3,903,892	**3,635,010**
New financial assets originated or purchased	202,441	96,335	-	**298,776**
Financial assets that have been derecognised	(237,692)	(271,335)	2,588,703	**2,079,676**
Write-offs	-	-	(18,533,957)	**(18,533,957)**
Interest and fee in suspense	-	-	1,539,148	**1,539,148**
Foreign exchange and other movements	-	-	2,062,312	**2,062,312**
Balance at 31 December	**1,663,749**	**2,051,951**	**65,241,286**	**68,956,986**
Financial assets at fair value through other comprehensive income				
Balance at 1 January	71,827	-	-	**71,827**
Net remeasurement of loss allowance	(8,849)	-	-	**(8,849)**
New financial assets originated or purchased	34,115	-	-	**34,115**
Financial assets that have been derecognised	(15,028)	-	-	**(15,028)**
Balance at 31 December	**82,065**	**-**	**-**	**82,065**
Investments at amortised cost				
Balance at 1 January	70,674	-	-	**70,674**
Net remeasurement of loss allowance	(13,052)	-	-	**(13,052)**
Balance at 31 December	**57,622**	**-**	**-**	**57,622**
Contingent liabilities				
Balance at 1 January	**5,067**	**-**	**-**	**5,067**
Net remeasurement of loss allowance	(1,226)	-	-	**(1,226)**
New financial assets originated or purchased	141	-	161,243	**161,384**
Financial assets that have been derecognised	(3,230)	**-**	-	**(3,230)**
Balance at 31 December	**752**	**-**	**161,243**	**161,995**
Commitments				
Balance at 1 January	**14,809**	**153,175**	**-**	**167,984**
Net remeasurement of loss allowance	(6,885)	-	-	**(6,885)**
New financial assets originated or purchased	37,357	2,421	-	**39,778**
Financial assets that have been derecognised	(7,923)	(153,174)	-	**(161,097)**
Balance at 31 December	**37,358**	**2,422**	**-**	**39,780**

Bank – 31 December 2020

	2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balances with Central Bank of Malta, treasury bills and cash				
Balance at 1 January	-	-	-	**-**
Net remeasurement of loss allowance	125,521	-	-	**125,521**
New financial assets originated or purchased	6,130	21,049	-	**27,179**
Balance at 31 December	**131,651**	**21,049**	**-**	**152,700**
Loans and advances to banks				
Balance at 1 January	428,246	117,339	2,559,841	**3,105,426**
Net remeasurement of loss allowance	(70,599)	(45,871)	-	**(116,470)**
New financial assets originated or purchased	663,559	-	-	**663,559**
Financial assets that have been derecognised	(316,628)	(26)	-	**(316,654)**
Interest and fee in suspense	-	-	461,295	**461,295**
Foreign exchange and other movements	-	-	119,443	**119,443**
Balance at 31 December	**704,578**	**71,442**	**3,140,579**	**3,916,599**
Loans and advances to customers				
Balance at 1 January	544,983	2,467,636	43,814,413	**46,827,032**
Transfer to Stage 1	7,018	(7,018)	-	**-**
Transfer to Stage 2	(9,354)	9,354	-	**-**
Transfer to Stage 3	(2,926)	(297,483)	300,409	**-**
Net remeasurement of loss allowance	53,401	(30,078)	26,707,450	**26,730,773**
New financial assets originated or purchased	1,745,170	253,717	5,215,423	**7,214,310**
Financial assets that have been derecognised	(472,024)	(67,384)	411,791	**(127,617)**
Write-offs	-	-	(9,226,421)	**(9,226,421)**
Interest and fee in suspense	-	-	4,983,165	**4,983,165**
Foreign exchange and other movements	-	-	1,474,779	**1,474,779**
Balance at 31 December	**1,866,268**	**2,328,744**	**73,681,009**	**77,876,021**
Financial assets at fair value through other comprehensive income				
Balance at 1 January	91,978	-	-	**91,978**
Net remeasurement of loss allowance	(4,283)	-	-	**(4,283)**
New financial assets originated or purchased	71,666	-	-	**71,666**
Financial assets that have been derecognised	(87,534)	-	-	**(87,534)**
Balance at 31 December	**71,827**	**-**	**-**	**71,827**
Investments at amortised cost				
Balance at 1 January	179,444	-	-	**179,444**
New financial assets originated or purchased	70,674	-	-	**70,674**
Financial assets that have been derecognised	(179,444)	-	-	**(179,444)**
Balance at 31 December	**70,674**	**-**	**-**	**70,674**
Contingent liabilities				
Balance at 1 January	9,688	391	-	**10,079**
Net remeasurement of loss allowance	163	-	-	**163**
New financial assets originated or purchased	4,784	-	-	**4,784**
Financial assets that have been derecognised	(9,568)	(391)	-	**(9,959)**
Balance at 31 December	**5,067**	**-**	**-**	**5,067**
Commitments				
Balance at 1 January	53,658	21,422	-	**75,080**
Transfer to Stage 2	(88)	88	-	**-**
Net remeasurement of loss allowance	(16,432)	171	-	**(16,261)**
New financial assets originated or purchased	12,651	152,917	-	**165,568**
Financial assets that have been derecognised	78,116	(21,423)	-	**56,693**
Write-offs	(113,096)	-	-	**(113,096)**
Balance at 31 December	**14,809**	**153,175**	**-**	**167,984**

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the 'net impairment charge on financial assets' line item in the Group's Statements of Profit or Loss.

Group – 31 December 2021

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial assets at fair value through other comprehensive income USD	Investments at amortised cost USD	Contingent liabilities USD	Commitments USD	Other assets USD	Total USD
Net remeasurement of loss allowance	(25,242)	(124,300)	3,047,913	(8,849)	(13,052)	(1,226)	(6,885)	(63,139)	**2,805,220**
New financial assets originated or purchased	19,318	265,040	450,290	34,115	-	161,455	97,261	-	**1,027,479**
Financial assets that have been derecognised	(27,179)	(1,954,417)	1,625,091	(15,028)	-	(7,774)	(161,098)	56,624	**(483,781)**
Total	**(33,103)**	**(1,813,677)**	**5,123,294**	**10,238**	**(13,052)**	**152,455**	**(70,722)**	**(6,515)**	**3,348,918**
Recoveries of amounts previously written-off	-	(520,067)	(921,055)	-	-	-	-	-	**(1,441,122)**
Total	**(33,103)**	**(2,333,744)**	**4,202,239**	**10,238**	**(13,052)**	**152,455**	**(70,722)**	**(6,515)**	**1,907,796**

Group – 31 December 2020

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial assets at fair value through other comprehensive income USD	Investments at amortised cost USD	Contingent liabilities USD	Commitments USD	Other assets USD	Total USD
Net remeasurement of loss allowance	125,521	(127,018)	25,515,736	(4,283)	-	162	(16,511)	63,139	**25,556,746**
New financial assets originated or purchased	27,179	664,990	7,632,897	71,666	70,674	9,329	165,568	-	**8,642,303**
Financial assets that have been derecognised	-	(346,101)	439,197	(87,534)	(179,444)	(10,022)	53,730	725	**(129,449)**
Total	**152,700**	**191,871**	**33,587,830**	**(20,151)**	**(108,770)**	**(531)**	**202,787**	**63,864**	**34,069,600**
Recoveries of amounts previously written-off	-	-	(1,079,281)	-	-	-	-	-	**(1,079,281)**
Total	**152,700**	**191,871**	**32,508,549**	**(20,151)**	**(108,770)**	**(531)**	**202,787**	**63,864**	**32,990,319**

Bank – 31 December 2021

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial assets at fair value through other comprehensive income USD	Investments at amortised cost USD	Contingent liabilities USD	Commitments USD	Total USD
Net remeasurement of loss allowance	(25,242)	(56,884)	3,635,010	(8,849)	(13,052)	(1,226)	(6,885)	3,522,872
New financial assets originated or purchased	19,318	252,215	298,776	34,115	-	161,384	39,778	805,586
Financial assets that have been derecognised	(27,179)	(1,952,136)	2,079,676	(15,028)	-	(3,230)	(161,097)	(78,994)
Total	**(33,103)**	**(1,756,805)**	**6,013,462**	**10,238**	**(13,052)**	**156,928**	**(128,204)**	**4,249,464**
Recoveries of amounts previously written-off	-	(520,067)	(29,840)	-	-	-	-	**(549,907)**
Total	**(33,103)**	**(2,276,872)**	**5,983,622**	**10,238**	**(13,052)**	**156,928**	**(128,204)**	**3,699,557**

Bank – 31 December 2020

	Balances with the Central Bank of Malta, treasury bills and cash USD	Loans and advances to banks USD	Loans and advances to customers USD	Financial assets at fair value through other comprehensive income USD	Investments at amortised cost USD	Contingent liabilities USD	Commitments USD	Total USD
Net remeasurement of loss allowance	125,521	(116,470)	26,730,773	(4,283)	-	163	(16,261)	**26,719,443**
New financial assets originated or purchased	27,179	663,559	7,214,310	71,666	70,674	4,784	165,568	**8,217,740**
Financial assets that have been derecognised	-	(316,654)	(127,617)	(87,534)	(179,444)	(9,959)	56,693	**(664,515)**
Total	**152,700**	**230,435**	**33,817,466**	**(20,151)**	**(108,770)**	**(5,012)**	**206,000**	**34,272,668**
Recoveries of amounts previously written-off	-	-	(268)	-	-	-	-	**(268)**
Total	**152,700**	**230,435**	**33,817,198**	**(20,151)**	**(108,770)**	**(5,012)**	**206,000**	**34,272,400**

5.2.1.5 Write-off policy

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

The table below shows the gross carrying value of loans written-off. Loss allowance on loans written-off are disclosed in Note 5.2.1.4.

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Loans and advances to customers				
Written-off	48,455,745	19,528,228	36,172,515	9,612,544

5.2.1.6 Collaterals

Loans are typically secured either by cash collateral, property (including shipping vessels), credit insurance cover, bank guarantees, corporate guarantees, personal guarantees, pledged goods or some combination thereof. Each collateral type is given a weighting determined by internal policy. These collaterals are reviewed periodically by management both in terms of exposure to the Bank and the Group and also to ensure the validity and enforceability of the security taken under default events. Estimates of fair value are also updated periodically together with such reviews. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2021 and 2020.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Group – 31 December 2021

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	2,528,428	145,348,195	9,709,661	767,158	**158,353,442**
Property	-	56,686,127	34,187,304	-	**90,873,431**
Other	-	98,725,704	9,003,395	-	**107,729,099**
	2,528,428	**300,760,026**	**52,900,360**	**767,158**	**356,955,972**

Group – 31 December 2020

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	4,799,198	126,854,935	10,944,353	715,848	**143,314,334**
Property	-	91,388,359	-	-	**91,388,359**
Other	-	106,926,074	7,753,880	-	**114,679,954**
	4,799,198	**325,169,368**	**18,698,233**	**715,848**	**349,382,647**

Bank – 31 December 2021

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	2,528,428	61,798,827	9,709,661	767,158	**74,804,074**
Property	-	56,686,127	34,187,304	-	**90,873,431**
Other	-	98,724,487	9,003,395	-	**107,727,882**
	2,528,428	**217,209,441**	**52,900,360**	**767,158**	**273,405,387**

Bank – 31 December 2020

	Loans and advances to banks USD	Loans and advances to customers USD	Commitments outstanding USD	Contingent liabilities USD	Total USD
Cash or quasi cash	4,799,198	73,240,246	10,944,353	715,848	**89,699,645**
Property	-	91,388,359	-	-	**91,388,359**
Other	-	106,926,074	15,542,302	-	**122,468,376**
	4,799,198	**271,554,679**	**26,486,655**	**715,848**	**303,556,380**

5.2.1.7 Offsetting financial assets and financial liabilities

With the exception of cash collateral, as disclosed in this Note and in Notes 32 and 33, the Group and Bank do not carry financial instruments which are subject to offsetting in the Statements of Financial Position. Group entities have a legal enforceable right to offset such collaterals against the respective facilities for which the collateral is taken under default events. At 31 December 2021 and 2020, all financial assets and respective collaterals are disclosed separately in the Financial Statements without any offsetting.

5.2.1.8 Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See Accounting Policy 3.10.8.

Significant increase in credit risk

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on changes in internal credit ratings and changes in PD of obligors;
- qualitative indicators; and
- a backstop of 30 days past due.

The Group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

As a general indicator, credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's quantitative modelling, there is a two-grade deterioration from the rating at origination.

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

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Group applies a further backstop when the rating of the obligor reaches a level that is equivalent to a facility in arrears. A significant increase in credit risk occurs where the obligor is internally graded below 7- (see below grading table).

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

IFRS 9 allows low credit risk expedient for the purpose of allocating stages to the exposures based on the significant increase in credit risk of the exposures. Under this expedient, an entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. Loans and advances to related entities generally classify as having a low credit risk for the purpose of determining ECL in the separate financial statements.

The Group applies this practical expedient to investment grade (BBB- and better) exposures.

Credit risk grades

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

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

Each exposure is allocated to a credit risk grade on initial recognition using Moody's CreditLens or external credit agency rating, or expert judgement based on the information available for the obligor. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management and senior management changes;
- data from credit reference agencies, press articles and changes in external credit ratings;
- actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities;
- payment record – this includes overdue status as well as a range of variables about payment ratios;
- requests for and granting of forbearance; and
- existing and forecast changes in business, financial and economic conditions.

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to conditional PD and to external credit ratings of Moody's or their equivalent.

Grading	12-month weighted-average PD	External rating
Grades 1 to 4- low risk	0.19%	Aaa-Baa3
Grades 5+ to 5- fair risk	0.63%	Ba1-Ba3
Grades 6+ to 7 substandard	2.92%	B1-Caa2
Grades 7- to 8- doubtful	19.52%	Caa3-Ca
Grades 9 to 10 loss	100.00%	C

Generating the term structure of PD

The term structure of PDs follows a two-staged approach. In the first instance, internal credit risk grades are mapped to Moody's official credit rating-scale table. Following this, the resultant credit rating is converted into a Point in Time ("PIT") PD term structure using Moody's 'Rating to PIT PD' converter. This is done through statistical models which analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time – based on the obligor's agency rating, country and industry information.

Definition of default

The Group considers a financial asset to be in default when:

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

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

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Group has implemented the definition of default as per Article 178 of the CRR which stipulates that a default shall be considered to have occurred when either or both of the following criteria are present: there are material credit obligations due by the obligor which are more than 90 days past due and / or the obligor is considered as unlikely to pay its credit obligations without the realization of collateral. This definition is used for the purpose of measuring ECL and identifying assets as having undergone a significant increase in credit risk or being credit-impaired

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. Economic data for each of the three scenarios, both historical and forecasted, are sourced from Moody's Analytics on a quarterly basis. The historical data in Moody's Analytics' model reflects economic data published by national statistical offices and by third party aggregators such as the World Bank and the International Monetary Fund. Forecasting is done by Moody's Analytics through its Global Macro Model which is composed of a number of calculations that develop into relationships across series within each national economy. The parameters used by the model are estimated using econometric techniques through observable historical covariation over the macroeconomic time series.

Moody's Analytics regularly updates the base case forecast and alternative scenarios. The upside and downside scenario will present hypothetical events that push the economy away from the base case outlook. The base case forecast and the two alternative scenarios are each assigned probability based on a distribution of average growth.

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

The economic scenarios for the top five geographies used as at 31 December 2021 included the following key indicators for the years ending 31 December 2022 to 2026.

		Year-on-year change				
Country: Malta		2022	2023	2024	2025	2026
Equity	Base	15%	6%	5%	4%	6%
	Upside	33%	0%	1%	3%	6%
	Downside	-17%	18%	19%	8%	6%
GDP growth	Base	4%	3%	2%	2%	2%
	Upside	6%	3%	2%	2%	2%
	Downside	-2%	3%	3%	3%	2%
Country: Germany		2022	2023	2024	2025	2026
Equity	Base	0%	0%	0%	-1%	-1%
	Upside	7%	2%	-3%	-4%	-2%
	Downside	-15%	9%	2%	-1%	-1%
GDP growth	Base	3%	3%	2%	1%	1%
	Upside	6%	3%	1%	1%	1%
	Downside	-2%	4%	3%	2%	1%
Country: India		2022	2023	2024	2025	2026
Equity	Base	0%	1%	2%	4%	2%
	Upside	7%	1%	2%	3%	3%
	Downside	-21%	11%	5%	5%	3%
GDP growth	Base	8%	7%	6%	6%	5%
	Upside	10%	8%	7%	6%	5%
	Downside	-1%	7%	7%	5%	6%
Country: United Arab Emirates		2022	2023	2024	2025	2026
Equity	Base	0%	1%	2%	5%	5%
	Upside	6%	-1%	1%	3%	5%
	Downside	-25%	14%	12%	4%	1%
Oil price	Base	-18%	-3%	1%	4%	3%
	Upside	-14%	1%	1%	4%	4%
	Downside	-52%	31%	7%	9%	6%
Country: Italy		2022	2023	2024	2025	2026
Equity	Base	0%	3%	5%	6%	6%
	Upside	12%	2%	2%	3%	5%
	Downside	-24%	17%	10%	8%	7%
Eurozone GDP	Base	3%	2%	2%	2%	1%
	Upside	5%	2%	2%	1%	1%
	Downside	-3%	3%	3%	2%	2%
Eurozone unemployment	Base	-1%	-2%	0%	0%	0%
	Upside	-9%	-3%	2%	3%	1%
	Downside	24%	3%	-3%	-6%	-6%

Sensitivity of ECL to future economic conditions

The ECL is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. Management performs a sensitivity analysis on the ECL recognised on material classes of its assets.

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

The model driven staging of exposures may change under the different scenarios as described below and accordingly impact the extent of Stage 2 loans as a proportion of gross exposure.

Group – 31 December 2021

	2021 Upside USD	Base Case USD	Downside USD	Probability-weighted USD
Gross exposure	1,478,640,043	1,478,640,043	1,478,640,043	1,478,640,043
Loss allowance	81,717,835	82,174,423	85,553,746	83,689,617
Proportion of assets in Stage 2	11.95%	12.00%	27.29%	12.00%

Group – 31 December 2020

	2020 Upside USD	Base Case USD	Downside USD	Probability-weighted USD
Gross exposure	1,480,400,820	1,480,400,820	1,480,400,820	1,480,400,820
Loss allowance	103,116,506	103,690,952	108,752,530	106,106,391
Proportion of assets in Stage 2	12.89%	13.02%	25.94%	14.65%

Bank – 31 December 2021

	2021 Upside USD	Base Case USD	Downside USD	Probability-weighted USD
Gross exposure	1,556,627,074	1,556,627,074	1,556,627,074	1,556,627,074
Loss allowance	67,858,994	68,276,647	71,676,987	69,786,408
Proportion of assets in Stage 2	5.41%	5.41%	24.85%	5.41%

Bank – 31 December 2020

	2020 Upside USD	Base Case USD	Downside USD	Probability-weighted USD
Gross exposure	1,673,141,985	1,673,141,985	1,673,141,985	1,673,141,985
Loss allowance	79,610,103	80,057,579	84,310,063	82,260,870
Proportion of assets in Stage 2	7.16%	7.16%	16.40%	7.89%

5.2.2 Concentration of credit risk

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

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

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

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

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

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

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

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Balances with the Central Bank of Malta, treasury bills and cash				
– Europe	239,998,839	319,287,524	239,982,048	319,267,749
Trading assets				
– Europe	87,976,874	106,398,354	-	-
– Sub-Saharan Africa	95,475,315	103,085,874	-	-
– Middle East and North Africa (MENA)	86,337,206	111,732,865	-	-
– Commonwealth of Independent States (CIS) region	15,082,254	12,460,725	-	-
– Others	155,113,554	118,648,729	-	-
Loans and advances to banks				
– Europe	162,271,327	138,051,074	161,959,210	137,859,088
– Sub-Saharan Africa	2,765,778	11,644,118	2,765,778	11,644,118
– Middle East and North Africa (MENA)	16,747,208	26,406,481	11,649,034	24,723,229
– Commonwealth of Independent States (CIS) region	1,614,058	2,244,044	1,597,336	2,194,777
– Others	15,090,205	14,793,860	4,487,190	2,942,855
Loans and advances to customers				
– Europe	222,236,329	257,553,603	455,547,583	517,069,974
– Sub-Saharan Africa	1,461,080	1,571,746	305,572	271,886
– Middle East and North Africa (MENA)	223,829,636	188,352,048	193,609,028	170,774,887
– Others	181,385,295	144,518,329	96,101,956	91,717,613
Financial assets at fair value through profit or loss				
– Europe	19,119,728	20,385,323	19,119,728	20,385,323
– Middle East and North Africa (MENA)	846,435	-	846,435	-
Financial assets at fair value through other comprehensive income				
– Europe	162,408,542	153,327,686	162,408,542	153,327,686
Investments at amortised cost				
– Middle East and North Africa (MENA)	9,914,754	9,839,457	9,914,754	9,839,457
Contingent liabilities				
– Europe	1,556,735	1,569,969	38,933,563	43,906,453
– Middle East and North Africa (MENA)	393,799	340,449	393,799	340,449
– Others	-	-	-	-
Commitments				
– Europe	69,430,972	59,312,946	66,152,348	67,286,011
– Sub-Saharan Africa	38,809,596	17,779,903	10,160,559	13,189,724
– Middle East and North Africa (MENA)	16,502,518	3,561,524	17,499,492	5,125,218
– Others	28,875,148	24,389,083	13,656,712	19,644,813
	1,855,243,185	**1,847,255,714**	**1,507,090,667**	**1,611,511,310**

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

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Balances with the Central Bank of Malta, treasury bills and cash				
– Financial intermediation	98,304,907	245,686,037	98,288,116	245,666,262
– Other services	141,693,932	73,601,487	141,693,932	73,601,487
Trading assets				
– Industrial raw materials	71,443,833	65,792,606	-	-
– Shipping and transportation	665,080	-	-	-
– Wholesale and retail trade	46,268,358	41,668,103	-	-
– Financial intermediation	248,836,273	232,900,663	-	-
– Other services	72,771,659	111,965,175	-	-
Loans and advances to banks				
– Financial intermediation	198,488,576	193,139,577	182,458,548	179,364,067
Loans and advances to customers				
– Industrial raw materials	306,270,182	276,957,626	109,399,209	134,351,441
– Shipping and transportation	3,008,011	2,612,759	144,774	156,895
– Wholesale and retail trade	144,572,985	172,658,864	98,706,888	151,900,007
– Financial intermediation	64,111,105	52,532,220	414,106,815	382,836,339
– Real estate activities	32,052,981	29,404,238	57,273,782	58,237,698
– Other services	78,897,076	57,830,019	65,932,671	52,351,980
Financial assets at fair value through profit or loss				
– Financial intermediation	19,913,086	20,332,246	19,913,086	20,332,246
– Other services	53,077	53,077	53,077	53,077
Financial assets at fair value through other comprehensive income				
– Shipping and transportation	11,059,246	5,008,684	11,059,246	5,008,684
– Financial intermediation	60,202,890	65,199,200	60,202,890	65,199,200
– Other services	91,146,406	83,119,802	91,146,406	83,119,802
Investments at amortised cost				
– Financial intermediation	9,914,754	9,839,457	9,914,754	9,839,457
Contingent liabilities				
– Industrial raw materials	293,676	613,359	293,676	613,359
– Wholesale and retail trade	372,754	396	372,754	396
– Financial intermediation	202,775	790,453	37,998,418	43,539,680
– Real estate activities	31,091	25,995	31,091	25,995
– Other services	1,050,238	480,215	631,423	67,472
Commitments				
– Industrial raw materials	26,001,031	38,175,330	31,093,594	44,621,725
– Shipping and transportation	-	-	415,440	57,646
– Wholesale and retail trade	34,686,933	21,452,255	42,546,431	19,648,317
– Financial intermediation	65,024,247	22,145,958	19,691,378	21,441,523
– Real estate activities	12,082,711	18,255,332	12,082,711	18,255,332
– Other services	15,823,312	5,014,581	1,639,557	1,221,223
	1,855,243,185	**1,847,255,714**	**1,507,090,667**	**1,611,511,310**

5.2.3 Counterparty credit risk

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

Use of derivatives within the Group is limited to hedging balance-sheet positions, hedging capital investments, interest rate hedging on behalf of LFC and, to a lesser extent, to satisfy customer requests (for example, for foreign exchange hedging). The Group's Treasury unit is responsible for the internal management of such instruments.

