

MERKANTI BANK LIMITED

Annual Report and Financial Statements
31 December 2024

MERKANTI BANK LIMITED

Annual Report and Financial Statements - 31 December 2024

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Directors' report

The Board of Directors present their annual report and the audited financial statements of Merkanti Bank Limited (the "Bank") for the year ended 31 December 2024.

Principal activities

The principal activity of Merkanti Bank Limited is the operation of a credit institution under the Banking Act (Cap. 371) of the Laws of Malta, in accordance with the credit institution licence granted by the Malta Financial Services Authority. The Bank does not engage in general retail banking, but provides speciality banking services, focused on customised banking finance solutions, to corporate customers and group members located in both domestic and non-domestic markets.

Review of the business

During 2024, the Bank continued to focus on the rollout of the re-aligned business strategy that was approved by the Board in the 4th quarter of 2023. The rate of business expansion especially corporate banking business sourced from third-parties was lower than expected, resulting in a reduction in gross interest income in 2024 of 10.1% to €2,993,434 (2023: €3,330,236). This reduction was also attributable to the reduction in key interest rates that was prevalent during 2024, as well as the uncertainties caused by global conflicts and other economic challenges. Against this backdrop, the Bank maintained a prudent and cautious approach during 2024 with respect to expansion of merchant banking activities and its credit loan portfolio development.

Net operating income decreased by 29.0% to €3,797,658 (2023: €5,348,329) mainly as a result of one-off gains accounted for in 2023. Operating expenses increased by 14.5% to €3,273,346 (2023: €2,858,980) mainly due an increase in compliance costs and new staff recruitments. Changes during the year in the credit assessment of the Bank's customer loan portfolio have resulted in a movement of €108,810 on expected credit allowances (2023: €102,102).

Profit after tax for the financial year under review was €415,502 (2023: €2,387,247). Total assets as at 31 December 2024 stood at €47,640,710 (2023: €58,550,549). The Bank's financial position and strong capital base remain satisfactory.

Directors' report - continued

Key performance indicators

The Board of Directors tracks the Bank's progress in implementing its strategy with a range of financial measures or key performance indicators ("KPIs"). Progress is assessed by comparison with the Bank's budgets and historical performance. The financial KPIs tracked by the Board of the Bank are presented in the following table.

	2024	2023
<u>Operating performance</u>		
Profit before tax	€415,502	€2,387,247
Cost to income ratio	86.19%	53.46%
Return on equity	2.17%	13.74%
<u>Capital management</u>		
Capital adequacy ratio	77.81%	85.63%
Leverage ratio	40.02%	31.29%
<u>Liquidity management</u>		
Liquidity coverage ratio (LCR)	3134.93%	372.67%
Net stable funding ratio (NSFR)	206.46%	176.52%

Risk management

Merkanti Bank Limited faces a range of business, financial and operational risks. The Bank adopts a robust corporate governance framework with a bank-wide risk management approach, to understand the risks it is exposed to, to assess whether these risks are in line with its risk appetite, and to be able to manage such risks to create value for shareholders while meeting regulatory requirements ensuring integrity, ethical and transparent behaviour.

At a strategic level, the Bank's financial risk management objectives are:

- i. to ensure appropriate identification of the Bank's significant risks;
- ii. to ensure that the Bank's plans are consistent with its risk appetite;
- iii. to optimise risk/return decisions by taking them as closely as possible to the business, while establishing strong and independent review and challenge structures; and
- iv. to help the Bank's Management improve the control and co-ordination of risk taking across the business.

A detailed review of the Bank's use of financial instruments, its exposure to liquidity risk, credit risk and market risk, and the respective financial risk management objectives and policies is included in Note 2 to the financial statements.

Results and dividends

The income statement is presented on page 16. The Directors do not recommend the payment of a final dividend and propose that the balance of retained earnings amounting to €9,686,351 (2023: €9,270,849) be