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

5.2.4 Settlement risk

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

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

5.2.5 Foreign exchange lending risk

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

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

5.3 Liquidity risk

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

Liquidity risk arises in the general funding of the Group's activities and the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates as well as the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame. The Group raises funds from deposits, other financial institutions (by means of loans and money market placements), by issuing promissory notes and similar paper and through increases in share capital and plough back of profits.

In response to the impact of COVID-19, the Group maintained a strong liquidity profile with an elevated level of high-quality liquid assets maintaining its Liquidity Coverage Ratio on average above 150% to mitigate the risk of unexpected liquidity outflows or shortfalls; well above the regulatory minimum of 100%.

5.3.1 Management of liquidity risk

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

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

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

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

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

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

5.3.2 Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are the following:

5.3.2.1 Liquidity coverage ratio ("LCR")

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

5.3.2.2 Residual contractual maturities of financial assets and liabilities

Group - 31 December 2021

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	239,998,839	239,992,637	105,240,606	79,094,499	35,227,927	20,429,605	-	-
Trading assets	439,985,203	459,710,913	20,360,930	64,893,612	135,281,889	156,002,329	49,727,646	33,444,507
Derivative assets held for risk management	841,688	841,688	330,545	170,663	266,418	74,062	-	-
Loans and advances to banks	198,488,576	198,866,712	36,924,311	46,743,020	102,043,148	11,445,101	113,796	1,597,336
Loans and advances to customers	628,912,340	644,423,464	255,115,001	73,602,203	92,009,480	122,743,214	66,442,942	34,510,624
Financial assets at fair value through profit or loss	19,966,163	19,966,163	19,966,163	-	-	-	-	-
Financial assets at fair value through other comprehensive income	162,408,542	169,616,733	-	5,143,337	3,022,131	5,007,838	14,246,625	142,196,802
Investments at amortised cost	9,914,754	11,422,623	-	-	751,869	-	10,670,754	-
Total assets	**1,700,516,105**	**1,744,840,933**	**437,937,556**	**269,647,334**	**368,602,862**	**315,702,149**	**141,201,763**	**211,749,269**
Liabilities								
Derivative liabilities held for risk management	(1,499,026)	(1,499,026)	(988,530)	(167,245)	(254,632)	(70,904)	(17,715)	-
Amounts owed to banks	(563,553,044)	(563,657,262)	(235,068,025)	(91,023,200)	(84,021,494)	(75,742,540)	(55,663,470)	(22,138,533)
Amounts owed to customers	(934,096,196)	(935,314,919)	(459,948,649)	(219,389,020)	(108,880,494)	(145,136,626)	(1,144,523)	(815,607)
Debt securities in issue	(45,345,575)	(45,465,377)	(11,326,302)	(34,139,075)	-	-	-	-
Other liabilities – finance lease liabilities	(2,224,451)	(2,371,881)	(40,275)	(122,126)	(211,075)	(385,114)	(666,402)	(946,889)
Total liabilities	**(1,546,718,292)**	**(1,548,308,465)**	**(707,371,781)**	**(344,840,666)**	**(193,367,695)**	**(221,335,184)**	**(57,492,110)**	**(23,901,029)**
Liquidity gap			**(269,434,225)**	**(75,193,332)**	**175,235,167**	**94,366,965**	**83,709,653**	**187,848,240**

Group - 31 December 2020

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	319,287,524	319,269,288	245,667,800	40,492,695	23,303,759	9,805,034	-	-
Trading assets	452,326,547	474,594,995	20,160,865	73,094,244	120,746,166	164,246,820	62,945,831	33,401,069
Derivative assets held for risk management	991,624	991,624	381,065	255,757	154,494	103,641	-	96,667
Loans and advances to banks	193,139,577	193,709,545	77,835,418	25,758,577	24,834,507	62,765,055	321,211	2,194,777
Loans and advances to customers	591,995,726	605,559,596	336,552,900	102,270,292	46,567,201	22,753,339	38,461,848	58,954,016
Financial assets at fair value through profit or loss	20,385,323	20,385,323	20,385,323	-	-	-	-	-
Financial assets at fair value through other comprehensive income	153,327,686	160,275,795	5,064,560	12,960,170	-	-	13,475,035	128,776,030
Investments at amortised cost	9,839,457	11,263,445	42,365	122,993	247,353	498,806	512,472	9,839,456
Total assets	**1,741,293,464**	**1,786,049,611**	**706,090,296**	**254,954,728**	**215,853,480**	**260,172,695**	**115,716,397**	**233,262,015**
Liabilities								
Derivative liabilities held for risk management	(1,629,434)	(1,629,434)	(1,132,648)	(244,993)	(150,815)	(100,978)	-	-
Amounts owed to banks	(429,443,480)	(430,887,545)	(163,498,527)	(56,955,028)	(37,119,197)	(63,488,093)	(48,668,548)	(61,158,152)
Amounts owed to customers	(1,101,570,295)	(1,104,632,613)	(606,230,681)	(231,909,341)	(101,532,513)	(160,850,140)	(3,220,960)	(888,978)
Debt securities in issue	(50,832,661)	(51,007,014)	(15,963,617)	(16,637,317)	(18,406,080)	-	-	-
Other liabilities – finance lease liabilities	(2,416,376)	(2,569,346)	(36,045)	(159,098)	(402,576)	(403,344)	(562,599)	(1,005,684)
Total liabilities	**(1,585,892,246)**	**(1,590,725,952)**	**(786,861,518)**	**(305,905,777)**	**(157,611,181)**	**(224,842,555)**	**(52,452,107)**	**(63,052,814)**
Liquidity gap			**(80,771,222)**	**(50,951,049)**	**58,242,299**	**35,330,140**	**63,264,290**	**170,209,201**

Bank - 31 December 2021

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	239,982,048	239,975,846	105,223,815	79,094,499	35,227,927	20,429,605	-	-
Derivative assets held for risk management	841,688	841,688	330,545	170,663	266,418	74,062	-	-
Loans and advances to banks	182,458,548	182,743,756	28,891,686	46,734,928	93,976,423	11,429,587	113,796	1,597,336
Loans and advances to customers	745,564,139	770,306,022	159,339,704	159,912,767	188,631,659	134,341,041	58,087,355	69,993,496
Financial assets at fair value through profit or loss	19,966,163	19,966,163	19,966,163	-	-	-	-	-
Financial assets at fair value through other comprehensive income	162,408,542	169,616,733	-	5,143,337	3,022,131	5,007,838	14,246,625	142,196,802
Investments at amortised cost	9,914,754	11,422,623	-	-	751,869	-	10,670,754	-
Total assets	**1,361,135,882**	**1,394,872,831**	**313,751,913**	**291,056,194**	**321,876,427**	**171,282,133**	**83,118,530**	**213,787,634**
Liabilities								
Derivative liabilities held for risk management	(1,533,556)	(1,533,556)	(1,023,060)	(167,245)	(254,632)	(70,904)	(17,715)	-
Amounts owed to banks	(497,633,356)	(496,507,491)	(227,187,254)	(51,824,512)	(83,492,475)	(56,201,247)	(55,663,470)	(22,138,533)
Amounts owed to customers	(838,675,598)	(839,844,878)	(411,948,191)	(183,721,239)	(97,153,753)	(145,061,565)	(1,144,523)	(815,607)
Other liabilities – finance lease liabilities	(1,128,594)	(1,163,722)	(658,879)	(19,376)	(29,064)	(75,657)	(121,944)	(258,802)
Total liabilities	**(1,338,971,104)**	**(1,339,049,647)**	**(640,817,384)**	**(235,732,372)**	**(180,929,924)**	**(201,409,373)**	**(56,947,652)**	**(23,212,942)**
Liquidity gap			**(327,065,471)**	**55,323,822**	**140,946,503**	**(30,127,240)**	**26,170,878**	**190,574,692**

Bank - 31 December 2020

	Carrying amount USD	Gross nominal inflow/ (outflow) USD	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	Between 1 & 2 years USD	More than 2 years USD
Assets								
Balances with the Central Bank of Malta, treasury bills and cash	319,267,749	319,249,513	245,648,025	40,492,695	23,303,759	9,805,034	-	-
Derivative assets held for risk management	1,019,288	1,019,288	408,729	255,757	154,494	103,641	-	96,667
Loans and advances to banks	179,364,067	179,930,399	64,089,061	25,758,577	24,834,507	62,732,266	321,211	2,194,777
Loans and advances to customers	779,834,360	808,734,682	473,744,363	75,208,801	27,134,682	74,703,307	45,048,056	112,895,473
Financial assets at fair value through profit or loss	20,385,323	20,385,323	20,385,323	-	-	-	-	-
Financial assets at fair value through other comprehensive income	153,327,686	160,275,795	5,064,560	12,960,170	-	-	13,475,035	128,776,030
Investments at amortised cost	9,839,457	11,263,445	42,365	122,993	247,353	498,806	512,472	9,839,456
Total assets	**1,463,037,930**	**1,500,858,445**	**809,382,426**	**154,798,993**	**75,674,795**	**147,843,054**	**59,356,774**	**253,802,403**
Liabilities								
Derivative liabilities held for risk management	(1,629,434)	(1,629,434)	(1,132,648)	(244,993)	(150,815)	(100,978)	-	-
Amounts owed to banks	(387,900,641)	(388,772,600)	(149,626,584)	(37,049,483)	(35,420,335)	(56,849,498)	(48,668,548)	(61,158,152)
Amounts owed to customers	(1,037,118,337)	(1,038,776,823)	(582,675,126)	(218,933,161)	(92,973,520)	(140,446,968)	(3,103,390)	(644,658)
Other liabilities – finance lease liabilities	(2,864,380)	(2,960,976)	(753,262)	(20,993)	(173,546)	(824,183)	(776,474)	(412,518)
Total liabilities	**(1,429,512,792)**	**(1,432,139,833)**	**(734,187,620)**	**(256,248,630)**	**(128,718,216)**	**(198,221,627)**	**(52,548,412)**	**(62,215,328)**
Liquidity gap			**75,194,806**	**(101,449,637)**	**(53,043,421)**	**(50,378,573)**	**6,808,362**	**191,587,075**

5.4 Market risk

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

The Group manages these risks as noted below and furthermore, they are tracked by the Asset-Liability Committee on a monthly basis using various metrics and by the Board Risk Committee on a quarterly basis against the Bank's Risk Appetite Statement.

The Group's bond portfolio (other price risk) is largely comprised of investments in bonds issued by the governments of countries in the European Union and European banks. It is to be noted that the Bank's purchase of government and bank bonds is primarily for the purposes of liquidity management, albeit profit on bonds may be crystallised from time-to-time, and ECB initiatives to support the Eurozone has moderated volatility in these assets and maintained liquidity.

The forfaiting portfolio (position risk) is comprised of assets originating from banks and companies operating in many market sectors in a very broad range of countries, the majority of which are emerging markets. The Group regularly updates its mark-to-market positions and recording the unrealized and realized profits and losses. The performance of this portfolio remained within risk parameters and well within the stress tests applied as part of the regular ICAAP process; where stresses applied in 2021 assumes ongoing concerns about the possible evolution of the COVID-19 pandemic that would prolong the economic contraction.

The Group manages its interest rate risk using an in-house Interest Rate Risk in the Banking Book ('IRRBB') model that considers the maturity mismatch for its primary currencies and the effect the 6 European Central Bank mandated interest rate shock scenarios have on Net Interest Income ('NII') and the Economic Value of Equity ('EVE'). Foreign exchange risk is managed at a Group level with a relatively low tolerance for open market positions with currency hedges purchased as necessary.

5.4.1 Foreign exchange risk

Foreign exchange risk is attached to those monetary assets and monetary liabilities of the Group that are not denominated in the functional currency of the Group. Transactional exposures give rise to foreign currency gains and losses that are recognised in the Statements of Profit or Loss. Currency risk is mitigated by a closely monitored currency position and is managed through matching within the foreign currency portfolio and capital hedging.

However, mismatches could arise where the Group enters into foreign exchange transactions (for example, foreign currency swaps) which could result in an on-balance sheet mismatch mitigated by an off-balance sheet hedging contract. Other mismatches are allowed up to an established threshold, and any excesses are regularised immediately. The Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies spot or forward rates when considered appropriate.

Group - 31 December 2021

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	4,291	239,990,565	158	3,825	**239,998,839**
Trading assets	310,064,673	120,605,927	-	9,314,603	**439,985,203**
Loans and advances to banks	10,235,233	172,362,945	10,903,665	4,986,733	**198,488,576**
Loans and advances to customers	324,059,128	255,073,849	22,847,679	26,931,684	**628,912,340**
Financial assets at fair value through profit or loss	899,512	19,066,651	-	-	**19,966,163**
Financial assets at fair value through other comprehensive income	54,820,240	107,588,302	-	-	**162,408,542**
Investments at amortised cost	-	-	-	9,914,754	**9,914,754**
Other assets	5,380,123	1,988,442	11,026,880	29,020	**18,424,465**
Liabilities					
Amounts owed to banks	(384,742,995)	(160,511,176)	(2,691,699)	(15,607,174)	**(563,553,044)**
Amounts owed to customers	(197,385,930)	(726,303,696)	(111,369)	(10,295,201)	**(934,096,196)**
Debt securities in issue	-	(45,345,575)	-	-	**(45,345,575)**
Other liabilities	(11,571,439)	(5,247,466)	(933,321)	(2,280,631)	**(20,032,857)**
Net on balance sheet financial position	**111,762,836**	**(20,731,232)**	**41,041,993**	**22,997,613**	**155,071,210**
Notional amount of derivative Instruments held for risk management	**49,855,270**	**13,722,001**	**(40,200,000)**	**(23,377,271)**	**-**
Net foreign exchange exposure		**(7,009,231)**	**841,993**	**(379,658)**	

The USD40.2m (2020: USD44.8m) derivative instruments are held by the Bank to manage the risk of INR foreign exchange risk that occurs on consolidation.

Group - 31 December 2020

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	4,247	319,275,218	245	7,814	**319,287,524**
Trading assets	294,254,934	148,996,727	-	9,074,886	**452,326,547**
Loans and advances to banks	35,088,241	145,957,692	9,249,938	2,843,706	**193,139,577**
Loans and advances to customers	269,047,917	290,268,588	20,143,552	12,535,669	**591,995,726**
Financial assets at fair value through profit or loss	53,077	20,332,246	-	-	**20,385,323**
Financial assets at fair value through other comprehensive income	55,918,787	97,408,899	-	-	**153,327,686**
Investments at amortised cost	-	-	-	9,839,457	**9,839,457**
Other assets	7,026,566	2,165,000	11,331,012	889,444	**21,412,022**
Liabilities					
Amounts owed to banks	(275,097,578)	(149,502,499)	-	(4,843,403)	**(429,443,480)**
Amounts owed to customers	(257,889,811)	(829,213,854)	(110,517)	(14,356,113)	**(1,101,570,295)**
Debt securities in issue	-	(50,832,661)	-	-	**(50,832,661)**
Other liabilities	(9,436,899)	(4,701,201)	(1,050,602)	(2,223,322)	**(17,412,024)**
Net on balance sheet financial position	**118,969,481**	**(9,845,845)**	**39,563,628**	**13,768,138**	**162,455,402**
Notional amount of derivative Instruments held for risk management	**55,208,397**	**2,675,108**	**(44,800,000)**	**(13,083,505)**	**-**
Net foreign exchange exposure		**(7,170,737)**	**(5,236,372)**	**684,633**	

Bank - 31 December 2021

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	-	239,981,630	-	418	**239,982,048**
Loans and advances to banks	8,101,051	172,052,595	-	2,304,902	**182,458,548**
Loans and advances to customers	434,938,420	298,133,587	-	12,492,132	**745,564,139**
Financial assets at fair value through profit or loss	899,512	19,066,651	-	-	**19,966,163**
Financial assets at fair value through other comprehensive income	54,820,240	107,588,302	-	-	**162,408,542**
Investments at amortised cost	-	-	-	9,914,754	**9,914,754**
Other assets	42,759	1,531,048	49	241,874	**1,815,730**
Liabilities					
Amounts owed to banks	(350,701,479)	(146,891,877)	-	(40,000)	**(497,633,356)**
Amounts owed to customers	(130,845,258)	(707,174,512)	-	(655,828)	**(838,675,598)**
Other liabilities	(2,944,696)	(4,455,558)	-	(757,532)	**(8,157,786)**
Net on balance sheet financial position	**14,310,549**	**(20,168,134)**	**49**	**23,500,720**	**17,643,184**
Notional amount of derivative Instruments held for risk management	**49,855,270**	**13,722,001**	**(40,200,000)**	**(23,377,271)**	**-**
Net foreign exchange exposure		**(6,446,133)**	**(40,199,951)**	**123,449**	

Bank - 31 December 2020

All amounts are expressed in USD	In reporting currency	EUR	INR	Other currencies	Total
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	-	319,265,738	-	2,011	**319,267,749**
Loans and advances to banks	32,291,779	145,850,466	-	1,221,822	**179,364,067**
Loans and advances to customers	420,765,401	348,452,118	-	10,616,841	**779,834,360**
Financial assets at fair value through profit or loss	53,077	20,332,246	-	-	**20,385,323**
Financial assets at fair value through other comprehensive income	55,918,787	97,408,899	-	-	**153,327,686**
Investments at amortised cost	-	-	-	9,839,457	**9,839,457**
Other assets	52,319	1,759,381	4,127	1,073,961	**2,889,788**
Liabilities					
Amounts owed to banks	(261,066,423)	(126,714,602)	-	(119,616)	**(387,900,641)**
Amounts owed to customers	(218,545,685)	(810,464,365)	-	(8,108,287)	**(1,037,118,337)**
Other liabilities	(3,550,538)	(3,968,296)	-	(299,705)	**(7,818,539)**
Net on balance sheet financial position	**25,918,717**	**(8,078,415)**	**4,127**	**14,226,484**	**32,070,913**
Notional amount of derivative Instruments held for risk management	**55,208,397**	**2,675,108**	**(44,800,000)**	**(13,083,505)**	**-**
Net foreign exchange exposure		**(5,403,307)**	**(44,795,873)**	**1,142,979**	

The following exchange rates were applied during the year:

	Average rate 2021	Average rate 2020	Reporting date mid-spot rate 2021	Reporting date mid-spot rate 2020
1 EUR	1.1825	1.1398	1.1326	1.2271
1 INR	0.0135	0.0135	0.0135	0.0137

A 7% strengthening of the following currencies against the US Dollar at 31 December would have increased/(decreased) equity and/or profit or loss by amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group Equity USD	Group Profit or loss USD	Bank Equity USD	Bank Profit or loss USD
2021				
EUR	(490,646)	(490,646)	(451,229)	(451,229)
INR	58,940	-	(2,813,997)	(2,813,997)
Other currencies	(26,576)	(26,576)	8,641	8,641
2020				
EUR	(501,951)	(501,951)	(378,231)	(378,231)
INR	(366,546)	-	(3,135,711)	(3,135,711)
Other currencies	47,924	47,924	80,009	80,009

A 7% weakening of the above currencies against the US Dollar at 31 December would have an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

5.4.2 Position risk

Position risk in traded debt instruments refers to the risk of adverse effects on the value of positions in the trading book of general movements in market interest rates or prices or movements specific to the issuer of a security.

5.4.3 Interest rate risk

Interest rate risk refers to the risk to earnings from the Group's financial instruments, both in the trading and non-trading books, to movements in interest rates. The risk impacts the earnings and equity of the Group as a result of changes in the economic value of its assets, liabilities and off-balance sheet instruments. The Group's operations are subject to interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or re-price at different times or at different amounts.

Accordingly, interest rate risk is managed through the use of maturity/re-pricing schedules that distribute interest-bearing assets and liabilities into different time bands. The determination of each instrument into the appropriate time period is dependent on the contractual maturity (if fixed rate) or time remaining to their next re-pricing date (if floating rate). This method also referred to as 'gap analysis', will eventually portray the Group's sensitivity of earnings. On the other hand, the modified duration method is used to measure the sensitivity of equity valuation to changes in interest rates.

A positive, or asset-sensitive, gap arises when assets (both on- and off-balance sheet) exceed liabilities in the corresponding time band, and this implies that the Group's net interest income (and therefore capital) could decline as a result of a decrease in the level of interest. To the contrary, a negative, or liability-sensitive, gap implies that net interest income could decrease as a result of an increase in interest rates.

Interest rate risk in the banking book (IRRBB) is managed on a monthly basis. Additional disclosures are included within the Pillar III Disclosures Report.

Group – 31 December 2021

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	98,280,828	-	-	-	-	141,718,011	**239,998,839**
Trading assets	-	-	-	-	-	439,985,203	**439,985,203**
Loans and advances to banks	2,198,487	45,849,623	101,859,284	11,330,122	-	37,251,060	**198,488,576**
Loans and advances to customers	398,196,134	12,408,888	26,153,547	11,765,498	2,597	180,385,676	**628,912,340**
Financial assets at fair value through profit or loss	-	-	-	-	-	19,966,163	**19,966,163**
Financial assets at fair value through other comprehensive income	-	5,011,000	3,003,300	4,998,000	148,599,518	796,724	**162,408,542**
Investments at amortised cost	-	-	9,917,355	-	-	(2,601)	**9,914,754**
Other assets	-	-	-	-	-	88,797,933	**88,797,933**
Total assets	**498,675,449**	**63,269,511**	**140,933,486**	**28,093,620**	**148,602,115**	**908,898,169**	**1,788,472,350**
Liabilities							
Amounts owed to banks	171,105,298	78,729,679	82,200,000	62,100,414	79,284,177	90,133,476	**563,553,044**
Amounts owed to customers	316,071,119	177,657,319	90,300,069	143,938,104	1,874,654	204,254,931	**934,096,196**
Debt securities in issue	11,285,407	33,940,299	-	-	-	119,869	**45,345,575**
Other liabilities	-	-	-	-	-	21,497,352	**21,497,352**
Equity	-	-	-	-	-	223,980,183	**223,980,183**
Total liabilities and equity	**498,461,824**	**290,327,297**	**172,500,069**	**206,038,518**	**81,158,831**	**539,985,811**	**1,788,472,350**

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months &1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	561,944,960	140,933,486	28,093,620	148,602,115	908,898,169	**1,788,472,350**
Liabilities	(788,789,121)	(172,500,069)	(206,038,518)	(81,158,831)	(539,985,811)	**(1,788,472,350)**
Interest sensitivity gap	**(226,844,161)**	**(31,566,583)**	**(177,944,898)**	**67,443,284**	**368,912,358**	**-**
Cumulative gap	**(226,844,161)**	**(258,410,744)**	**(436,355,642)**	**(368,912,358)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**(3,402,662)**	**(315,666)**	**(296,575)**			
200bps decrease	**3,402,662**	**315,666**	**296,575**			

Group – 31 December 2020

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	245,785,027	-	-	-	-	73,502,497	**319,287,524**
Trading assets	93,941,083	155,650,395	85,556,941	89,255,904	23,685,472	4,236,752	**452,326,547**
Loans and advances to banks	32,396,387	25,770,033	25,156,461	61,927,844	-	47,888,852	**193,139,577**
Loans and advances to customers	365,698,846	33,083,018	20,341,094	2,890,995	56,770	169,925,003	**591,995,726**
Financial assets at fair value through profit or loss	-	-	-	-	-	20,385,323	**20,385,323**
Financial assets at fair value through other comprehensive income	5,006,000	12,369,616	-	-	134,749,568	1,202,502	**153,327,686**
Investments at amortised cost	9,855,453	-	-	-	-	(15,996)	**9,839,457**
Other assets	-	-	-	-	-	93,744,183	**93,744,183**
Total assets	**752,682,796**	**226,873,062**	**131,054,496**	**154,074,743**	**158,491,810**	**410,869,116**	**1,834,046,023**
Liabilities							
Amounts owed to banks	84,817,155	46,317,155	36,524,926	61,616,721	110,442,999	89,724,524	**429,443,480**
Amounts owed to customers	451,946,805	201,037,001	101,183,012	143,614,995	3,631,871	200,156,611	**1,101,570,295**
Debt securities in issue	15,907,032	16,558,799	18,250,092	-	-	116,738	**50,832,661**
Other liabilities	-	-	-	-	-	19,041,458	**19,041,458**
Equity	-	-	-	-	-	233,158,129	**233,158,129**
Total liabilities and equity	**552,670,992**	**263,912,955**	**155,958,030**	**205,231,716**	**114,074,870**	**542,197,460**	**1,834,046,023**

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months &1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	979,555,858	131,054,496	154,074,743	158,491,810	410,869,116	**1,834,046,023**
Liabilities	(816,583,947)	(155,958,030)	(205,231,716)	(114,074,870)	(542,197,460)	**(1,834,046,023)**
Interest sensitivity gap	**162,971,911**	**(24,903,534)**	**(51,156,973)**	**44,416,940**	**(131,328,344)**	**-**
Cumulative gap	**162,971,911**	**138,068,377**	**86,911,404**	**131,328,344**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**2,444,579**	**(249,035)**	**(85,262)**			
200bps decrease	**(2,444,579)**	**249,035**	**85,262**			

Bank – 31 December 2021

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	98,280,828	-	-	-	-	141,701,220	**239,982,048**
Loans and advances to banks	2,078,609	45,842,928	93,976,423	11,315,479	-	29,245,109	**182,458,548**
Loans and advances to customers	633,423,204	15,814,564	18,687,760	1,558,934	-	76,079,677	**745,564,139**
Financial assets at fair value through profit or loss	-	-	-	-	-	19,966,163	**19,966,163**
Financial assets at fair value through other comprehensive income	-	5,011,000	3,003,300	4,998,000	148,599,518	796,724	**162,408,542**
Investments at amortised cost	-	-	9,917,355	-	-	(2,601)	**9,914,754**
Other assets	-	-	-	-	-	186,281,636	**186,281,636**
Total assets	**733,782,641**	**66,668,492**	**125,584,838**	**17,872,413**	**148,599,518**	**454,067,928**	**1,546,575,830**
Liabilities							
Amounts owed to banks	138,500,000	50,000,000	82,200,000	57,570,506	79,284,177	90,078,673	**497,633,356**
Amounts owed to customers	309,414,846	177,657,319	95,529,674	143,968,176	1,874,654	110,230,929	**838,675,598**
Other liabilities	-	-	-	-	-	9,656,812	**9,656,812**
Equity	-	-	-	-	-	200,610,064	**200,610,064**
Total liabilities and equity	**447,914,846**	**227,657,319**	**177,729,674**	**201,538,682**	**81,158,831**	**410,576,478**	**1,546,575,830**

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	800,451,133	125,584,838	17,872,413	148,599,518	454,067,928	**1,546,575,830**
Liabilities	(675,572,165)	(177,729,674)	(201,538,682)	(81,158,831)	(410,576,478)	**(1,546,575,830)**
Interest sensitivity gap	**124,878,968**	**(52,144,836)**	**(183,666,269)**	**67,440,687**	**43,491,450**	**-**
Cumulative gap	**124,878,968**	**72,734,132**	**(110,932,137)**	**(43,491,450)**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**1,873,185**	**(521,448)**	**(306,110)**			
200bps decrease	**(1,873,185)**	**521,448**	**306,110**			

Bank – 31 December 2020

	Less than 1 month USD	Between 1 & 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets							
Balances with the Central Bank of Malta, treasury bills and cash	245,785,027	-	-	-	-	73,482,722	**319,267,749**
Loans and advances to banks	32,347,523	25,770,033	25,156,461	61,927,844	-	34,162,206	**179,364,067**
Loans and advances to customers	629,690,759	28,578,930	15,704,363	8,812	5,030,340	100,821,156	**779,834,360**
Financial assets at fair value through profit or loss	-	-	-	-	-	20,385,323	**20,385,323**
Financial assets at fair value through other comprehensive income	5,006,000	12,369,616	-	-	134,749,568	1,202,502	**153,327,686**
Investments at amortised cost	9,855,453	-	-	-	-	(15,996)	**9,839,457**
Other assets	-	-	-	-	-	177,209,478	**177,209,478**
Total assets	**922,684,762**	**66,718,579**	**40,860,824**	**61,936,656**	**139,779,908**	**407,247,391**	**1,639,228,120**
Liabilities							
Amounts owed to banks	61,000,000	36,500,000	35,000,000	55,295,006	110,442,999	89,662,636	**387,900,641**
Amounts owed to customers	450,562,302	201,037,001	97,871,004	143,647,576	3,631,871	140,368,583	**1,037,118,337**
Other liabilities	-	-	-	-	-	9,447,973	**9,447,973**
Equity	-	-	-	-	-	204,761,169	**204,761,169**
Total liabilities and equity	**511,562,302**	**237,537,001**	**132,871,004**	**198,942,582**	**114,074,870**	**444,240,361**	**1,639,228,120**

	Less than 3 months USD	Between 3 & 6 months USD	Between 6 months & 1 year USD	More than 1 year USD	Non-interest bearing USD	Total USD
Assets	989,403,341	40,860,824	61,936,656	139,779,908	407,247,391	**1,639,228,120**
Liabilities	(749,099,303)	(132,871,004)	(198,942,582)	(114,074,870)	(444,240,361)	**(1,639,228,120)**
Interest sensitivity gap	**240,304,038**	**(92,010,180)**	**(137,005,926)**	**25,705,038**	**(36,992,970)**	**-**
Cumulative gap	**240,304,038**	**148,293,858**	**11,287,932**	**36,992,970**	**-**	**-**
Change in interest rate for the period:						
200bps increase	**3,604,561**	**(920,102)**	**(228,343)**			
200bps decrease	**(3,604,561)**	**920,102**	**228,343**			

Cash flow sensitivity analysis for repricing instruments

An increase of 200 basis points at the reporting date would result in a decrease in equity and profit or loss for the Group by the amounts shown below. However, for the Bank this increase would result in an increase in equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2021	(4,014,903)	(4,014,903)	1,045,626	1,045,626
2020	2,110,282	2,110,282	2,456,116	2,456,116

A decrease of 200 basis points at the reporting date would have equal but opposite effect on the above instruments to the amounts shown above, on the basis that all other variables remain constant.

Interest rate benchmark reform

Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some interbank offered rates ("IBOR") with alternative nearly risk-free rates ("RFR"), referred to as 'IBOR reform'. The Group has significant exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

The main risks to which the Group has been exposed as a result of IBOR reform are operational. For example, the renegotiation of loan contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems, revision of operational controls related to the reform, as well as managing related tax and accounting implications and regulatory risks. Financial risk is predominantly limited to interest rate risk.

The Group established an IBOR Conversion Steering Committee to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which loans advanced, loan commitments, liabilities, derivatives and leases reference IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

The Group has engaged an external consultancy company to conduct respective impact analysis and provide strategic recommendations and best practices on how to efficiently conduct this transition. Following the recommendations received, the Group has implemented an IBOR conversion project, appointing an IBOR Conversion Steering Committee, Program Manager, Project Manager and Project Team, which consists of senior and experienced representatives from main areas of the Group. The respective comprehensive project plan was prepared and executed by the Project Team, who have been collaborating with other business functions as needed. The IBOR Committee provides periodic updates to the Board Review and Implementation Committee ("BRIC").

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the IBOR Committee has established policies to amend the contractual terms. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate.

The Bank's risk exposure that is directly affected by the interest rate benchmark reform predominantly comprises its trade finance and real estate loans, factoring agreements and its forfaiting portfolio which are measured at amortised cost or at fair value through profit or loss. Such instruments are, in the absolute majority, denominated in USD, EUR and GBP and have floating rates linked to IBOR. The value of such financial instruments in the books of the Group is extensive, although several contracts have short term tenures which matured before the end of 2021 and therefore were not affected by the IBOR Reform since LIBOR rates were available until 31 December 2021.

The IBOR Conversion Steering Committee approved a policy requiring that, with effect from 5 October 2021:

- all newly originated floating-rate contracts denominated in EUR and GBP, to be referenced to €STR, EURIBOR and SONIA forward looking term-rates;
- existing floating-rate contracts denominated in EUR and GBP, to be converted to €STR, EURIBOR and SONIA forward looking term-rates by 31 December 2021;
- a flexible approach to be adopted allowing for new contracts denominated in USD to be referenced to either LIBOR or SOFR until full market readiness is detected.

The Group initiated communication with counterparties, confirming the specific changes being implemented. The Group continues to engage with industry participants and counterparties to ensure an orderly transition to risk free rates and to minimise the risks arising from transition.

The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned:

Currency	Benchmark before reform	Benchmark after reform
USD	USD LIBOR	SOFR
EUR	EURO EURIBOR	EURIBOR reformed
EUR	EONIA	€STR
GBP	GBP LIBOR	SONIA

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar settings will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

The following table contains details of all the financial instruments held by the Group, which have transitioned to risk free rates or currently being transitioned to risk free rates at 31 December 2021:

As at 31 December 2021	Carrying amount USD	Of which: subject to IBOR reform USD	Of which: subject to IBOR reform and have yet to transition to an alternative benchmark interest rate USD
Non-derivative assets measured at amortised cost			
Balances with Central Bank, treasury bills & cash			
EUR	240,110,161	-	-
GBP	3,407	-	-
USD	4,291	-	-
Other	577	-	-
	240,118,436	**-**	**-**
Financial assets at amortised cost			
Other	9,972,376	-	-
	9,972,376	**-**	**-**
Financial assets at fair value through OCI			
EUR	107,588,301	-	-
USD	54,820,241	-	-
	162,408,542	**-**	**-**
Loans and advances to banks			
EUR	172,362,946	66,969	-
GBP	1,982,529	-	-
USD	10,603,872	443,361	-
Other	13,925,380	-	-
	198,874,727	**510,330**	**-**
Loans and advances to customers			
EUR	277,837,174	180,889,850	-
GBP	8,855,894	3,002,396	-
USD	371,458,011	142,211,804	103,884,269
Other	53,546,115	-	-
	711,697,194	**326,104,050**	**103,884,269**
Non-derivative assets measured at fair value through profit or loss			
Trading Assets			
EUR	120,605,928	-	-
GBP	9,314,603	-	-
USD	310,064,672	182,993,967	182,993,967
	439,985,203	**182,993,967**	**182,993,967**

The following table contains details of all the financial instruments held by the Bank, which have transitioned to risk free rates or currently being transitioned to risk free rates at 31 December 2021:

As at 31 December 2021	Carrying amount USD	Of which: subject to IBOR reform USD	Of which: subject to IBOR reform and have yet to transition to an alternative benchmark interest rate USD
Non-derivative assets measured at amortised cost			
Balances with Central Bank, treasury bills & cash			
EUR	240,101,227	-	-
GBP	418	-	-
	240,101,645	**-**	**-**
Financial assets at amortised cost			
Other	9,972,376	-	-
	9,972,376	**-**	**-**
Financial assets at fair value through OCI			
EUR	107,588,301	-	-
USD	54,820,241	-	-
	162,408,542	**-**	**-**
Loans and advances to banks			
EUR	172,052,595	66,969	-
GBP	1,915,736	-	-
USD	8,469,417	443,361	-
Other	389,163	-	-
	182,826,911	**510,330**	**-**
Loans and advances to customers			
EUR	320,824,100	267,823,661	-
GBP	13,139,243	1,934,870	-
USD	480,557,782	361,884,515	323,556,980
	814,521,125	**631,643,046**	**323,556,980**

5.4.4 Price risk

The Group is also exposed to price risk on other assets (i.e. other than traded debt instruments) that arises out of changes in market values not related to changes in interest rates or foreign currency. Generally, these would be factors directly related to the issuer's or exposure's financial stability and performance.

The Group is exposed to price risk which arises from debt investments measured at fair value through other comprehensive income, as well as equity investments measured at fair value through profit or loss. Price risk is deemed to be less relevant for the forfaiting portfolio. Investments recorded at fair value through other comprehensive income and fair value through profit or loss are both measured by reference to their market values in active markets.

For marketable securities, price risk is mainly mitigated by investing in a diversified portfolio of instruments in industries and regions where the Group has specialised knowledge and expertise. The marketable securities portfolio is monitored on a daily basis and decisions to sell assets prior to or to hold until maturity depends on the Group's outlook of the underlying assets as well as liquidity requirements and profit opportunity arising out of the disposal of an instrument. Changes in the market value of marketable securities would directly impact equity.

The financial assets designated at fair value through profit or loss include equity shares in sub-funds of a local collective investment scheme. It is assumed that units held in the funds are not easily liquidated, particularly under stress, hence these investments are considered as non-high quality liquid assets ("non-HQLAs"). Additionally, the financial assets designated at fair value through other comprehensive income include a mixture of HQLA and non-HQLAs. All things being equal, the less liquid the assets are, the more their susceptibility to price risk.

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Financial assets at fair value through profit or loss	19,966,163	20,385,323	19,966,163	20,385,323
Financial assets at fair value through other comprehensive income	162,408,542	153,327,686	162,408,542	153,327,686
Trading assets	439,985,203	452,326,547	-	-

Cash flow sensitivity analysis for market risk

A 10% increase in the price at the reporting date would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Group		Bank	
	Equity USD	Profit or loss USD	Equity USD	Profit or loss USD
2021	62,235,991	45,995,137	18,237,471	1,996,616
2020	62,603,956	47,271,187	17,371,301	2,038,532

A decrease in the price of securities at the reporting date would have had an equal but opposite effect to that shown above, on the basis that all other variables remain constant.

5.5 Operational risk

The Group defines operational risks as the risk of loss resulting from inadequate or failed internal processes, people or IT systems, or from external events. When policies, processes or controls fail to perform, there is potential of business disruption which can lead to financial losses. Operational risk exposures are managed through the implementation of a common framework for the identification, assessment, reporting, control and monitoring of operational risk. The Group invested in technology to manage and mitigate against operational risk and a strong operational risk awareness is embedded in the culture of the Group.

The Group cannot expect to eliminate all operational risk but its main objective is to maintain such risk within acceptable levels and parameters. Although the prime responsibility of establishing detailed processes to identify, assess, monitor and report operational risks in accordance with the Operational Risk Management ("ORM") policy, lies with the Business/Support Unit head functions and the appointed Operational Risk Champion in each department, an independent Operational Risk Management Unit ("ORMU") within Risk Management Group and a senior management Operational Risk Management Committee ("ORMC") exist to oversee and embed the operational risk culture within the Group. Each of the respective roles and responsibilities are covered under the Group ORM policy which was approved by the Board.

The Group maintains an operational risk management system that facilitates the recording of: operational risk incidents, the root causes of incidents; and, where appropriate, action plans to correct incidents and prevent future recurrences. The ORMU assesses the identified reported operational risk exposure and recommends measures to manage and mitigate such risks. Any significant operational lapses are escalated and discussed in ORMC for review of corrective measures to be eventually considered.

The Group has in place an enterprise wide Operational Risk Management framework to measure, control, improve and monitor the operational risks that the organisation faces. The Group states its tolerance for Operational Risk in the Group Risk Appetite Framework and performance against this metric is tracked by the ORMC and, BRC.

As part of the Enterprise Risk Management Framework ("ERM"), the Group maintains a Business Continuity Management Program ("BCM"). The BCM falls within the ERM of the Group. The BCM addresses the set of operational risks where environmental factors or poor operational controls raise the potential for loss of or damage to the Group's operations (including people, information, infrastructure and premises). The objectives of the programme are to protect group employees, assets and reputation; ensure availability of services; identify responsibilities; and meet stakeholders' expectations. Critical systems and procedures are regularly tested, to ensure continued improvement.

Two key components of operational risk are IT risk and legal risk. In view of the importance to monitor and mitigate both risks they are considered separately below.

5.5.1 IT risk

Information Technology ("IT") risk comes about as a result of internal and external events arising from the use and changes to technology that enable and service business processes due to the potential impact to the latter from threats in the general security landscape. Inadequate information technology and processing, inadequate IT strategy and policy or inadequate use of the Group's information technology may all increase IT risk beyond levels that are acceptable to the organisation.

The Group has an IT Steering Committee, the main aim of which is to ensure that strategic decisions relating to IT (including cyber security) are aligned with the overall Group's business strategy.

The Group adopts various measures to manage IT risk and strives to keep up to date with the changes and developments in the IT environment. The Group is also constantly on the look-out for new risks and vulnerabilities with the aim to safeguard the business and Group against these risks.

The Group has well established policies and procedures aimed at regulating the use of technology assets which, amongst others, safeguards against information security breaches. The Group also operates a contingency site for systems that are classified as mission critical. The Group is committed to ongoing development and testing of its Business Continuity Plan to ensure awareness, relevance and effectiveness, and to maintain effective IT controls to reduce losses caused by system disruption or unauthorised use.

5.5.2 Legal risk

The Group is exposed to legal risk as a result of the different legal systems used in the different jurisdictions in which it operates. To mitigate this risk, it seeks legal opinions from the jurisdictions in which it intends to operate, in order to ascertain its potential liabilities when doing business there, including the extent to which an adverse judgement might result in excessive or punitive damages.

With reference to documentation, the Group endeavours to ensure that for each transaction a detailed due diligence is carried out and that documentation is always tailored to the legal requirements of the jurisdiction in which the transaction takes place by seeking local legal advice to ascertain which formalities have to be followed locally to ensure a valid transaction.

The Group has an independent Legal Department deputed to the function of identifying, assessing, monitoring and controlling/mitigating the legal risks which the Group is likely to encounter in its day-to-day activities across the jurisdictions in which it operates.

5.6 Compliance and financial crime risk

Compliance and Financial crime risk may arise from operational failure, failure to comply with relevant legislations and regulations – including but not limited to: Anti–Money Laundering ("AML") and Combating the Financing of Terrorism ("CFT"), Sanctions Regulations and Banking Regulations. These can include acts of misconduct or omissions on the part of its Directors and/or officers and/or representatives overseas, even in matters which are unrelated to their mandate or position within the Group. The impact to the Group for non-compliance with the applicable regulations can be substantial and can include formal enforcement actions, monetary penalties, informal enforcement actions, and enhanced supervisory monitoring. All employees, officers and directors have a responsibility to conduct business ethically and with integrity, in line with Bank's Compliance Manual and related policies.

To this purpose, detailed AML, CFT and fraud documentation policies and procedures, a robust Customer Acceptance Policy as well as strong oversight by the Group's Board and management have been devised. These policies and procedures are updated regularly to reflect the latest changes in regulations, legislation and related guidance.

The Group uses qualitative research tools to assess the adequacy of prospective clients and transactions and implemented Anti-Money Laundering software for the screening of incoming and outgoing messages and payments as well as rating of corporate and business relationships. Through these procedures, the Group is able to identify transactions and clients which pose a higher risk compared to others. These include Politically Exposed Persons, clients and transactions deriving from non-compliant jurisdictions and correspondent banking. In addition, reputational risk is also indirectly mitigated through the setting of country limits. Some of the criteria used in setting up a transaction limit for particular countries are closely related to reputational risk, including issues relating to the political environment such as the fairness and frequency of election processes and access to power and effectiveness in reforming political systems and implementing economic agendas.

The Group also conducts extensive training on sanctions, AML and CFT regulations and policies.

5.6.1 Conduct risk

Conduct risk is defined as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Conduct risk covers a wide range of issues and may arise from many business processes and products. Examples of conduct risk are: collusion, market manipulation, overcharging customers or not treating them fairly; selling complex products to unsophisticated clients; setting overly aggressive sales targets; and failure to manage conflicts of interest, amongst others. An employee's misconduct may lead to not only material losses but also reputational damage.

The Bank promotes a culture of openness, transparency and fairness in respect of both employee-employee and employee-client interactions in addition to having in place a number of policies and procedures to govern conduct risk. Such controls include product design and approval processes, client selection criteria, treating customers fairly guidelines, employee conduct policies and others. The Bank also ensures that there are adequate controls governing systems access and transactional approvals to ensure that all activity is appropriately authorized and in line with its expectations.

5.6.2 Reputational risk

Reputational risk at FIMBank is defined as the risk of possible damage to the Bank's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction, which could be perceived by stakeholders to be inappropriate, unethical or inconsistent with the Bank's values and beliefs. Reputational risk could be particularly damaging for the Group since the nature of its business requires maintaining the confidence and trust from its employees, shareholder, depositors, creditors, and from the public in general. The ensuing damage to the Bank's reputation can be significant and can result in loss of customers, increased costs and ultimately, a reduction in income. Other than third parties, employees through their words and deeds, can also cause damage to the Bank's brand.

Much like conduct risk, the Bank controls its reputational risk through the promotion of an internal culture that is cognisant of such risk and the existence of policies and procedures mitigating the risk. The Bank ensures that it maintains strong procedures and controls governing customer and counterparty vetting (KYC, KYCC, etc.) and makes use of market leading automated systems for mitigating risks associated with financial crime to ensure that the Bank is not inadvertently supporting criminal activity.

5.7 Capital management

The Group's regulatory capital consists of Common Equity Tier 1 ("CET1") capital, which includes ordinary share capital, related share premiums, retained earnings, reserves and NCI after adjustment for dividends proposed after the year-end and deductions for goodwill, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

The Group's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

The Group and its individually regulated operations have complied with all externally imposed capital requirements. The Group adheres to the requirements set out in the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD IV"), constituting the European implementation of the Basel accord of 2010.

Pillar I covers credit, market, and operational risks which provides the minimum capital requirements as a percentage of risk-weighted assets, while Pillar II (Supervisory Review and Evaluation Process) involves both banks and regulators taking a view on whether a bank should hold additional capital against risks not covered in Pillar I. Part of the Pillar II process is the Internal Capital Adequacy Assessment Process ("ICAAP") which is the Bank's self-assessment of risks not captured by Pillar I.

2021 Pillar III Disclosures Report published on the Bank's website includes additional regulatory disclosures in terms of Banking Rule BR/07/2014 'Publication of annual report and audited financial statements of credit institutions authorised under the Banking Act, 1994'.

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Own funds				
Tier 1				
Paid up capital instruments	261,221,882	261,221,882	261,221,882	261,221,882
Share premium	858,885	858,885	858,885	858,885
(Accumulated losses)/Retained earnings	(42,869,371)	(39,027,680)	(65,296,438)	(65,772,958)
Other reserves	4,139,983	9,697,570	3,825,730	8,453,359
Deductions:				
Goodwill accounted for as intangible asset	(5,605,349)	(5,664,745)	-	-
Other intangible assets	(456,370)	(1,420,907)	(445,851)	(1,408,920)
Deferred tax liabilities associated to other intangible assets	-	-	-	-
Deferred tax asset that rely on future profitability and arise from temporary differences	(3,273,047)	(3,287,818)	-	-
Market value of assets pledged in favour of Depositor Compensation Scheme	(4,433,866)	(5,098,388)	(4,433,866)	(5,098,388)
Insufficient coverage for non-performing exposures	(297,448)	-	-	-
Value adjustments due to the requirements for prudent valuation	(624,701)	(628,661)	(344,199)	(328,112)
Other transitional adjustments	4,765,539	6,614,306	1,984,150	2,777,810
Common equity tier 1	**213,426,137**	**223,264,444**	**197,370,293**	**200,703,558**
Total tier 1	**213,426,137**	**223,264,444**	**197,370,293**	**200,703,558**
Total tier 2	-	-	-	-
Total own funds	**213,426,137**	**223,264,444**	**197,370,293**	**200,703,558**

6 Fair values of financial instruments

The Group's Accounting Policy on fair value measurements is discussed in Accounting Policy 3.10.7.

6.1 Valuation of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Accounting Policy 3.10.7. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. The fair value framework and hierarchy that reflects the significance of the inputs used in measuring financial instruments is set out in Note 2.4.2.1.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities and exchange traded derivatives and simple over-the-counter derivatives like currency rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and, also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market and, are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate.

6.2 Financial instruments measured at fair value – fair value hierarchy

The table below analyses financial instruments measured at fair value by the level in the fair value hierarchy into which the fair value measurement is categorised.

Group – 31 December 2021

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	19	-	841,688	-	**841,688**
Trading assets	20	-	-	439,985,203	**439,985,203**
Financial assets at fair value through profit or loss	23	-	53,077	19,913,086	**19,966,163**
Financial assets at fair value through other comprehensive income	24	162,408,542	-	-	**162,408,542**
Liabilities					
Derivative liabilities held for risk management:					
– foreign exchange	19	-	1,499,026	-	**1,499,026**

Group – 31 December 2020

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	19	-	991,624	-	**991,624**
Trading assets	20	-	-	452,326,547	**452,326,547**
Financial assets at fair value through profit or loss	23	-	53,077	20,332,246	**20,385,323**
Financial assets at fair value through other comprehensive income	24	153,327,686	-	-	**153,327,686**
Liabilities					
Derivative liabilities held for risk management:					
– foreign exchange	19	-	1,629,434	-	**1,629,434**

Bank – 31 December 2021

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	19	-	841,688	-	**841,688**
Financial assets at fair value through profit or loss	23	-	53,077	19,913,086	**19,966,163**
Financial assets at fair value through other comprehensive income	24	162,408,542	-	-	**162,408,542**
Liabilities					
Derivative liabilities held for risk management:					
– foreign exchange	19	-	1,499,026	-	**1,499,026**
– interest rate	19	-	34,530	-	**34,530**

Bank – 31 December 2020

	Note	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Assets					
Derivative assets held for risk management:					
– foreign exchange	19	-	991,624	-	**991,624**
– interest rate	19	-	27,664	-	**27,664**
Financial assets at fair value through profit or loss	23	-	53,077	20,332,246	**20,385,323**
Financial assets at fair value through other comprehensive income	24	153,327,686	-	-	**153,327,686**
Liabilities					
Derivative liabilities held for risk management:					
– foreign exchange	19	-	1,629,434	-	**1,629,434**

Transfers of financial instruments between different levels of the fair value hierarchy, if any, are recorded as of the end of the reporting period. There were no transfers in or out of Level 3 during the reporting period.

6.3 Level 3 fair value measurements

6.3.1 Reconciliation

The following table shows a reconciliation from the opening balances to the closing balances for fair value measurements in Level 3 of the fair value hierarchy.

Group - 31 December 2021

	Trading assets USD	Financial assets at fair value through profit or loss USD	Total USD
Balance at 1 January 2021	452,326,547	20,332,246	**472,658,793**
Total gains and losses in profit or loss	651,802	388,035	**1,039,837**
Purchases	623,419,539	898,492	**624,318,031**
Settlements	(627,692,362)	(143,654)	**(627,836,016)**
Effects of movement in exchange rates	(8,720,323)	(1,562,033)	**(10,282,356)**
Balance at 31 December 2021	**439,985,203**	**19,913,086**	**459,898,289**

Group - 31 December 2020

	Trading assets USD	Financial assets at fair value through profit or loss USD	Total USD
Balance at 1 January 2020	460,238,536	125,289,721	**585,528,257**
Total gains and losses in profit or loss	(1,300,287)	(670,197)	**(1,970,484)**
Purchases	471,299,660	-	**471,299,660**
Settlements	(490,598,518)	(106,000,000)	**(596,598,518)**
Effects of movement in exchange rates	12,687,156	1,712,722	**14,399,878**
Balance at 31 December 2020	**452,326,547**	**20,332,246**	**472,658,793**

Bank - 31 December 2021

	Financial assets at fair value through profit or loss USD
Balance at 1 January 2021	20,332,246
Total gains and losses in profit or loss	388,035
Purchases	898,492
Settlements	(143,654)
Effects of movement in exchange rates	(1,562,033)
Balance at 31 December 2021	**19,913,086**

Bank - 31 December 2020

	Financial assets at fair value through profit or loss USD
Balance at 1 January 2020	125,289,721
Total gains and losses in profit or loss	(670,197)
Purchases	-
Settlements	(106,000,000)
Effects of movement in exchange rates	1,712,722
Balance at 31 December 2020	**20,332,246**

The change in unrealised gains or losses for the year included in profit or loss relating to those assets held at 31 December 2021 amounted to USD296,438 (2020: USD 802,723).

These gains and losses are recognised in profit or loss as 'Net gain from other financial instruments carried at fair value'.

6.3.2 Unobservable inputs used in measuring fair value

The below sets out information about significant unobservable inputs used at 31 December 2021 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Trading assets

The 'trading assets' portfolio represent forfaiting assets, that is the discounting of receivables generated from an export contract on a without recourse basis. The assets would be evidenced by a number of different debt instruments including bills of exchange, promissory notes, letters of credit and trade or project related syndicated and bi-lateral loan (financing) agreements.

The Group establishes fair value of its trading assets using a valuation technique based on the discounted expected future principal and interest cash flows. The discount rate is an estimate based on current expected credit margin spreads and interest rates at the reporting date. Inputs to valuation technique reasonably represent market expectation and measures of risk-return factors inherent in the financial instrument.

The Group uses the LIBOR yield curve as of each reporting date, plus an adequate credit margin spread to discount the trading assets held. At 31 December 2021, the interest rates used range between 0.98% and 19.30% (2020: between 2.06% and 10.27%).

The effect of a one-percentage point increase/(decrease) in the interest rate on trading assets at 31 December 2021 would increase/(decrease) the Group equity by approximately USD2,835,580 (2020: USD1,115,543).

Financial assets at fair value through profit or loss

As at December 2021, 'financial assets at fair value through profit or loss' mainly represent holdings in two sub-funds and a foreign holding company, as follows:

- an unlisted sub-fund of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. The sub-fund invests in sustainable energy plants with returns generated throughout the life of each plant.

  The fair value is measured by the Group based on periodical net asset valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to fair market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual plants and the future potential income from each plant.

  The effect of a ten-percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2021 would increase/(decrease) the Bank and Group equity by approximately USD1,737,699 (2020: USD1,851,723).

- an unlisted sub-fund of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in UK. The sub-fund invests in a variety of investments, with relative complex structures and limited liquidity.

  The fair value is measured by the Group based on periodical net asset valuations prepared by the scheme's independent administrator. The sub-fund's assets are marked to fair market value. Assets are marked at observable traded prices where that is possible. Where there is no observable price, the assets are marked in accordance with best market practice. This may involve the use of models and forward projections. Inputs and assumptions used in these models may be subjective and could include a number of highly judgemental uncertainties including the projected valuations of the individual assets and the future potential income from each asset.

  The effect of a ten-percentage point increase/(decrease) in the net asset value of the sub-fund at 31 December 2021 would increase/(decrease) the Bank and Group equity by approximately USD168,967 (2020: USD181,502).

- A foreign holding company registered in the State of Kuwait. The fair value is measured by the Group based on a market price quoted by a custodian.

  The effect of a ten-percentage point increase/(decrease) in the net asset value of the equity shares at 31 December 2021 would have increased/(decreased) the Bank and Group equity by approximately USD84,643.

7 Classification of financial assets and liabilities

The following tables provide a reconciliation between line items in the Statements of Financial Position and categories of financial instruments.

Group – 31 December 2021

	Mandatorily at fair value through profit or loss USD	Designated at fair value through profit or loss USD	Fair value through other comprehensive income debt instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	239,998,839	**239,998,839**
Derivative assets held for risk management	841,688	-	-	-	**841,688**
Trading assets	439,985,203	-	-	-	**439,985,203**
Loans and advances to banks	-	-	-	198,488,576	**198,488,576**
Loans and advances to customers	-	-	-	628,912,340	**628,912,340**
Financial assets at fair value through profit or loss	19,913,086	53,077	-	-	**19,966,163**
Financial assets at fair value through other comprehensive income	-	-	162,408,542	-	**162,408,542**
Investments at amortised cost	-	-	-	9,914,754	**9,914,754**
Total financial assets	**460,739,977**	**53,077**	**162,408,542**	**1,077,314,509**	**1,700,516,105**
Derivative liabilities held for risk management	1,499,026	-	-	-	**1,499,026**
Amounts owed to banks	-	-	-	563,553,044	**563,553,044**
Amounts owed to customers	-	-	-	934,096,196	**934,096,196**
Debt securities in issue	-	-	-	45,345,575	**45,345,575**
Total financial liabilities	**1,499,026**	**-**	**-**	**1,542,994,815**	**1,544,493,841**

Group – 31 December 2020

	Mandatorily at fair value through profit or loss USD	Designated at fair value through profit or loss USD	Fair value through other comprehensive income debt instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	319,287,524	**319,287,524**
Derivative assets held for risk management	991,624	-	-	-	**991,624**
Trading assets	452,326,547	-	-	-	**452,326,547**
Loans and advances to banks	-	-	-	193,139,577	**193,139,577**
Loans and advances to customers	-	-	-	591,995,726	**591,995,726**
Financial assets at fair value through profit or loss	20,332,246	53,077	-	-	**20,385,323**
Financial assets at fair value through other comprehensive income	-	-	153,327,686	-	**153,327,686**
Investments at amortised cost	-	-	-	9,839,457	**9,839,457**
Total financial assets	**473,650,417**	**53,077**	**153,327,686**	**1,114,262,284**	**1,741,293,464**
Derivative liabilities held for risk management	1,629,434	-	-	-	**1,629,434**
Amounts owed to banks	-	-	-	429,443,480	**429,443,480**
Amounts owed to customers	-	-	-	1,101,570,295	**1,101,570,295**
Debt securities in issue	-	-	-	50,832,661	**50,832,661**
Total financial liabilities	**1,629,434**	**-**	**-**	**1,581,846,436**	**1,583,475,870**

Bank – 31 December 2021

	Mandatorily at fair value through profit or loss USD	Designated at fair value through profit or loss USD	Fair value through other comprehensive income debt instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	239,982,048	**239,982,048**
Derivative assets held for risk management	841,688	-	-	-	**841,688**
Loans and advances to banks	-	-	-	182,458,548	**182,458,548**
Loans and advances to customers	-	-	-	745,564,139	**745,564,139**
Financial assets at fair value through profit or loss	19,913,086	53,077	-	-	**19,966,163**
Financial assets at fair value through other comprehensive income	-	-	162,408,542	-	**162,408,542**
Investments at amortised cost	-	-	-	9,914,754	**9,914,754**
Total financial assets	**20,754,774**	**53,077**	**162,408,542**	**1,177,919,489**	**1,361,135,882**
Derivative liabilities held for risk management	1,533,556	-	-	-	**1,533,556**
Amounts owed to banks	-	-	-	497,633,356	**497,633,356**
Amounts owed to customers	-	-	-	838,675,598	**838,675,598**
Total financial liabilities	**1,533,556**	**-**	**-**	**1,336,308,954**	**1,337,842,510**

Bank – 31 December 2020

	Mandatorily at fair value through profit or loss USD	Designated at fair value through profit or loss USD	Fair value through other comprehensive income debt instruments USD	Amortised cost USD	Total carrying amount USD
Balances with the Central Bank of Malta, treasury bills and cash	-	-	-	319,267,749	**319,267,749**
Derivative assets held for risk management	1,019,288	-	-	-	**1,019,288**
Loans and advances to banks	-	-	-	179,364,067	**179,364,067**
Loans and advances to customers	-	-	-	779,834,360	**779,834,360**
Financial assets at fair value through profit or loss	20,332,246	53,077	-	-	**20,385,323**
Financial assets at fair value through other comprehensive income	-	-	153,327,686	-	**153,327,686**
Investments at amortised cost	-	-	-	9,839,457	**9,839,457**
Total financial assets	**21,351,534**	**53,077**	**153,327,686**	**1,288,305,633**	**1,463,037,930**
Derivative liabilities held for risk management	1,629,434	-	-	-	**1,629,434**
Amounts owed to banks	-	-	-	387,900,641	**387,900,641**
Amounts owed to customers	-	-	-	1,037,118,337	**1,037,118,337**
Total financial liabilities	**1,629,434**	**-**	**-**	**1,425,018,978**	**1,426,648,412**

At 31 December 2021 and 31 December 2020, the fair value of the financial assets measured at amortised cost is approximately equal to the carrying amount. The approximate fair value is based on the following:

- **'balances with Central Bank of Malta, treasury bills and cash' and 'investments at amortised cost'**
  The majority of these assets reprice or mature in less than one hundred eighty days. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

- **'loans and advances to banks' and 'loans and advances to customers'**
  Loans and advances to banks and customers are reported net of allowances to reflect the estimated recoverable amounts as at the financial reporting date. 80% of the Group's loans and advances to banks and customers are all repayable within a period of less than 12 months and the interest is re-priced to take into account changes in benchmark rate. As a result, the carrying amount of loans and advances to customers is a reasonable approximation of fair value.

- **'amounts owed to banks', 'amounts owed to customers' and 'debt securities in issue'**
  The majority of these liabilities reprice or mature in less than one year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

  The Group's debt securities in issue are subject to fixed and variable interest rates. Interest rates on debt securities are further disclosed in Note 34.

8 Operating segments

The group has five significant reportable segments (trade finance, forfaiting, factoring, real estate and treasury) which are represented by different Group entities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before tax, as included in the internal management reports that are reviewed by Executive Management. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In the table below, 'interest income' is disclosed gross of interest expense since it represents the revenue measure used by Executive Management in assessing the performance of each segment. 'Net interest income' is disclosed in Note 9, including further analysis of its components.

8.1 Information about operating segments

Group – 2021

	Trade finance USD	Forfaiting USD	Factoring USD	Real estate USD	Treasury USD	Total USD
External revenue						
Interest income	2,812,731	17,533,106	9,398,610	4,058,183	3,670,705	**37,473,335**
Net fee and commission income	1,130,896	5,900,173	3,588,083	750,030	442,476	**11,811,658**
Net trading results	-	1,431,007	-	-	1,071,419	**2,502,426**
Net gain from other financial instruments	-	-	-	-	1,137,221	**1,137,221**
Dividend income	1,089,189	-	-	-	-	**1,089,189**
	5,032,816	**24,864,286**	**12,986,693**	**4,808,213**	**6,321,821**	**54,013,829**
Reportable segment (loss)/profit before income tax	(8,643,915)	6,944,840	(4,060,541)	2,170,415	1,604,540	**(1,984,661)**
Reportable segment assets	177,212,662	444,928,907	446,963,427	54,242,483	590,666,529	**1,714,014,008**
Reportable segment liabilities	71,353,439	94,101,409	144,015,176	-	1,243,193,425	**1,552,663,449**

Group – 2020

	Trade finance USD	Forfaiting USD	Factoring USD	Real estate USD	Treasury USD	Total USD
External revenue						
Interest income	3,813,627	20,568,391	8,768,549	4,967,958	1,068,750	**39,187,275**
Net fee and commission income	2,001,284	4,645,973	3,394,903	881,770	682,226	**11,606,156**
Net trading results	-	-	-	-	(121,164)	**(121,164)**
Net gain from other financial instruments	-	-	-	-	277,137	**277,137**
Dividend income	240,817	-	-	-	-	**240,817**
	6,055,728	**25,214,364**	**12,163,452**	**5,849,728**	**1,906,949**	**51,190,221**
Reportable segment (loss)/profit before income tax	(34,110,787)	5,365,965	(5,185,365)	2,123,915	(2,260,476)	**(34,066,748)**
Reportable segment assets	230,740,331	459,398,105	322,815,443	93,693,321	651,047,518	**1,757,694,718**
Reportable segment liabilities	76,380,384	90,020,926	75,157,615	-	1,323,043,782	**1,564,602,707**

8.2 Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

The financial position and performance of items not falling within any of the significant reportable segments is grouped as ‘other’, and this includes items of non-core activities mainly related to the letting of property to third parties and IT solutions.

Group

	2021 USD	2020 USD
Revenues		
Total revenue for reportable segments	54,013,829	51,190,221
Consolidated adjustments	(975,515)	(3,543,716)
Other revenue	600,397	4,824,761
Consolidated revenue	**53,638,711**	**52,471,266**
Profit or loss		
Total loss for reportable segments	(1,984,661)	(34,066,748)
Other gains/(losses)	1,614,235	(1,585,424)
	(370,426)	**(35,652,172)**
Effect of other consolidation adjustments on segment results	(922,508)	(157,762)
Consolidated loss before tax	**(1,292,934)**	**(35,809,934)**

	2021 USD	2020 USD
Assets		
Total assets for reportable segments	1,714,014,008	1,757,694,718
Other assets	74,448,793	76,125,320
	1,788,462,801	**1,833,820,038**
Effect of other consolidation adjustments on segment results	9,549	225,985
Consolidated assets	**1,788,472,350**	**1,834,046,023**
Liabilities		
Total liabilities for reportable segments	1,552,663,449	1,564,602,707
Other liabilities	12,575,017	38,476,799
	1,565,238,466	**1,603,079,506**
Effect of other consolidation adjustments on segment results	(746,299)	(2,191,612)
Consolidated liabilities	**1,564,492,167**	**1,600,887,894**

8.3 Geographical areas

In presenting information on the basis of geographical areas, revenue is based on the geographical location of customers, and assets are based on the geographical location of the assets – separately disclosing countries which exceed 10% of the total.

Group

	External revenues and net trading results	
	2021 USD	2020 USD
Malta	9,069,378	9,716,486
India	6,176,542	5,648,251
Other countries (individually less than 10%)	38,392,791	37,106,528
	53,638,711	**52,471,265**

Group

	Malta		Other countries		Total	
	2021 USD	2020 USD	2021 USD	2020 USD	2021 USD	2020 USD
Non-current assets	52,762,681	54,539,884	4,748,188	4,549,087	**57,510,869**	**59,088,971**

'Non-current assets' include 'property and equipment', 'investment property' and 'intangible assets and goodwill'.

9 Net interest income

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Interest income				
On negative interest Central Bank of Malta funding	634,925	559,670	634,925	559,670
On loans and advances to banks	601,227	749,343	194,887	359,886
On loans and advances to customers	17,670,854	19,083,222	11,820,430	13,529,312
On loans and advances to subsidiary companies	-	-	5,904,351	7,022,253
	18,907,006	**20,392,235**	**18,554,593**	**21,471,121**
On forfaiting assets	17,531,585	20,568,088	-	-
On financial assets at fair value through other comprehensive income	500,599	745,196	500,599	745,196
On investments at amortised cost	372,810	410,919	372,810	410,919
On other trade finance activities	160,230	94,488	160,230	94,488
	37,472,230	**42,210,926**	**19,588,232**	**22,721,724**
Interest expense				
On amounts owed to banks	4,168,473	3,903,190	2,723,464	2,899,533
On amounts owed to customers	6,281,151	7,570,083	6,281,151	7,570,084
On debt securities in issue	685,627	1,086,043	-	-
On amounts owed to subsidiary companies	-	-	1,343	402
On Central Bank of Malta funding and negative interest deposits	933,065	743,346	933,065	743,346
On negative interest treasury balances	459,337	154,374	459,337	154,374
On lease liability with third parties	75,822	110,740	17,022	22,470
On lease liability with subsidiaries	-	-	41,624	91,792
	12,603,475	**13,567,776**	**10,457,006**	**11,482,001**
Net interest income	**24,868,755**	**28,643,150**	**9,131,226**	**11,239,723**

Included in Group and Bank are 'interest income' and 'interest expense' payable to the parent company and other related companies (see Note 43).

10 Net fee and commission income

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Fee and commission income				
Credit related fees and commission	2,017,411	2,012,475	2,000,046	1,991,286
On letters of credit	1,025,129	792,183	1,059,076	882,437
On factoring	5,262,546	4,228,617	832,564	1,021,866
On forfaiting	6,650,820	5,530,736	-	-
On IT solutions	-	95,000	-	-
Charged to subsidiaries	-	-	252,731	111,120
Other fees	943,642	1,597,758	796,426	1,360,158
	15,899,548	**14,256,769**	**4,940,843**	**5,366,867**
Fee and commission expense				
Correspondent banking fees	311,282	602,791	235,845	541,759
Credit related fees and commission	548,121	764,614	316,437	410,551
On forfaiting	924,623	1,177,298	-	-
On factoring	2,110,498	1,565,628	1,076,934	902,724
Insurance cover	1,146,048	1,153,417	506,173	618,281
Charged by subsidiaries	-	-	10,158	55,623
Other fees	21,413	23,340	19,991	23,340
	5,061,985	**5,287,088**	**2,165,538**	**2,552,278**
Net fee and commission income	**10,837,563**	**8,969,681**	**2,775,305**	**2,814,589**

Included in Group and Bank are 'fee and commission income' and 'fee and commission expense' payable to the parent company and other related companies (see Note 43).

11 Net trading results

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Net trading income/(expense) from assets held for trading	1,889,779	(680,804)	-	-
Foreign exchange rate results	1,554,424	1,809,201	1,392,276	2,145,012
Net results on derivatives held for risk management	(941,777)	(1,249,561)	(1,986,629)	(2,976,256)
	2,502,426	**(121,164)**	**(594,353)**	**(831,244)**

12 Net gain from other financial instruments carried at fair value

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Investment securities				
Equity investments at fair value through profit or loss	388,035	(1,030,938)	388,035	(1,030,938)
Debt investments at fair value through other comprehensive income	749,186	1,308,075	749,186	1,308,075
	1,137,221	**277,137**	**1,137,221**	**277,137**

13 Dividend income

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Dividend income from equity investments at fair value through profit or loss	1,089,189	240,817	1,089,189	240,817
Dividend income from subsidiary undertaking	-	-	15,899,860	7,000,000
	1,089,189	**240,817**	**16,989,049**	**7,240,817**

14 Other operating income

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Rental income from leased property	720,996	891,314	124,189	120,703
Profit on disposal of property and equipment	7,994	2,533	9,751	-
Other non-trading income	-	22	-	22
	728,990	**893,869**	**133,940**	**120,725**

15 Administrative expenses

15.1 Administrative expenses incurred during the year are analysed as follows:

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Personnel expenses	25,949,981	24,914,693	14,792,481	14,766,236
Expenses relating to short-term leases and leases of low-value assets	252,975	204,920	123,132	92,039
Other administrative expenses	10,882,639	10,490,463	7,202,358	7,583,904
Recharge of services rendered by subsidiaries	-	-	1,095,395	1,280,624
	37,085,595	**35,610,076**	**23,213,366**	**23,722,803**

No 'expenses relating to short-term leases and leases of low-value assets' for the Bank were payable to subsidiary companies (2020: USD2,872).

Included in 'other administrative expenses' of the Bank and Group for the financial year ended 31 December 2021 are the following fees charged by the Group Statutory Auditors:

	Audit services 2021 USD	Audit services 2020 USD	Other assurance services 2021 USD	Other assurance services 2020 USD	Tax advisory services 2021 USD	Tax advisory services 2020 USD	Other non-audit services 2021 USD	Other non-audit services 2020 USD
By the auditors of the parent	411,952	323,796	160,143	174,566	13,311	9,658	6,976	14,880
By the auditors of subsidiaries	293,723	322,990	112,133	51,648	2,803	2,770	-	485

All fees are inclusive of indirect taxes.

15.2 Personnel expenses incurred during the year

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Directors' emoluments	414,414	388,320	414,414	359,977
Staff costs:				
- wages, salaries and allowances	24,112,170	23,190,904	13,817,936	13,833,820
- defined contribution costs	1,423,397	1,335,469	560,131	572,439
	25,949,981	**24,914,693**	**14,792,481**	**14,766,236**

15.3 Average number of employees

The average number of persons employed during the year was as follows:

	Group		Bank	
	2021 No. of employees	2020 No. of employees	2021 No. of employees	2020 No. of employees
Executive and senior managerial	39	40	22	22
Other managerial, supervisory and clerical	277	296	152	162
Other staff	8	9	-	2
	324	**345**	**174**	**186**

15.4 Executive share option schemes

FIMBank

In May 2019, the Annual General Meeting authorised the Board of Directors of the Bank to issue and allot up to a maximum of 10,000,000 Equity Securities over a period of five years limitedly, for the purpose of implementing the Employee Share Award Scheme Rules.

During 2021 and 2020 the Bank has not awarded shares under the Employee Share Award Scheme.

India Factoring

India Factoring has an Employee Stock Option Plan (ESOP), under which it has granted 2,844,000 options to the eligible employees of the company on the basis of their service and other eligibility criteria. The ESOP is monitored by India Factoring Employee Welfare Trust, a shareholder of India Factoring.

At 31 December 2021, the company had 2,152,800 (31 December 2020: 2,152,800) outstanding share options, at an exercise price of INR10/option (31 December 2020: INR10/option).

16 Taxation

16.1 Amounts recognised in profit or loss

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Current tax	(721,589)	(1,010,351)	(113,418)	(566,776)
Deferred tax				
- deferred tax assets	(1,598,000)	(10,212,470)	-	(6,000,000)
Taxation	**(2,319,589)**	**(11,222,821)**	**(113,418)**	**(6,566,776)**

16.2 Amounts recognised in other comprehensive income

Group – 31 December 2021

	Before tax USD	Tax benefit USD	Net of tax USD
Items that will not be reclassified to profit or loss			
Movement in fair value reserve (property and equipment)	(399,566)	-	(399,566)
	(399,566)	**-**	**(399,566)**
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
- Foreign currency translation differences for foreign operations	(1,677,971)	-	(1,677,971)
	(1,677,971)	**-**	**(1,677,971)**
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	(3,494,521)	745,583	(2,748,938)
Loss allowance	10,238	-	10,238
	(3,484,283)	**745,583**	**(2,738,700)**
- Net amount reclassified to profit or loss			
Fair value movement	(749,186)	-	(749,186)
	(749,186)	**-**	**(749,186)**
	(6,311,006)	**745,583**	**(5,565,423)**

Group – 31 December 2020

	Before tax USD	Tax expense USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss			
Movement in translation reserve:			
- Foreign currency translation differences for foreign operations	(2,878,066)	-	(2,878,066)
	(2,878,066)	**-**	**(2,878,066)**
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	5,916,567	(420,207)	5,496,360
Amortisation	(2,111,785)	-	(2,111,785)
Loss allowance	(20,152)	-	(20,152)
	3,784,630	**(420,207)**	**3,364,423**
- Net amount reclassified to profit or loss			
Fair value movement	(1,308,075)	-	(1,308,075)
	(1,308,075)	**-**	**(1,308,075)**
	(401,511)	**(420,207)**	**(821,718)**

Bank – 31 December 2021

	Before tax USD	Tax benefit USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	(3,494,521)	745,583	(2,748,938)
Loss allowance	10,238	-	10,238
	(3,484,283)	**745,583**	**(2,738,700)**
- Net amount reclassified to profit or loss			
Fair value movement	(749,186)	-	(749,186)
	(749,186)	**-**	**(749,186)**
	(4,233,469)	**745,583**	**(3,487,886)**

Bank – 31 December 2020

	Before tax USD	Tax expense USD	Net of tax USD
Items that are or may be reclassified subsequently to profit or loss			
Movement in fair value reserve (debt instruments):			
- Net change in fair value			
Fair value movement	5,916,567	(420,207)	5,496,360
Amortisation	(2,111,785)	-	(2,111,785)
Loss allowance	(20,152)	-	(20,152)
	3,784,630	**(420,207)**	**3,364,423**
- Net amount reclassified to profit or loss			
Fair value movement	(1,308,075)	-	(1,308,075)
	(1,308,075)	**-**	**(1,308,075)**
	2,476,555	**(420,207)**	**2,056,348**

16.3 Reconciliation of effective tax rate

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Loss before tax	**(1,292,934)**	**(35,809,934)**	**(549,801)**	**(49,409,826)**
Tax income using the domestic income tax rate of 35%	**452,527**	**12,533,477**	**192,430**	**17,293,439**
Tax effect of:				
Non-deductible expenses	(21,590)	(108,982)	(1,296)	(74,326)
Non-deductible capital loss	-	(940,450)	(30,575)	(3,259,900)
Non-taxable income	412,622	90,488	5,946,167	2,534,286
Unrecognised temporary differences	(4,769,976)	(24,123,723)	(6,146,421)	(22,690,463)
Investment tax credit	-	22,762	-	-
Different tax rates on capital gains	(332)	-	(332)	-
Different tax rates in foreign jurisdictions	1,607,160	1,303,607	(73,391)	(369,812)
Taxation	**(2,319,589)**	**(11,222,821)**	**(113,418)**	**(6,566,776)**

17 Earnings per share

Basic loss per share

The calculation of basic loss per share has been based on the following results attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

Profit attributable to ordinary shareholders

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Loss attributable to Equity Holders of the Bank	(3,840,703)	(46,898,575)	(663,219)	(55,976,602)

Weighted average number of ordinary shares

	2021 No. of shares	2020 No. of shares
Weighted average number of ordinary shares at 31 December (basic)	522,443,763	522,443,763

18 Balances with the Central Bank of Malta, treasury bills and cash

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Cash	24,079	26,531	7,288	6,756
Balances with the Central Bank of Malta	98,381,107	245,785,027	98,381,107	245,785,027
Treasury bills	141,713,250	73,628,666	141,713,250	73,628,666
Loss allowance	(119,597)	(152,700)	(119,597)	(152,700)
	239,998,839	**319,287,524**	**239,982,048**	**319,267,749**

'Balances with the Central Bank of Malta' include a reserve deposit of EUR8,451,100 (USD9,571,979) (2020: EUR9,131,084 (USD11,205,159) in terms of Regulation (EC) No: 1745/2003 of the European Central Bank.

At 31 December 2021, 'treasury bills' included assets with a carrying amount of USD141,713,250 (2020: USD56,448,644) pledged in favour of third parties under borrowing arrangements.

19 Derivatives held for risk management

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Derivative assets held for risk management				
- foreign exchange	841,688	991,624	841,688	991,623
- interest rate	-	-	-	27,665
	841,688	**991,624**	**841,688**	**1,019,288**
Derivative liabilities held for risk management				
- foreign exchange	(1,499,026)	(1,629,434)	(1,499,026)	(1,629,434)
- interest rate	-	-	(34,530)	-
	(1,499,026)	**(1,629,434)**	**(1,533,556)**	**(1,629,434)**

20 Trading assets

'Trading assets' represent forfaiting assets held by London Forfaiting Company Limited and comprise bills of exchange, promissory notes and transferable trade related loans. These assets are held for short-term trading.

At 31 December 2021, there were no 'trading assets' pledged in favour of third parties under reverse-repos or borrowing arrangements (2020: Nil).

21 Loans and advances to banks

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Repayable on call and at short notice	35,044,550	38,558,675	27,011,814	32,298,834
Term loans and advances	22,489,142	44,245,546	14,474,062	36,654,921
	57,533,692	**82,804,221**	**41,485,876**	**68,953,755**
Pledged in favour of third parties	141,341,035	114,326,911	141,341,035	114,326,911
Gross loans and advances to banks	**198,874,727**	**197,131,132**	**182,826,911**	**183,280,666**
Loss allowance	(386,151)	(3,991,555)	(368,363)	(3,916,599)
Net loans and advances to banks	**198,488,576**	**193,139,577**	**182,458,548**	**179,364,067**

'Pledged in favour of third parties' is comprised exclusively of assets pledged in favour of third parties under borrowing arrangements.

See Note 43 for balances due from related parties.

22 Loans and advances to customers

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Repayable on call and at short notice	479,749,066	387,390,649	199,573,375	192,412,375
Term loans and advances	226,756,238	300,689,617	226,749,228	300,663,190
	706,505,304	**688,080,266**	**426,322,603**	**493,075,565**
Pledged in favour of third parties	5,191,890	5,494,363	5,191,890	5,494,363
Amounts owed by subsidiary companies	-	-	383,006,632	359,140,454
Total loans and advances to customers	**711,697,194**	**693,574,629**	**814,521,125**	**857,710,382**
Loss allowance	(82,784,854)	(101,578,903)	(68,956,986)	(77,876,022)
Net loans and advances to customers	**628,912,340**	**591,995,726**	**745,564,139**	**779,834,360**

'Pledged in favour of third parties' include an amount of USD365,808 (2020: USD328,797) pledged in favour of the Single Resolution Fund and USD4,705,713 (2020: USD5,098,385) pledged in favour of the Depositor Compensation Scheme.

'Amounts owed by subsidiary companies' include facilities that are unsecured and repayable on demand. Pricing of facilities is dependent on the currency of funding and market conditions.

During 2021, a stage 3 loan was partially settled by transfer of 7,609,907 shares in Tawazun Holding Company (KSC) (refer to Note 23).

See Note 43 for balances due from other related parties.

23 Financial assets at fair value through profit or loss

At reporting date, the Group and Bank held an investment in two unlisted sub-funds of a local collective investment scheme regulated by the MFSA, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. An investment amounting to USD17,376,985 (2020: USD18,517,229) in Sustainable Investment Fund, a sub-fund that invests in sustainable energy plants with returns generated throughout the life of each plant and an investment amounting to USD1,689,666 (2020: USD1,815,017) in Global Opportunities Fund, a sub-fund that invests in a variety of investments, with relative complex structures and limited liquidity.

At reporting date, the Group and Bank holds more than 50% of the units in Sustainable Investment Fund. However, these shares do not carry any voting rights in relation to management and control of the sub-fund. The Group and Bank do not have the power to direct the relevant activities of the sub-fund or to affect the amount of own returns. As a result, the Group and Bank is not consolidating the investment and is measuring it at fair value through profit or loss.

During 2020, the Group and Bank has redeemed all the units in Trade Finance Fund. As part of the redemption process, the Bank has bought back the trade finance assets from the sub-fund, which were originally sold to the sub-fund by the Bank. This redemption has resulted in a realised loss of USD360,741 for the Bank and the Group.

During 2021, the Group and Bank acquired 0.777% equity shares in a foreign holding company, Tawazun Holding Company (KSC), through a debt settlement agreement. The settlement value has been determined by reference to the fair value of the acquired equity shares amounting to USD898,492 (Refer to Note 22).

24 Financial assets at fair value through other comprehensive income

'Financial assets at fair value through other comprehensive income' is comprised exclusively of debt instruments.

At 31 December 2021, 'financial assets at fair value through other comprehensive income' included assets with a carrying amount of USD121,958,073 (2020: USD127,809,734) pledged in favour of third parties under borrowing arrangements.

25 Investments at amortised cost

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Debt investments at amortised cost	9,972,376	9,910,131	9,972,376	9,910,131
Loss allowance	(57,622)	(70,674)	(57,622)	(70,674)
	9,914,754	**9,839,457**	**9,914,754**	**9,839,457**

26 Investments in subsidiaries

26.1 Movement in carrying amount

	Bank 2021 USD	Bank 2020 USD
At 1 January	147,436,214	147,948,385
Additional investment in London Forfaiting Company Limited	12,100,000	7,000,000
Additional investment in FIMFactors B.V.	-	1,801,829
Movement in impairment of investments	(87,356)	(9,314,000)
At 31 December	**159,448,858**	**147,436,214**

Name of company	Country of incorporation	Nature of business	Equity interest 2021 %	Equity interest 2020 %	Bank 2021 USD	Bank 2020 USD
FIM Business Solutions Limited	Malta	IT services provider	100	100	5,000	5,000
FIM Property Investment Limited	Malta	Property management	100	100	1,005,749	1,005,749
London Forfaiting Company Limited	United Kingdom	Forfaiting	100	100	106,466,435	94,366,435
The Egyptian Company for Factoring S.A.E.	Egypt	Factoring	100	100	11,664,983	11,664,983
FIMFactors B.V.	Netherlands	Holding company	100	100	40,306,690	40,394,046
FIM Holdings (Chile) S.p.A.	Chile	Holding company	100	100	1	1
					159,448,858	**147,436,214**

The carrying amount of the 'investments in subsidiaries' is stated net of impairment, amounting to USD50,055,426 (2020: USD49,968,070), in relation to FIMFactors B.V., The Egyptian Company for Factoring S.A.E. and FIM Holdings (Chile) S.p.A.

The Bank, indirectly through FIMFactors B.V. controls India Factoring and Finance Solutions Private Limited, incorporated in India, to carry out the business of factoring in India. As at December 2021, the Bank held 88.16% (2020: 88.16%) shareholding.

The Bank, indirectly through London Forfaiting Company Limited controls London Forfaiting International Limited, a holding company incorporated in the United Kingdom. As at December 2021, the Bank held 100% (2020: 100%) shareholding.

In turn, London Forfaiting International Limited controls the following subsidiaries:

Name of company	Country of incorporation	Nature of business	Equity interest 2021 %	Equity interest 2020 %
London Forfaiting Americas Inc.	United States of America	Marketing	100	100
London Forfaiting do Brasil Ltda.	Brazil	Marketing	100	100

26.2 Impairment assessment

At each reporting date the Bank carries out an impairment assessment to calculate the recoverable amounts of its investment in subsidiaries and determine the possibility of an impairment loss. At reporting date this was particularly important in light of the wide-ranging impact of the COVID-19 pandemic. The Bank has carried out the assessment to detect any indication of impairment with the existing and possible pandemic effects in mind. In performing this assessment, the Bank considered the expected drops in business volumes and other adverse impacts the pandemic could have on the subsidiaries and the industries, geographies and economies they operate it. This assessment was carried out on the basis of the underlying performance of each subsidiary. The resulting net impairment loss for the year amounted to USD87,356 (2020: USD9,314,000).

The assumptions and methodology applied in determining the recoverable amount of a CGU are disclosed in Note 29.2.1.

27 Property and equipment

27.1 Reconciliation of carrying amount

Group

	Freehold Land USD	Buildings USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost							
At 1 January 2020	7,759,088	26,546,212	1,955,011	1,293,994	4,153,477	3,013,312	**44,721,094**
Additions	-	469,044	-	63,994	189,302	80,413	**802,753**
Disposals	-	-	-	-	(26,911)	(8,368)	**(35,279)**
Lease modifications that decrease the scope of the lease	-	(389,108)	-	-	-	-	**(389,108)**
Effect of movement in exchange rates	-	(15,587)	-	(4,927)	(6,342)	(4,001)	**(30,857)**
At 31 December 2020	**7,759,088**	**26,610,561**	**1,955,011**	**1,353,061**	**4,309,526**	**3,081,356**	**45,068,603**
At 1 January 2021	7,759,088	26,610,561	1,955,011	1,353,061	4,309,526	3,081,356	**45,068,603**
Reclassification	(265,512)	(120,402)	-	-	-	-	**(385,914)**
Additions	-	955,519	-	8,682	408,652	69,608	**1,442,461**
Disposals	-	-	-	-	(115,789)	(121,548)	**(237,337)**
Lease modifications that decrease the scope of the lease	-	(77,605)	-	-	-	-	**(77,605)**
Effect of movement in exchange rates	-	(11,563)	-	(4,101)	(3,934)	(2,583)	**(22,181)**
At 31 December 2021	**7,493,576**	**27,356,510**	**1,955,011**	**1,357,642**	**4,598,455**	**3,026,833**	**45,788,027**
Depreciation							
At 1 January 2020	-	2,365,377	1,955,011	449,079	3,509,126	2,656,032	**10,934,625**
Charge for the year	-	1,733,562	-	202,863	312,867	121,080	**2,370,372**
Release on disposals	-	-	-	-	(26,911)	(8,040)	**(34,951)**
Lease modifications that decrease the scope of the lease	-	(358,371)	-	-	-	-	**(358,371)**
Effects of movement in exchange rates	-	(1,949)	-	(1,042)	(3,940)	(2,957)	**(9,888)**
At 31 December 2020	**-**	**3,738,619**	**1,955,011**	**650,900**	**3,791,142**	**2,766,115**	**12,901,787**
At 1 January 2021	-	3,738,619	1,955,011	650,900	3,791,142	2,766,115	**12,901,787**
Reclassification	-	-	-	-	1,713	11,939	**13,652**
Charge for the year	-	1,686,817	-	187,629	306,845	111,420	**2,292,711**
Release on disposals	-	-	-	-	(114,032)	(121,548)	**(235,580)**
Lease modifications that decrease the scope of the lease	-	(77,605)	-	-	-	-	**(77,605)**
Effects of movement in exchange rates	-	(8,442)	-	(3,024)	(3,540)	(2,386)	**(17,392)**
At 31 December 2021	**-**	**5,339,389**	**1,955,011**	**835,505**	**3,982,128**	**2,765,540**	**14,877,573**
Carrying amounts							
At 1 January 2020	7,759,088	24,180,835	-	844,915	644,351	357,280	**33,786,469**
At 31 December 2020	7,759,088	22,871,942	-	702,161	518,384	315,241	**32,166,816**
At 31 December 2021	**7,493,576**	**22,017,121**	**-**	**522,137**	**616,327**	**261,293**	**30,910,454**
Carrying amount had the assets been carried at cost							
At 31 December 2021	**4,816,132**	**15,630,217**	**-**	**522,137**	**614,478**	**251,662**	**21,834,626**

As at 31 December 2021, 'buildings' includes right-of-use assets of USD2,163,727 (2020: USD2,189,052) related to leased branches and office premises (see Note 42).

Bank

	Buildings USD	Computer system USD	Improvement to premises USD	Computer equipment USD	Others USD	Total USD
Cost						
At 1 January 2020	5,815,093	1,955,011	710,821	3,224,642	2,042,438	**13,748,005**
Additions	110,340	-	-	126,548	16,196	**253,084**
Lease modifications that increase the scope of the lease	(44,278)	-	-	-	-	**(44,278)**
At 31 December 2020	**5,881,155**	**1,955,011**	**710,821**	**3,351,190**	**2,058,634**	**13,956,811**
At 1 January 2021	5,881,155	1,955,011	710,821	3,351,190	2,058,634	**13,956,811**
Additions	-	-	-	382,305	17,206	**399,511**
Release on disposals	-	-	-	-	(53,890)	**(53,890)**
Lease modifications that increase the scope of the lease	33,840	-	-	-	-	**33,840**
At 31 December 2021	**5,914,995**	**1,955,011**	**710,821**	**3,733,495**	**2,021,950**	**14,336,272**
Depreciation						
At 1 January 2020	1,581,687	1,955,011	343,747	2,766,644	1,871,857	**8,518,946**
Charge for the year	1,603,720	-	49,544	219,327	57,765	**1,930,356**
At 31 December 2020	**3,185,407**	**1,955,011**	**393,291**	**2,985,971**	**1,929,622**	**10,449,302**
At 1 January 2021	3,185,407	1,955,011	393,291	2,985,971	1,929,622	**10,449,302**
Charge for the year	1,625,813	-	48,947	230,782	46,134	**1,951,676**
Release on disposals	-	-	-	-	(53,890)	**(53,890)**
Lease modifications that increase the scope of the lease	23,935	-	-	-	-	**23,935**
At 31 December 2021	**4,835,155**	**1,955,011**	**442,238**	**3,216,753**	**1,921,866**	**12,371,023**
Carrying amounts						
At 1 January 2020	4,233,406	-	367,074	457,998	170,581	**5,229,059**
At 31 December 2020	2,695,748	-	317,530	365,219	129,012	**3,507,509**
At 31 December 2021	**1,079,840**	**-**	**268,583**	**516,742**	**100,084**	**1,965,249**

As at 31 December 2021, 'buildings' is comprised exclusively of right-of-use assets related to leased branches and office premises (see Note 42).

27.2 Measurement of fair values

Land and buildings are revalued by an independent, professionally qualified architect in accordance with Accounting Policy 3.17.1. Valuations of land and buildings are done using the 'investment income approach' whereby market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is based on actual rental income as per current lease agreements. To determine the reasonableness of the actual rates being used a comparison is then drawn between the actual rates and rental rates of other properties, taking cognisance of the location, size, layout, and planning and energy performance considerations.

The land and premises were revalued on 31 December 2021.

The valuation contains a 'valuation uncertainty' clause as defined in the European Valuation Standards 2016, and in line with the 'Kamra tal-Periti' Valuation Standards COVID-19 Guidance Note (May 2020), due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion.

Property fair value measurement is classified as Level 3 (see Note 2.4.2.1). Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs per annum	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€282 to €523	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.0%	The higher the capitalisation rate the lower the fair value
Parking space	Investment income approach	Rental value per square metre	€65 to €125	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	7.5%	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€105 to €175	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	9.0%	The higher the capitalisation rate the lower the fair value

28 Investment property

28.1 Reconciliation of carrying amount

	Group 2021 USD	Group 2020 USD
Cost		
At 1 January	17,223,820	17,223,820
Fair value movements	-	-
At 31 December	**17,223,820**	**17,223,820**
Carrying amounts		
Cost	7,049,357	7,049,357
Net fair value gains	10,174,463	10,174,463
Carrying amount	**17,223,820**	**17,223,820**

'Investment property' comprises a number of areas within the Group Head Office building in St. Julian's, Malta which are available for rent to third parties.

28.2 Measurement of fair values

Investment property is revalued by an independent professionally qualified architect in accordance with Accounting Policy 3.18. The valuation of investment property is prepared using only the 'investment income approach', whilst the 'comparative value approach' is only considered as a validation technique.

Under the 'investment income approach', the market value is derived by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is based on actual rental income as per current lease agreements. To determine the reasonableness of the actual rates being used a comparison is then drawn between the actual rates and rental rates of other properties, taking cognisance of the location, size, layout, and planning and energy performance considerations.

Under the 'comparative value approach' the market value of the property is estimated by selecting an appropriately adjusted price per unit (€/square metre) based on transactions in comparable properties located in proximity to the property.

The investment property was last revalued on 31 December 2021.

The valuation contains a 'valuation uncertainty' clause as defined in the European Valuation Standards 2016, and in line with the 'Kamra tal-Periti' Valuation Standards COVID-19 Guidance Note (May 2020), due to the market disruption caused by the COVID-19 pandemic, which resulted in a reduction in transactional evidence and market yields. This clause does not invalidate the valuation but implies that there is more uncertainty than under normal market conditions. Accordingly, the valuer cannot attach as much weight as usual to previous market evidence for comparison purposes, and there is an increased risk that the price realised in an actual transaction would differ from the value conclusion.

Property fair value measurement is classified as Level 3 (see Note 2.4.2.1). Significant unobservable inputs used in the valuation of these properties is the rental income and the percentage capitalisation rate which indicates the multiplier relationship between net rental income and property value. Further details about these significant inputs are summarised in the table below:

	Valuation technique	Significant unobservable inputs	Range of unobservable inputs per annum	Inter-relationship between key unobservable inputs and fair value measurements
Office space	Investment income approach	Rental value per square metre	€282 to €523	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	6.0%	The higher the capitalisation rate the lower the fair value
Retail space	Investment income approach	Rental value per square metre	€290 to €300	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	7.5%	The higher the capitalisation rate the lower the fair value
Stores and ancillary	Investment income approach	Rental value per square metre	€105 to €175	The higher the rate per square metre the higher the fair value
	Investment income approach	Capitalisation rate	9.0%	The higher the capitalisation rate the lower the fair value

29 Intangible assets and goodwill

29.1 Reconciliation of carrying amount

Group

	Goodwill USD	Software USD	Total USD
Cost			
At 1 January 2020	14,943,886	10,834,645	**25,778,531**
Additions	-	488,096	**488,096**
Effects of movement in exchange rates	(310,195)	(4,169)	**(314,364)**
At 31 December 2020	**14,633,691**	**11,318,572**	**25,952,263**
At 1 January 2021	14,633,691	11,318,572	**25,952,263**
Additions	-	779,861	**779,861**
Release on disposals	-	(2,266,153)	**(2,266,153)**
Effects of movement in exchange rates	(210,149)	(2,826)	**(212,975)**
At 31 December 2021	**14,423,542**	**9,829,454**	**24,252,996**
Accumulated amortisation and impairment losses			
At 1 January 2020	6,437,802	6,232,848	**12,670,650**
Charge for the year	-	1,055,796	**1,055,796**
Impairment loss	2,687,000	-	**2,687,000**
Effects of movement in exchange rates	(155,857)	(3,661)	**(159,518)**
At 31 December 2020	**8,968,945**	**7,284,983**	**16,253,928**
At 1 January 2021	8,968,945	7,284,983	**16,253,928**
Charge for the year	-	1,042,068	**1,042,068**
Release on disposals	-	(2,266,153)	**(2,266,153)**
Effects of movement in exchange rates	(150,753)	(2,689)	**(153,442)**
At 31 December 2021	**8,818,192**	**6,058,209**	**14,876,401**
Carrying amounts			
At 1 January 2020	8,506,084	4,601,797	13,107,881
At 31 December 2020	5,664,746	4,033,589	9,698,335
At 31 December 2021	**5,605,350**	**3,771,245**	**9,376,595**

Bank

	Software USD
Cost	
At 1 January 2020	8,583,508
Additions	393,096
At 31 December 2020	**8,976,604**
At 1 January 2021	8,976,604
Additions	779,881
At 31 December 2021	**9,756,485**
Accumulated amortisation	
At 1 January 2020	3,935,866
Charge for the year	1,032,013
At 31 December 2020	**4,967,879**
At 1 January 2021	4,967,879
Charge for the year	1,014,291
At 31 December 2021	**5,982,170**
Carrying amounts	
At 1 January 2020	4,647,642
At 31 December 2020	4,008,725
At 31 December 2021	**3,774,315**

29.2 Impairment testing for CGUs containing goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's CGUs as follows:

	Group 2021 USD	Group 2020 USD
India Factoring		
- cost, net of exchange differences	12,292,542	12,502,691
- accumulated impairment, net of exchange differences	(8,818,192)	(8,968,945)
Egypt Factors		
- cost	2,131,000	2,131,000
	5,605,350	**5,664,746**

In 2020, the CGUs have been affected by the COVID-19 pandemic, which resulted in an impairment of USD2,687,000 on one of the CGUs. In 2021 a similar assessment was carried out and the Bank concluded that no impairment is required. When calculating the recoverable amount, the additional uncertainty and adverse impact of COVID-19 were taken into account by adjusting the expected cash flows. Management's expectations reflect performance to date and are based on its experience in times of recession and consistent with the assumptions that a market participant would make.

29.2.1 India Factoring and Finance Solutions (Private) Limited

The recoverable amount of this CGU was based on its value-in-use, determined using the 'income approach' to business valuations. This approach provides an estimate of the present value of the monetary benefits expected to flow to the owners of the business. It requires projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. The value of the business, or recoverable amount, is the sum of the discounted cash flows.

At reporting date, the recoverable amount was determined to be higher than the carrying amount of the CGU and the carrying amount of goodwill was deemed to be appropriate.

Financial projections

Financial projections for a ten-year period form the basis for the discounted cash flow analysis used to determine value-in-use. These projections were based on expectations of future outcomes, taking into account past experience adjusted for the anticipated revenue cumulative annual growth rate of 25.6% (2020: 23.9%). Revenue growth was projected taking into account the updated business model of the entity and the estimated growth over the projection period. Management has approved the forecasts, relating to the business carried out by India Factoring, which are based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment.

Terminal value

In 2021, the terminal value or the value attributed to the CGU beyond the explicit forecast period, was estimated using a 'gordon growth model'. This determination assumed a long-term growth rate of 5.0% (2020: 5.0%), which is considered appropriate considering the industry and economy growth estimates.

Discount rate

The 'income approach' requires the application of an appropriate discount rate that reflects the risks of the cash flows. As the valuation discounts cash flows available to equity shareholders, the valuation model adopts the 'cost of equity' as the discount rate.

IAS 36 - Impairment of Assets, requires pre-tax cash flows to be discounted using pre-tax discount rate. The pre-tax discount rate cannot be obtained by grossing up the post-tax discount rate by the standard rate of tax, as the pre-tax rate needs to take into account the post-tax discount rate, the timing of the future cash flows and the useful life of the asset or CGU. The pre-tax discount rate is estimated by an iterative process which is used to solve for a rate that, when applied to the pre-tax cash flows, results in the same total invested capital value of the CGU as estimated based on the post-tax cash flows.

As at 31 December 2021, the pre-tax and post-tax discount rate for the CGU were 22.1% (2020: 20.0%) and 18.0% (2020: 16.5%) respectively. The post-tax discount rate (representing the cost of equity) applied on valuation date is based on the rate of 10-year government bonds issued by the Government in India and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific entity.

Valuation risks

The key assumptions described above may change as economic, political and market conditions change. An adverse movement in a key assumption may lead to an impairment of goodwill. The break-even post tax discount rate, that is the rate at which the recoverable amount would be equal to the carrying amount of the CGU, is 18.6% (2020: 16.5%). At the constant discount rate used the break-even long-term growth rate that would reduce the recoverable amount to the carrying amount of the CGU is 3.3% (2020: 5.0%).

Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Group will recover the recoverable amount of goodwill post impairment charges, as recognised at 31 December 2021.

29.2.2 Egypt Factors

The recoverable amount of this CGU was based on its value-in-use in accordance with the requirements of IAS 36. This approach provides an estimate of the present value of the monetary benefits expected to flow to the owners of the business. It requires projection of the cash flows that the business is expected to generate. These cash flows are then converted to their present value by means of discounting, using a rate of return that accounts for the time value of money and the appropriate degree of risk in the investment. The value of the business, or recoverable amount, is the sum of the discounted cash flows.

At reporting date, the recoverable amount was determined to be higher than the carrying amount of the CGU and the carrying amount of goodwill was deemed to be appropriate.

Financial projections

Financial projections for a five-year period form the basis for discounted cash flow analysis used to determine value-in-use. These projections were based on expectations of future outcomes based on past experience, adjusted for a revenue cumulative annual growth rate of 21.5% (2020: 16.9%). Revenue growth was projected by taking into consideration the updated business model of the entity and the estimated growth over the projection period. Management has approved the forecasts, relating to the business carried out by Egypt Factoring, which are based on a strategy to grow the business in a changing market landscape, whilst ensuring an effective operational and control environment.

Terminal value

The terminal value, or the value attributed to the CGU beyond the explicit forecast period, was estimated assuming a long-term growth rate of 3.0% (2020: 3.0%), which is considered appropriate considering the industry and economy growth estimates.

Discount rate

The value-in-use estimate requires the application of an appropriate discount rate that reflects the risks of the cash flows. As the valuation discounts cash flows available to equity shareholders, the valuation model adopts the “cost of equity” as the discount rate. IAS 36 requires pre-tax cash flows to be discounted using pre-tax discount rate. As Egypt Factors is a free-trade zone entity which profits are exempt from tax, the pre-tax and post-tax discount rates are identical.

As at 31 December 2021, the discount rate for the CGU was 12.0% (2020: 12.0%). The discount rate (representing the cost of equity) applied on valuation date is based on the rate of the Central Bank of Egypt, representing the functional currency and equity of the company, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systemic risk of the specific entity.

Valuation risks

The key assumptions described above may change as economic, political and market conditions change. Whilst the recoverable amount is higher than the carrying amount, an adverse movement in a key assumption may lead to an impairment of goodwill. The break-even post tax discount rate, that is the rate at which the recoverable amount would be equal to the carrying amount of the CGU, is 15.3% (2020: 16.0%). At the constant discount rate used on 31 December 2021, the break-even long-term growth rate that would reduce the recoverable amount to the carrying amount of the CGU is -2.3% (2020: -3.7%).

Whilst it is inherent that actual results may differ from those budgeted, and such variations may be significant, the Directors believe that the business plan can be supported, such that the Group will recover such goodwill at least at the amount stated.

30 Deferred taxation

30.1 Analysis of deferred taxation

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Deferred tax assets				
Tax effect of temporary differences relating to:				
- excess of capital allowances over depreciation	(665,157)	(666,297)	(735,325)	(735,325)
- allowances for uncollectibility	6,216,552	6,955,456	6,810,121	6,810,121
- changes in fair value of financial instruments	1,408,167	662,584	1,408,167	662,584
- unabsorbed capital allowances	622,026	622,026	622,026	622,026
- unabsorbed tax losses	17,252,983	18,216,009	8,145,593	8,145,593
- other temporary differences	85,956	85,956	85,956	85,956
Total deferred tax assets	**24,920,527**	**25,875,734**	**16,336,538**	**15,590,955**
Deferred tax liabilities				
Tax effect of temporary differences relating to:				
- fair valuation of property and equipment	2,837,170	2,837,170	-	-
- fair valuation of investment property	1,377,905	1,377,905	-	-
Total deferred tax liabilities	**4,215,075**	**4,215,075**	**-**	**-**

In years 2020 and 2021, the Bank's growth was impacted by the continuation of the de-risking process, which had started in 2019, as well as the COVID-19 pandemic. After the Bank has assessed the probability of future taxable profits, the Bank established that it will generate enough future taxable profits to absorb the carrying amount of recognised tax losses and temporary differences and therefore has not written-off any of its recognised deferred tax asset (2020: USD 6.0million).

During 2020 a subsidiary had also written-off USD2.8 million of recognised deferred tax asset, which was related to the recoverability of tax losses having a finite expiry date. In 2021, after assessing the probability of future taxable profits, the subsidiary concluded that it will generate enough future taxable profits to absorb the carrying amount of the recognised tax losses and temporary differences and therefore no write-off was required.

30.2 Unrecognised deferred taxation

At financial reporting date, the Bank had unutilised tax losses and temporary differences that were unrecognised, amounting to USD101.2 million. In addition, other Group entities had unutilised tax losses and tax credits that were unrecognised, amounting to USD38.0 million and USD0.7 million respectively. Unrecognised unabsorbed tax losses amounting to USD9.4 million carried in a group entity, have an expiry period ranging between 31 March 2024 to 31 March 2025.

30.3 Movements in temporary differences during the year

30.3.1 Deferred tax assets

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Closing balance USD
2021					
Excess of capital allowances over depreciation	(666,297)	-	2,313	(1,173)	**(665,157)**
Allowances for uncollectibility	6,955,456	-	(740,330)	1,426	**6,216,552**
Changes in fair values of financial instruments	662,584	745,583	-	-	**1,408,167**
Unabsorbed capital allowances	622,026	-	-	-	**622,026**
Unabsorbed tax losses	18,216,009	-	(859,983)	(103,043)	**17,252,983**
Other temporary differences	85,956	-	-	-	**85,956**
	25,875,734	**745,583**	**(1,598,000)**	**(102,790)**	**24,920,527**
2020					
Excess of capital allowances over depreciation	(676,574)	-	11,653	(1,376)	**(666,297)**
Allowances for uncollectibility	21,961,232	-	(14,655,489)	(350,287)	**6,955,456**
Changes in fair values of financial instruments	1,036,187	(420,207)	46,604	-	**662,584**
Unabsorbed capital allowances	625,183	-	(3,157)	-	**622,026**
Unabsorbed tax losses	13,694,998	-	4,434,523	86,488	**18,216,009**
Other temporary differences	132,560	-	(46,604)	-	**85,956**
	36,773,586	**(420,207)**	**(10,212,470)**	**(265,175)**	**25,875,734**

Bank

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Effect of movement in exchange rates USD	Closing balance USD
2021					
Excess of capital allowances over depreciation	(735,325)	-	-	-	**(735,325)**
Allowances for uncollectibility	6,810,121	-	-	-	**6,810,121**
Changes in fair values of financial instruments	662,584	745,583	-	-	**1,408,167**
Unabsorbed capital allowances	622,026	-	-	-	**622,026**
Unabsorbed tax losses	8,145,593	-	-	-	**8,145,593**
Other temporary differences	85,956	-	-	-	**85,956**
	15,590,955	**745,583**	**-**	**-**	**16,336,538**
2020					
Excess of capital allowances over depreciation	(738,479)	-	3,157	(3)	**(735,325)**
Allowances for uncollectibility	12,810,116	-	(6,000,000)	5	**6,810,121**
Changes in fair values of financial instruments	1,036,187	(420,207)	46,604	-	**662,584**
Unabsorbed capital allowances	625,183	-	(3,157)	-	**622,026**
Unabsorbed tax losses	8,145,595	-	-	(2)	**8,145,593**
Other temporary differences	132,560	-	(46,604)	-	**85,956**
	22,011,162	**(420,207)**	**(6,000,000)**	**-**	**15,590,955**

30.3.2 Deferred tax liabilities

Group

	Opening balance USD	Recognised in other comprehensive income USD	Recognised in profit or loss USD	Closing balance USD
2021				
Changes in fair value of investment property and property and equipment	(4,215,075)	-	-	**(4,215,075)**
2020				
Changes in fair value of investment property and property and equipment	(4,215,075)	-	-	**(4,215,075)**

31 Other assets

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Accounts receivable and prepayments	3,927,217	4,068,509	3,575,093	3,304,376
Accrued income	49,832	85,470	68,552	60,925
Indirect taxation	242,947	1,624,916	181,705	1,532,250
Other assets	24,388	611,406	22,971	673,011
	4,244,384	**6,390,301**	**3,848,321**	**5,570,562**

'Accounts receivable and prepayments' includes an amount of USD1,045,631 (2020: USD940,905) related to subsidiaries of the Bank. 'Accrued income' includes an amount of USD43,843 (2020: USD28,030) related to subsidiaries of the Bank.

See Note 43 for balances due to related parties.

32 Amounts owed to banks

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Term loans and deposits	476,598,906	340,866,049	410,679,218	299,323,210
Repayable on demand	86,954,138	88,577,431	86,954,138	88,577,431
	563,553,044	**429,443,480**	**497,633,356**	**387,900,641**

The Group includes balances amounting to USD15,092,139 (2020: USD16,478,809) and the Bank includes balances amounting to USD15,092,139 (2020: USD16,478,809) held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts.

See Note 43 for balances due to related parties.

33 Amounts owed to customers

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Term deposits	679,438,958	788,095,645	679,438,958	788,095,646
Repayable on demand	254,657,238	313,474,650	151,700,283	247,803,193
	934,096,196	**1,101,570,295**	**831,139,241**	**1,035,898,839**
Amounts owed to subsidiaries	-	-	7,536,357	1,219,498
	934,096,196	**1,101,570,295**	**838,675,598**	**1,037,118,337**

The Group and the Bank have deposits amounting to USD54,068,183 (2020: USD50,430,746) and USD55,986,370, (2020: USD50,430,746), respectively, held as collateral for irrevocable commitments. Pledges are generally conducted under terms that are usual and customary for standard borrowing contracts. 'Amounts owed to subsidiaries' include facilities that are interest-free, unsecured and repayable on demand.

See Note 43 for balances due to related parties.

34 Debt securities in issue

	2021 USD	2020 USD
Opening balance	50,832,661	79,550,865
Drawdowns	109,118,677	122,720,858
Repayments	(114,605,763)	(151,439,062)
Closing balance	**45,345,575**	**50,832,661**

'Debt securities in issue' comprise of promissory notes with a tenor of up to one year. The Group's effective interest rate ranges between 1.50% and 1.70% (2020: 1.00% and 1.75%).

35 Provision for liabilities and charges

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Expected credit loss provision on contingent liabilities	161,997	5,067	161,997	5,067
Expected credit loss provision on commitments	97,333	172,528	39,778	167,984
Provision for restoration costs	97,392	98,294	-	-
	356,722	**275,889**	**201,775**	**173,051**

36 Other liabilities

	Group 2021 USD	Group 2020 USD	Bank 2021 USD	Bank 2020 USD
Creditors and accruals	11,469,573	9,006,242	6,311,826	4,186,288
Deferred fee income	664,106	618,860	26,300	108,064
Indirect taxation	104,391	112,029	57,896	56,924
Lease liabilities	2,224,450	2,416,376	1,128,593	2,864,380
Other liabilities	396,865	429,828	396,866	429,832
	14,859,385	**12,583,335**	**7,921,481**	**7,645,488**

'Creditors and accruals' include an amount of USD 30,647 (2020: Nil) payable to subsidiaries of the Bank. See Note 43 for balances due to related parties.

37 Equity

37.1 Share capital

	2021 Shares of 50 US cents Shares	2021 USD	2020 Shares of 50 US cents Shares	2020 USD
Authorised				
Ordinary shares at 31 December	1,000,000,000	500,000,000	1,000,000,000	500,000,000
Issued and fully paid up				
Ordinary shares at 31 December	522,443,763	261,221,882	522,443,763	261,221,882

	Ordinary shares 2021 No of shares	Ordinary shares 2020 No of shares
On issue at 1 January	522,443,763	522,443,763
On issue at 31 December	**522,443,763**	**522,443,763**

37.2 Share premium

The share premium represents the excess, net of issue costs, over the nominal value of shares, received through a number of capital raising initiatives including new equity from strategic shareholders, rights issues, scrip dividend and allotment of shares under the executive share option schemes. This reserve is non-distributable.

37.3 Reserve for general banking risks

The reserve for general banking risks is a regulatory reserve created by virtue of Banking Rule 9 - Measures Addressing Credit Risks Arising from the Assessment of the Quality of Asset Portfolios of Credit Institutions authorised under the Banking Act 1994. Under this Rule, banks are required to calculate a regulatory allocation which would be equal to their level of non-performing exposures (gross of any collateral but reduced for suspended interest) reduced by the specific impairment allowance as calculated and disclosed in these Financial Statements. An amount ranging between 2.5% and 5.0% of the regulatory allocation is then appropriated to the 'reserve for general banking risks'.

37.4 Currency translation reserve

The currency translation reserve consists of exchange differences arising on the translation of the net investment in foreign operations and the fair value changes on the hedging of net investment in foreign operations.

37.5 Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of revalued property; and
- the cumulative net change in the fair value of debt securities measured at fair value through other comprehensive income until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance.

Amounts recognised in fair value reserve are net of deferred tax.

37.6 Other reserve

The reserve consists of amounts representing the difference between the net proceeds received on the sale of own shares, net of the relative acquisition costs and the share issue costs by a subsidiary undertaking.

37.7 Dividends

No dividends were declared or paid during the year (2020: Nil). As none of the reserves are available for distribution, the Board of Directors will not be recommending the payment of a dividend for the financial year ended 31 December 2021.

37.8 Retained earnings

The transfer between reserves represents amounts transferred from retained earnings to the 'reserve for general banking risks' and 'other reserves' in accordance with regulatory requirements, and a restatement of the amounts attributed over the years to 'non-controlling interest' consequent to dilution of holdings in India Factoring.

37.9 Availability of reserves for distribution

At 31 December 2021, the Bank had accumulated losses of USD65,296,434 (2020: USD65,772,958).

38 Non-controlling interest

The following table summarises the information relating to the Group's subsidiary that has a material non-controlling interest ("NCI"), before any intra-group eliminations:

31 December 2021

	India Factoring
Acquisition date	31 March 2014
NCI percentage	11.84%
	USD
Total assets	219,950,862
Total liabilities	(177,470,440)
Net assets	**42,480,422**
Carrying amount of NCI	**628,803**
Profit for the year	1,927,198
Profit allocated to NCI	**228,180**
Net decrease in cash and cash equivalents	**(5,155,389)**

31 December 2020

	India Factoring
Acquisition date	31 March 2014
NCI percentage	11.84%
	USD
Total assets	145,466,659
Total liabilities	(104,220,150)
Net assets	**41,246,509**
Carrying amount of NCI	**407,472**
Loss for the year	(1,133,283)
Loss allocated to NCI	**(134,180)**
Net increase in cash and cash equivalents	**10,237,823**

'Non-controlling interest' includes a restatement from 'retained earnings' of the amounts attributed over the years, consequent to dilution of holdings in India Factoring.

39 Contingent liabilities

'Contingent liabilities' comprise of guarantee obligations incurred on behalf of third parties. Guarantees issued to subsidiaries amount to USD37,795,644 (2020: USD42,749,228).

As at December 2021, an expected credit loss allowance, determined in accordance with IFRS 9, amounting to USD162,066 (2020: USD9,611) for the Group and USD161,995 (2020: USD5,067) for the Bank, was recognised and presented within 'provision for liabilities and charges'.

40 Commitments

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Commitments to purchase assets				
Undrawn credit facilities	70,437,057	73,013,249	70,437,057	72,221,019
Confirmed letters of credit	37,269,149	13,321,329	16,123,849	21,267,521
Documentary credits	7,540,705	3,103,424	7,540,705	3,103,424
Factoring commitments	-	-	13,367,500	8,653,802
Commitment to purchase assets	58,371,323	15,605,454	-	-
Commitments to sell assets				
Commitment to sell assets	(20,000,000)	-	-	-
	153,618,234	**105,043,456**	**107,469,111**	**105,245,766**

The Group has total sanctioned limits to customers amounting to USD1,951,786,983 (2020: USD1,942,816,642). The Bank has confirmed USD5,461,395 (2020: USD7,946,191) of documentary credits in favour of subsidiary companies.

As at December 2021, an expected credit loss allowance, determined in accordance with IFRS 9, amounting to USD97,262 (2020: USD167,984) for the Group and USD39,780 (2020: USD167,984) for the Bank, was recognised and presented within 'provision for liabilities and charges'.

See Note 43 for 'commitments' to related parties.

41 Cash and cash equivalents

Balances of cash and cash equivalents as shown on the Statements of Financial Position are analysed as follows:

	Group		Bank	
	2021 USD	2020 USD	2021 USD	2020 USD
Balances with the Central Bank of Malta, treasury bills and cash	239,956,890	319,440,224	239,940,100	319,420,449
Loans and advances to banks	34,534,224	59,511,564	26,501,486	51,882,865
Amounts owed to banks	(184,880,010)	(137,027,939)	(139,127,261)	(103,393,628)
Cash and cash equivalents at end of year	**89,611,104**	**241,923,849**	**127,314,325**	**267,909,686**
Adjustment to reflect balances with contractual maturity of more than three months	(214,676,733)	(158,940,228)	(202,507,085)	(157,178,511)
As per statements of financial position	**(125,065,629)**	**82,983,621**	**(75,192,760)**	**110,731,175**
Analysed as follows:				
Balances with the Central Bank of Malta, treasury bills and cash	239,998,839	319,287,524	239,982,048	319,267,749
Loans and advances to banks	198,488,576	193,139,577	182,458,548	179,364,067
Amounts owed to banks	(563,553,044)	(429,443,480)	(497,633,356)	(387,900,641)
	(125,065,629)	**82,983,621**	**(75,192,760)**	**110,731,175**

42 Leases

42.1 Leases as lessee

The Group leases a number of branch and office premises that are accounted for in accordance with IFRS 16 provisions. The leases run for a period ranging from two to sixteen years. Some leases have an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases some other office premises, motor vehicles and IT equipment, which are low in value and/or short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within 'property and equipment' (see Note 27).

	Group		Bank	
	Office premises 2021 USD	Office premises 2020 USD	Office premises 2021 USD	Office premises 2020 USD
Balance at 1 January	2,189,053	2,910,720	2,695,748	4,233,406
Depreciation charge for the year	(946,008)	(1,002,665)	(1,625,813)	(1,603,720)
Additions	923,805	325,372	-	110,340
Lease modifications that increase the scope of the lease	-	-	9,905	-
Lease modifications that decrease the scope of the lease	-	(30,737)	-	(44,278)
Effect of movement in exchange rates	(3,123)	(13,637)	-	-
Balance at 31 December	**2,163,727**	**2,189,053**	**1,079,840**	**2,695,748**

The Bank's right-of-use assets include the lease of office premises from a subsidiary.

Lease liabilities

	Group		Bank	
	Office premises 2021 USD	Office premises 2020 USD	Office premises 2021 USD	Office premises 2020 USD
Balance at 1 January	2,416,376	2,991,633	2,864,380	3,629,816
Additions	923,805	325,372	-	110,340
Lease modifications that increase the scope of the lease	-	-	36,941	-
Lease modifications that decrease the scope of the lease	-	(30,737)	-	(45,771)
Lease termination costs transferred to provision for restoration cost	-	(98,294)	-	-
Interest expense	75,822	110,740	58,646	115,756
Payments	(1,139,127)	(967,167)	(1,787,096)	(997,729)
Effect of movement in exchange rates	(52,426)	84,829	(44,278)	51,968
Balance at 31 December	**2,224,450**	**2,416,376**	**1,128,593**	**2,864,380**

The Bank's lease liabilities include the lease of office premises from a subsidiary.

Amounts recognised in profit or loss

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Interest on lease liabilities	75,822	110,740	58,646	114,262
Expenses relating to short-term leases	229,221	187,828	103,051	68,572
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	23,754	17,092	20,081	23,467

Extension options

Some leases of office premises contain extension options exercisable by the Group up to twelve months before the end of the non-cancellable contract period. Some extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

42.2 Leases as lessor

Operating lease

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. Note 28 sets out information about the operating leases of investment property.

Rental income recognised by the Group during the year ended 31 December 2021 was USD0.72 million (2020: USD0.89 million).

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	Group		Bank	
	2021	2020	2021	2020
	USD	USD	USD	USD
Less than one year	583,518	703,312	25,058	150,350
Between one and five years	457,628	601,106	-	250,583
Total	**1,041,146**	**1,304,418**	**25,058**	**400,933**

43 Related parties

43.1 Identity of related parties

The Bank has a related party relationship with its significant shareholders, subsidiaries, directors, executive officers and companies forming part of the KIPCO Group. For the purpose of this Note, significant shareholders include all shareholders (and their connected parties) holding at least five percent of the issued share capital of the Bank.

43.2 Parent, shareholder having significant influence and other related companies

The aggregate values of transactions and outstanding balances related to the parent and subsidiaries of the parent company were as follows:

		Parent		Subsidiaries of parent	
		2021	2020	2021	2020
	Note	USD	USD	USD	USD
Assets					
Derivative assets held for risk management	19	-	-	-	96,667
Loans and advances to banks	21	-	-	-	-
Loans and advances to customers	22	42,259,198	45,650,284	-	-
Investments at amortised cost	25	9,972,376	9,910,131	-	-
Liabilities					
Derivative liabilities held for risk management	19	-	-	17,715	-
Amounts owed to banks	32	-	-	1,306,953	-
Amounts owed to customers	33	40,647,843	41,404,324	2,583	2,658
Statements of profit or loss					
Interest income	9	1,815,398	2,117,999	-	-
Interest expense	9	-	(9,342)	-	-
Fee and commission income	10	120	315	3,861	-
Fee and commission expense	10	(6,216)	(6,156)	-	-
Net trading results	11	-	-	(114,382)	40,923
Administrative expenses	15	-	-	(326,800)	(232,392)

The aggregate values of transactions and outstanding balances related to the shareholder having significant influence, subsidiary of shareholder having significant influence and other related companies were as follows:

		Shareholder having significant influence		Subsidiary of shareholder having significant influence		Other related companies	
		2021	2020	2021	2020	2021	2020
	Note	USD	USD	USD	USD	USD	USD
Assets							
Loans and advances to banks	21	47,629	115,255	11,326,311	22,542,889	-	-
Loans and advances to customers	22	-	-	-	-	42,733,988	40,738,038
Liabilities							
Amounts owed to banks	32	-	-	10,002,778	22,550,135	-	-
Amounts owed to customers	33	-	-	-	-	2,920,956	18,904
Other liabilities	36	-	-	-	-	730	-
Statements of profit or loss							
Interest income	9	-	-	16,706	43,949	1,503,255	1,073,397
Interest expense	9	(54,793)	-	(304,095)	(260,323)	-	(14)
Fee and commission income	10	-	-	-	-	47,333	49,092
Fee and commission expense	10	-	(99)	-	-	(763)	-
Net trading results	11	(101,477)	216,016	-	-	-	-
Administrative expenses	15	-	(11,095)	-	-	-	-

43.3 Transactions with key management personnel

	Note	Directors 2021 USD	Directors 2020 USD	Executive officers 2021 USD	Executive officers 2020 USD
Assets					
Loans and advances to customers	22	-	-	1,114	8,647
Other assets	31	-	-	1,066	1,446
Liabilities					
Amounts owed to customers	33	655,413	595,528	340,822	709,525
Statements of profit or loss					
Interest income	9	-	-	25	111
Interest expense	9	(8,125)	(7,145)	(1,569)	(2,550)
Fee and commission income	10	160	44	-	115
Administrative expenses - remuneration	15	(414,833)	(360,760)	(2,176,655)	(2,979,087)
Administrative expenses - other long-term benefits	15	(1,032)	(963)	(467,237)	(757,123)
Administrative expenses - short-term employee benefits	15	-	-	-	(46,855)
Administrative expenses - others	15	-	(11,173)	(855)	(20,970)

Directors of the Group control less than 1 per cent of the voting shares of the Bank (2020: less than one per cent).

43.4 Other related party transactions

	Note	Other related parties 2021 USD	Other related parties 2020 USD
Liabilities			
Amounts owed to customers	33	352,460	369,028
Statements of profit or loss			
Interest expense	9	(5,205)	(16,241)
Fee and commission income	10	-	4

Other related party transactions relate to family members of Directors of the Group.

43.5 Related party balances

Information on amounts related to subsidiary companies are reported in Notes 9, 10, 11, 13, 15, 21, 22, 31, 32, 33, 36, 39 and 40 of these Financial Statements.

44 Capital commitments

At financial reporting date the Group had the following commitments:

	2021 USD	2020 USD
Authorised and contracted	201,375	711,000
Authorised but not contracted	312,827	138,729
	514,202	**849,729**

45 Financial commitments

At financial reporting date the Group had the following commitments:

	2021 USD	2020 USD
Authorised and contracted	5,002,794	4,834,532
Authorised but not contracted	1,040,570	959,141
	6,043,364	**5,793,673**

46 Subsequent events

On 28 February 2022, the Hellenic Branch in Athens, Greece was officially closed.

On 2 March 2022, FIM Holdings (Chile) S.p.A. was officially liquidated. FIM Holdings (Chile) S.p.A. was a wholly owned subsidiary registered in Chile and served as the corporate vehicle for Latam Factors S.A., which entity was sold to third parties during 2018. FIM Holdings (Chile) S.p.A. was put into liquidation during 2019 and its liquidation had no financial impact on the Financial Statements as at reporting date.

The conflict in Ukraine has prompted management to take the appropriate steps to monitor the possible impact this might have on the Group both directly and indirectly. The Group's direct exposure to Russia and Ukraine is limited, with USD1.3 million outstanding to a state-owned bank in Ukraine. Several client limits were reduced and country limits were suspended. Increased monitoring was put in place on customers that could be indirectly impacted by the war, either through their trading activity, commodity volatility, sanctions or other general impacts. A portfolio review concluded that our clients are well positioned to absorb any impact from the current situation. We will continue to take appropriate actions as needed, to protect the quality of the Group's portfolio.

47 Ultimate parent company

The ultimate parent company of FIMBank p.l.c. is Kuwait Projects Company (Holding) K.S.C.P. ("KIPCO") a company registered in Kuwait. The registered address is KIPCO Tower, Khalid Bin Al Waleed Street, Sharq, Kuwait City.

The immediate parent company is United Gulf Holding Company B.S.C. ("UGH"), a holding company licensed by the Ministry of Industry, Commerce and Tourism in Bahrain. The registered address is PO Box 5565, Diplomatic Area, UGB Tower, Manama, Kingdom of Bahrain.

Statement by the directors pursuant to Capital Markets Rule 5.68

For the year ended 31 December 2021

We, the undersigned, declare that to the best of our knowledge, the Financial Statements set out on pages 28 to 152 prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole and that this report includes a fair review of the development and performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board of Directors by John C. Grech (Chairman) and Masaud M.J. Hayat (Vice Chairman) on 13 April 2022

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

1 Report on the audit of the financial statements

Opinion

We have audited the financial statements of FIMBank p.l.c. (the "Bank" or the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

a. give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

b. have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act") and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Assessment of the carrying amounts of goodwill at group level and investment in subsidiaries at company level

Accounting policy notes 2.4.2, 3.1.1, 3.1.2, 3.16, 3.19 and 3.20 to the financial statements and notes 26 and 29 for further disclosures.

Goodwill' (Group: USD5,605,349); and 'Investment in subsidiaries' (Company: USD159,448,858).

'Investment in subsidiaries' includes, among others, the investment in The Egyptian Company for Factoring S.A.E. (referred to as "Egypt Factors") and, indirectly through FIM Factors B.V., the investment in India Factoring and Finance Solutions Private Limited (referred to as "India Factoring"), to which the key audit matter relates.

The Group

The Group holds goodwill relating to the acquisition of the interests in Egypt Factors and India Factoring (the "components"). Both components are separately identified by the Group as cash generating units ("CGU" or "CGUs"), in line with the applicable financial reporting framework, as they generate cash-inflows for the Group that are largely independent of the cash inflows generated by other assets or groups of assets.

At Group level, an assessment of each CGU is required annually by the relevant financial reporting framework to establish whether the recoverable amount is at least equal to the carrying amount, and therefore, whether any impairment should be recorded. Significant judgement is required in determining the recoverable amount of each CGU, namely due to the (i) inherent uncertainty in forecasting the future cash flows; and the (ii) judgement required in determining the appropriate discount rates and expected long term growth rates applied to those cash flows in arriving at the value-in-use (being the basis on which the carrying amount is determined). The impact of COVID-19 has resulted in unprecedented economic conditions, which in turn heightens the level of judgement required to determine the inputs used in calculating the recoverable amount of each CGU.

The Company

'Investments in subsidiaries' are carried at cost less any impairment losses in the Company's statement of financial position. That financial statement caption includes the components to which those CGUs relate (Egypt Factors and India Factoring). Any impairment relating to those CGUs may result in the Company's investment in subsidiaries being impaired should such impairment result in the recoverable amount of the related investment being lower than its carrying amount.

Our response

For each of the CGUs, as part of our procedures:

- we evaluated the reasonableness of the data used in the preparation of the cash flow forecasts (in the main, projected factoring volumes and margins) with reference to our understanding of the components' historical trends and the continued impact of COVID-19 during the year;

- we involved our valuation specialist to assist us in assessing the valuation of India Factoring and of Egypt Factors (performed by experts engaged by the Group in the respective jurisdiction). Involvement included assessing (i) the appropriateness of the selected valuation model; and (ii) whether the discount rates and the expected long-term growth rates applied to the cash flow forecasts were within a reasonable range by comparison with market data consisting mainly of the respective country Gross Domestic Product growth rate and rate of inflation;

- we assessed the impact of reasonable possible changes in the key assumptions in the valuation model including discount rates and expected long term growth rates used for estimating the recoverable amounts of each CGU in concluding on the impairment assessment, and assessed whether there were any indicators of management bias in the selection of those assumptions; and

- we compared the Group's and Company's 2021 budgets with the actual performance for the reporting period, and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group.

We have no key observations to report, specific to this matter.

KPMG

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Recoverability of recognised deferred tax assets

Accounting policy note 3.9 to the financial statements and note 30 for further disclosures.

'Deferred tax assets' (Group: USD24,920,527 and Company: USD16,336,538).

The Group and the Company recognised deferred tax assets in respect of the future benefit of net deductible temporary differences and accumulated tax losses. In accordance with the applicable financial reporting framework, the recognition of those deferred tax assets is permitted to the extent that it is probable that future taxable profits will be available against which these assets can be used. Such restrictions are more pronounced in certain jurisdictions, in which the Group operates, where the carry forward of losses to future periods are time-barred. The recognition of deferred tax assets, therefore, requires significant judgement in estimating future profitability (and the extent of taxable profits) based on business plans drawn up by the directors. Due to estimation uncertainty, the projected relief of the tax losses, for which the deferred tax assets are recognised, might be materially different from the amount ultimately relieved.

Our response

As part of our procedures:

- we assessed the applicability of enacted and substantively enacted tax laws that support the recognition of the deferred tax assets;
- we evaluated the assumptions underlying the Company's and its subsidiaries' projections used to support the recognition of the deferred tax asset having regard to (i) our understanding of the respective jurisdiction and applicable fiscal legislation; and (ii) the current pipeline of new business;
- specifically in relation to carry forward losses subject to time-barring, we also assessed the impact of reasonable possible changes in the underlying assumptions of the forecasts, including the impact of COVID-19, on the Group's ability to utilise the losses before their expiry; and
- we compared the Group's and Company's 2021 budgets with the actual performance for the reporting period, and made enquiries as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, by corroborating these against our knowledge of the Group and by evaluating the sales pipeline and evidencing a significant shift in lower risk business as a result of the Group's continued de-risking process.

We have no key observations to report, specific to this matter.

KPMG

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Measurement of impairment allowances on loans and advances measured at amortised cost, including off-balance sheet elements of the allowance

Accounting policy note 3.10.8 to the financial statements and notes 2.4.1, 2.4.2, 5.2.1.1, 5.2.1.4, 21, 22, and 35 for further disclosures.

Expected credit loss allowance on loans and advances to banks at amortised cost (Group: USD198,874,727 and Company: USD182,826,911) amounted to USD386,151 - Group and USD368,363 - Company.

Expected credit loss allowance on loans and advances to customers at amortised cost (Group: USD711,697,194 and Company: USD814,521,125) amounted to USD82,784,854 - Group and USD68,956,986 - Company.

Expected credit loss provision on off-balance sheet credit exposures (Group: USD155,568,768 and Company: USD146,796,473) amounted to USD259,328 - Group and USD559,775 - Company.

Subjective estimate

The calculation of Expected Credit Loss ("ECL") involves significant judgement and estimates. Of all the Group's financial instruments, the most significant impact in terms of complexities around the measurement of the ECL and of the materiality of the resultant allowances was in relation to the Group's lending activities to banks and customers (and the related off-balance sheet elements). In that regard, our key areas of audit focus in the Group's calculation of the ECL were the following:

- Model estimation - Inherently judgmental modelling is used to estimate ECLs which involve determining 'Probabilities of Default' ("PD"), 'Loss Given Default' ("LGD"), and 'Exposures at Default' ("EAD"). In particular, the PD models are the key drivers of the Group's ECL calculation and are therefore the most significant judgmental element of the Group's ECL modelling approach.

- Economic scenarios - Significant judgment is applied in determining the selection of (i) forward-looking macroeconomic scenarios, (ii) the associated scenario probabilities and (iii) the material economic variables which drive the scenarios and the related weightings, especially when considering the current uncertain economic environment as a result of COVID-19.

- Qualitative adjustments to the model-driven ECL results may be raised by the Group to address known impairment model limitations or emerging trends. Estimating those adjustments also involves significant judgement.

- Identification of a significant increase in credit risk ("SICR") is also a key area of judgement within the Group's ECL calculation, which was heightened as a result of COVID-19 as the application of the SICR criteria determines whether a twelve month or lifetime provision is recorded.

- Individually assessed as stage 3 exposures may be materially misstated if individual impairments are not appropriately identified and estimated. The calculation of expected credit losses includes a range of estimates of future cash flows and valuation of collateral, which are inherently uncertain and judgemental.

The disclosures regarding the application of IFRS 9 are key to explaining the key judgements made, as referred to in this key audit matter, and inputs used to generate the IFRS 9 ECL results.

KPMG

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Our response

As part of our procedures:

- we assessed the design and implementation as well as the operating effectiveness of controls within the ECL process with respect to (a) the approval of the credit application by the Credit Committee or the delegated authority (depending on monetary value); and (b) the review of ECL provision levels and movements by the Head of Finance and the Chief Risk Officer;

- we involved our financial risk modelling specialists in evaluating:
  - the appropriateness of the Group's selected IFRS 9 impairment methodologies within the ECL model by reference to the sensitivity analysis as performed by the Group with respect to the ECL model results; and
  - the appropriateness of the SICR criteria used; and

- we involved our economics specialists to assist in assessing:
  - the appropriateness of the Group's methodology for determining the macroeconomic scenarios used and the reasonableness of the probability weightings applied to them;
  - the relevance of the key macroeconomic variables used in the ECL model; and
  - the reasonableness of the Group's consideration of the ECL impact of the economic environment due to COVID-19.

Specifically in relation to a sample of performing loans ('stage 1' and 'stage 2'), we:

- performed testing over key data elements (EAD, PD and LGD) impacting the ECL calculations to assess the accuracy of information used; and

- performed tests to determine whether a significant increase in credit risk was appropriately identified by the Group, including 'days past due'.

Specifically in relation to a sample of loans and advances discussed in the Board Risk Committee and the Credit Committee (the "focus exposures"), including those not otherwise automatically captured by the ECL model as non-performing loans ('stage 3'):

- we performed credit reviews focusing on the borrowers' ability to repay from normal operations, the performance history of the account and receipts after the financial reporting date; and

- in the case of non-performing loans, we evaluated the appropriateness of the inputs, particularly the LGD and discount rates used in the ECL model. In cases where the LGD involved the realisation of collateral, we corroborated the extendible value of collateral with external data sources.

We assessed management's determination for the need of any post model adjustments required to capture possible model defects.

We assessed whether the disclosures in relation to IFRS 9 adequately explain the key judgements made and significant inputs used in the recognition of expected credit losses as at the end of the financial reporting period.

We have no key observations to report, specific to this matter.

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Valuation of unquoted assets measured at fair value

Accounting policy notes 2.4.2, 3.10.9 and 3.12 to the financial statements and notes 20 and 23 for further disclosures.

Shares in two sub-funds of a local unlisted collective investment scheme (Bank and Group: USD19,066,651) included within 'Financial assets designated at fair value through profit or loss'; and 'Trading assets' (Group: USD439,985,203).

The fair value of certain financial assets held by the Group is determined through the application of valuation techniques that involve the exercise of judgement, and the use of assumptions based on limited observable market data. Covid-19 has resulted in markets being more volatile. The level of judgement surrounding the valuation of unquoted assets increased due to the heightened market volatility. These unquoted assets relate primarily to:

- the equity instruments in the form of shares (classified as financial assets at fair value through profit or loss) held in two sub-funds of a local unlisted collective investment scheme ('the Funds') which hold assets that cannot be valued through observable market data; and

- the trading assets, held by London Forfaiting Company Limited ("LFC"), that represent forfaiting assets (discounted receivables generated from an export contract) whose valuation incorporates significant unobservable inputs.

Our response

For equity instruments held in the Funds we performed the following:

- we assessed the audited financial information of the Funds and quarterly net asset value as published by the fund administrator;

- we evaluated available financial information in relation to direct exposures held by the Funds and assessed replies to further enquiries in relation to these direct exposures; and

- we considered other relevant publicly available information.

In relation to forfaiting financial assets, as part of our procedures:

- we assessed the design and implementation as well as the operating effectiveness of the following controls:
  - Approval levels for all deals;
  - Authorisation of accounting instructions; and
  - Management review control – Review of rationale of risk margin.

- we involved our valuation specialist to independently reprice a sample of fixed and floating forfaiting assets in order to determine a range of the fair value, for the purpose of testing LFC's methodology. The final sample included counterparties and contracts covering each country and industry in the forfaiting assets portfolio where exposure was material;

- we tested a sample of exposures covering all countries and industries within the residual population, by challenging LFC as to the validity of the assumptions used in setting the risk premium within the discount rate by assessing consistency with publicly available information and information from other sources;

- we tested the accuracy of the LIBOR rates and other inputs (such as the average life at value date, average LIBOR) employed by LFC by comparing the LIBOR rates with information available to the public from tested sources, and other inputs to data within the forfeiting system; and

- we also back tested a sample of disposals during the year to determine the appropriateness of the prior period valuations. This was achieved by comparing the disposal price of the asset with the latest fair value, at end of the month prior to sale of the asset to determine whether those fair values were appropriate.

We have no key observations to report, specific to this matter.

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Other information

The directors are responsible for the other information which comprises:

- the 'Chairman's Statement to the Shareholders';
- the 'FIMBank Group Performance 2021';
- the 'Directors' Report';
- the 'Statement of Compliance with the Principles of Good Corporate Governance';
- the 'Remuneration Report';
- the 'Statement by the Directors pursuant to Capital Markets Rule 5.68'; and
- the 'Schedules to the annual report'

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Auditors' responsibilities for the audit of the financial statements

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG

Independent auditors' report
To the shareholders of FIMBank p.l.c.

2 Opinion on the directors' report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Capital Markets Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, other than for the non-financial information that is exclusively required to be disclosed by paragraph 8 of the Sixth Schedule of the Act with respect to the Bank, and paragraph 11 of the Sixth Schedule of the Act with respect to the Group (and on which we report separately below in our 'Report on Other Legal and Regulatory Requirements'), we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Capital Markets Rule 5.62 of the Capital Markets rule issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

3 Report on other legal and regulatory requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 8 November 1994, and subsequently reappointed at the Company's general meetings for each financial period thereafter. The period of total uninterrupted engagement is twenty-seven years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the Accountancy Profession Act.

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, in our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof; and
- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

Report on compliance with the requirements of the Commission Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC (the "ESEF Regulation"), by reference to Capital Markets Rule 5.55.6 issued by the Listing Authority

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act, 1979 (Chapter 281, Laws of Malta), the Accountancy Profession (European Single Electronic Format) Assurance Directive, on the Group's Annual Report and Financial Statements for the year ended 31 December 2021, prepared in a single electronic reporting format.

Responsibilities of the directors for compliance with the requirements of the ESEF Regulation

As required by Capital Markets Rule 5.56A, the directors are responsible for the preparation of the Annual Report and Financial Statements in XHTML format, including the specified mark-ups, in accordance with the requirements of the ESEF Regulation.

In addition, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the Annual Report and Financial Statements that is in compliance with the requirements of the ESEF Regulation.

Auditors' responsibilities to report on compliance with the requirements of the ESEF Regulation

Our responsibility is to obtain reasonable assurance about whether the Annual Report and Financial Statements in XHTML format, including the specified mark-ups, comply in all material respects with the ESEF Regulation based on the evidence we have obtained.

In discharging that responsibility, we:

- obtain an understanding of the entity's financial reporting process, including the preparation of the Annual Report and Financial Statements, in accordance with the requirements of the ESEF Regulation;
- perform validations to determine whether the Annual Report and Financial Statements has been prepared in accordance with the requirements of the technical specifications of the ESEF Regulation; and
- examine the information in the Annual Report and Financial Statements to determine whether all the required mark-ups therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Annual Report and Financial Statements for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation, by reference to Capital Markets Rule 5.55.6.

The Principal authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report is Noel Mizzi.

Signed by Noel Mizzi on 13 April 2022

KPMG
Registered Auditors

Independent auditors' report
To the shareholders of FIMBank p.l.c.

Report required by Capital Markets Rules 5.98 and 12.26N issued by the Malta Financial Services Authority (the "MFSA")

We were engaged by the Directors of FIMBank p.l.c. (the "Bank") to report on the disclosures of specific elements in the Statement of compliance with the principles of good corporate governance and the Remuneration report (the "Disclosures") as at 31 December 2021 as to whether they are in compliance with the corporate governance regulations and information to be provided in the Remuneration report set out in the Capital Markets Rules issued by the MFSA (the "Capital Markets Rules"). More specifically, we are required to report on the Disclosures in the form of an independent reasonable assurance conclusion about whether:

a. in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 (dealing with the Bank's internal control and risk management systems in relation to the financial reporting process) and 5.97.5 (where a takeover bid applies). Where material misstatements are identified in relation to those requirements, we shall, in addition to our conclusion, provide an indication of the nature of such misstatements;

b. the Disclosures include the other information required by Capital Markets Rule 5.97, insofar as it is applicable to the Bank; and

c. the Disclosures include the information required by Appendix 12.1, 'Information to be provided in the Remuneration Report', to Chapter 12 of the Capital Markets Rules (as applicable).

Responsibilities of the Directors

The Directors are responsible for preparing and presenting the Disclosures in accordance with the requirements of the Capital Markets Rules.

This responsibility includes designing, implementing and maintaining internal control as they determine is necessary to enable the preparation and presentation of the Disclosures that are free from misstatement.

The directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities. The directors are responsible for ensuring that personnel involved in the preparation and presentation of the Disclosures are properly trained, systems are properly updated and that any changes in reporting relevant to the Disclosures encompass all significant business units.

Our Responsibilities

Our responsibility is to examine the Disclosures prepared by the Bank and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("ISAE 3000") issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Capital Markets Rules.

The firm applies International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code)*, together with the ethical requirements that are relevant to our assurance engagement in accordance with the *Accountancy Profession (Code of Ethics for Warrant Holders) Directive* issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

The procedures selected and our determination of the nature, timing and extent of those procedures, will depend on our judgment, including the assessment of the risks of material misstatement of the preparation and presentation of the Disclosures whether due to fraud or error.

KPMG

Independent auditors' report

To the shareholders of FIMBank p.l.c.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of the Bank's internal control over the preparation and presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Capital Markets Rules 5.97.4 and 5.97.5 (as appropriate) is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Disclosures nor of the underlying records or other sources from which the Disclosures were extracted.

Other Information

We also read the other information included in the Annual Report and Financial Statements that contains the Disclosures, and our report thereon, in order to identify material inconsistencies, if any, with the Disclosures. We have nothing to report in this regard.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion:

a. in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Capital Markets Rules 5.97.4 and 5.97.5;
b. the Disclosures include the other information required by Capital Markets Rule 5.97; and,
c. the Disclosures include the information required by Appendix 12.1 to Chapter 12 of the Capital Markets Rules.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

Signed by Noel Mizzi on 13 April 2022

KPMG
Registered Auditors

Schedule I

Statements of profit or loss

Five-year summary - Bank

	2021 USD	2020 USD	2019 USD	2018 USD	2017 USD
Interest income	19,588,232	22,721,724	30,311,233	35,303,561	28,323,748
Interest expense	(10,457,006)	(11,482,001)	(14,037,860)	(19,139,771)	(17,738,857)
Net interest income	**9,131,226**	**11,239,723**	**16,273,373**	**16,163,790**	**10,584,891**
Fee and commission income	4,940,843	5,366,867	7,753,143	12,849,903	11,048,533
Fee and commission expense	(2,165,538)	(2,552,278)	(3,078,283)	(2,799,252)	(2,482,765)
Net fee and commission income	**2,775,305**	**2,814,589**	**4,674,860**	**10,050,651**	**8,565,768**
Net trading results	542,868	(554,107)	3,107,935	2,632,452	(3,031,664)
Dividend income	16,989,049	7,240,817	43,591,794	17,660,271	10,446,343
Losses on lease modifications	(27,037)	-	-	-	-
Other operating income	133,940	120,725	118,904	125,068	87,088
Other operating expenses	(128,906)	-	-	-	-
Operating income before net impairment losses	**29,416,445**	**20,861,747**	**67,766,866**	**46,632,232**	**26,652,426**
Net impairment (charge)/reversal on financial assets	(3,699,557)	(34,272,400)	(14,210,257)	(15,514,849)	1,790,863
Impairment of investments in subsidiaries	(87,356)	(9,314,000)	-	(1,455,270)	(2,558,752)
Operating income/(expense)	**25,629,532**	**(22,724,653)**	**53,556,609**	**29,662,113**	**25,884,537**
Administrative expenses	(23,213,366)	(23,722,803)	(20,305,701)	(23,787,047)	(24,785,664)
Depreciation and amortisation	(2,965,967)	(2,962,370)	(2,896,531)	(1,022,470)	(922,457)
Total operating expenses	**(26,179,333)**	**(26,685,173)**	**(23,202,232)**	**(24,809,517)**	**(25,708,121)**
(Loss)/Profit before tax	**(549,801)**	**(49,409,826)**	**30,354,377**	**4,852,596**	**176,416**
Taxation	(113,418)	(6,566,776)	(765,433)	(1,115,249)	(60,598)
(Loss)/Profit for the year	**(663,219)**	**(55,976,602)**	**29,588,944**	**3,737,347**	**115,818**

Schedule II

Statements of financial position

Five-year summary - Bank

	2021 USD	2020 USD	2019 USD	2018 USD	2017 USD
Assets					
Balances with the Central Bank of Malta, treasury bills and cash	239,982,048	319,267,749	208,259,407	151,891,005	208,147,513
Derivative assets held for risk management	841,688	1,019,288	96,285	109,727	722,256
Loans and advances to banks	182,458,548	179,364,067	232,351,750	321,550,241	203,552,663
Loans and advances to customers	745,564,139	779,834,360	811,152,849	730,708,445	581,529,952
Financial assets at fair value through profit or loss	19,966,163	20,385,323	125,342,798	173,438,374	-
Financial assets at fair value through other comprehensive income	162,408,542	153,327,686	79,367,556	87,468,166	-
Investments at amortised cost	9,914,754	9,839,457	9,785,496	9,923,499	-
Investments available-for-sale	-	-	-	-	261,244,798
Investments in subsidiaries	159,448,858	147,436,214	147,948,385	102,595,614	94,050,884
Property and equipment	1,965,249	3,507,509	5,229,059	968,472	1,035,490
Intangible assets	3,774,315	4,008,725	4,647,642	4,669,342	2,736,599
Current tax assets	66,667	76,225	226,886	-	1,052,348
Deferred tax assets	16,336,538	15,590,954	22,011,162	22,599,041	23,303,267
Other assets	3,848,321	5,570,563	8,824,153	7,352,443	9,005,794
Prepayments and accrued income	-	-	-	-	7,054,755
Total assets	**1,546,575,830**	**1,639,228,120**	**1,655,243,428**	**1,613,274,369**	**1,393,436,319**
Liabilities and equity					
Liabilities					
Derivative liabilities held for risk management	1,533,556	1,629,434	193,691	2,928,925	723,454
Amounts owed to banks	497,633,356	387,900,641	405,072,025	398,815,757	393,247,791
Amounts owed to customers	838,675,598	1,037,118,337	978,134,002	961,292,743	815,812,570
Debt securities in issue	-	-	-	14,849,948	-
Subordinated liabilities	-	-	-	-	50,000,000
Provision for liabilities and charges	201,775	173,051	85,159	269,784	-
Other liabilities	7,921,481	7,645,488	13,077,128	5,708,599	793,060
Accruals and deferred income	-	-	-	-	7,818,090
Total liabilities	**1,345,965,766**	**1,434,466,951**	**1,396,562,005**	**1,383,865,756**	**1,268,394,965**
Equity					
Share capital	261,221,882	261,221,882	261,221,882	252,720,107	157,265,562
Share premium	858,885	858,885	858,885	9,275,773	173,113
Reserve for general banking risks	2,218,995	3,358,738	2,323,486	1,242,511	608,284
Fair value reserve	(1,074,305)	2,413,581	357,233	758,254	81,501
Other reserve	2,681,041	2,681,041	2,681,041	2,681,041	2,681,041
Accumulated losses	(65,296,434)	(65,772,958)	(8,761,104)	(37,269,073)	(35,768,147)
Total equity	**200,610,064**	**204,761,169**	**258,681,423**	**229,408,613**	**125,041,354**
Total liabilities and equity	**1,546,575,830**	**1,639,228,120**	**1,655,243,428**	**1,613,274,369**	**1,393,436,319**
Memorandum items					
Contingent liabilities	**39,327,362**	**44,246,902**	**61,628,654**	**67,466,612**	**57,601,096**
Commitments	**107,469,111**	**105,245,766**	**143,026,427**	**158,386,020**	**254,253,843**

Schedule III

Cash flow statements

Five-year summary - Bank

	2021 USD	2020 USD	2019 USD	2018 USD	2017 USD
Net cash flows (used in)/from operating activities	**(118,733,012)**	**61,848,191**	**28,447,866**	**(115,353,903)**	**20,694,088**
Cash flows from investing activities					
Payments to acquire financial assets at fair value through profit or loss	-	-	(2,469,245)	(18,092,429)	-
Payments to acquire financial assets at fair value through other comprehensive income	(74,874,050)	(109,616,706)	(84,984,922)	-	-
Payments to acquire financial assets at amortised cost	-	-	-	(9,881,423)	-
Payments to acquire shares in subsidiary companies	-	(1,801,829)	(5,352,772)	-	(10,304,042)
Payments to acquire shares in other investments	-	-	-	(35,210)	-
Payments to acquire property and equipment	(399,511)	(142,744)	(372,658)	(344,451)	(195,368)
Payments to acquire intangible assets	(779,881)	(393,096)	(951,219)	(2,543,743)	(727,136)
Proceeds on disposal of financial assets at fair value through profit or loss	160,770	105,639,259	50,000,000	-	-
Proceeds on disposal of financial assets at fair value through other comprehensive income	50,918,619	49,246,582	93,035,159	15,000,000	-
Proceeds on disposal of available-for-sale financial assets	-	-	-	-	62,397,260
Proceeds from maturity of investments held-to-maturity	-	-	-	-	27,543,320
Proceeds on disposal of property and equipment	9,751	-	3,551	-	2,674
Receipt of dividend	4,889,049	240,817	4,628,411	7,472,717	10,207,806
Cash flows (used in)/generated from investing activities	**(20,075,253)**	**43,172,283**	**53,536,305**	**(8,424,539)**	**88,924,514**
Cash flows from financing activities					
Issue of share capital	-	-	84,887	54,557,207	98,077
Net movement in debt securities	-	-	(14,834,943)	14,834,942	-
Payment of lease liabilities	(1,787,096)	(997,729)	(2,354,026)	-	-
Net cash flows (used in)/from financing activities	**(1,787,096)**	**(997,729)**	**(17,104,082)**	**69,392,149**	**98,077**
(Decrease)/Increase in cash and cash equivalents	(140,595,361)	104,022,745	64,880,089	(54,386,293)	109,716,679
Cash and cash equivalents at beginning of year	267,909,686	163,886,941	99,006,852	153,393,145	43,676,466
Cash and cash equivalents at end of year	**127,314,325**	**267,909,686**	**163,886,941**	**99,006,852**	**153,393,145**

Schedule IV

Accounting ratios

Five-year summary - Bank

	2021 %	2020 %	2019 %	2018 %	2017 %
Net interest income and other operating income to total assets	2.05	1.43	4.28	3.06	2.09
Operating expenses to total assets	(1.69)	(1.63)	(1.40)	(1.54)	(1.84)
(Loss)/Profit before tax to total assets	(0.04)	(3.01)	1.83	0.30	0.01
Pre-tax return on capital employed	(0.27)	(24.13)	11.73	2.12	0.14
(Loss)/Profit after tax to equity	(0.33)	(27.34)	11.44	1.63	0.09

	2021	2020	2019	2018	2017
Weighted average number of shares in issue (000's) *	522,444	522,444	514,568	459,637	329,878
Net assets per share (US cents) *	38.40	39.19	50.27	49.91	37.91
Basic earnings per share (US cents) *					
Basic	(0.13)	(10.71)	5.75	0.81	0.04
Diluted	(0.13)	(10.71)	5.75	0.81	0.04

' * ' Weighted average number of shares in issue and ratios for 2017 to 2018 have been restated to reflect the number of shares in issue as a result of the 2019 bonus issue of shares.

Directors and executive management

Board of Directors

John C. Grech (Chairman)
Masaud M.J. Hayat (Vice Chairman)
Abdel Karim A.S. Kabariti
Claire Imam Thompson
Edmond Brincat
Hussain Abdul Aziz Lalani
Majed Essa Ahmed Al-Ajeel
Mohamed Fekih Ahmed
Osama Talat Al-Ghoussein (retired on 31 March 2022)
Rabih Soukarieh
Rogers David LeBaron

Company Secretary

Andrea Batelli

Registered Address

Mercury Tower
The Exchange Financial and Business Centre
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St. Julian's STJ 3155
MALTA

Contact Number

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Executive Management

FIMBank p.l.c.

Group Chief Executive Officer	Adrian A. Gostuski	
First Executive Vice President	Simon Lay	Deputy Chief Executive Officer
Executive Vice Presidents	Andrea Batelli	Group General Counsel, Head of Investor Relations & Company Secretary
	Julio Bonifacino	Chief Investment Officer, Structuring Executive & Advisor to the GCEO
	Juraj Beno	Group Chief Financial Officer
	Thomas Dodd	Group Chief Compliance Officer & MLRO
	Ronald Haverkorn	Group Chief Risk Officer

London Forfaiting Company Limited

Chief Executive Officer	Simon Lay	
Company Secretary	William Ramzan	Head of Finance

India Factoring and Finance Solutions (Private) Limited

Chief Executive Officer	Ravi Valecha	
Company Secretary	Swati Zawar	Manager – Compliance

The Egyptian Company for Factoring S.A.E.

Chief Executive Officer	Ahmed Shaheen	
Company Secretary	Mohamed Gamaleldien	Head of Legal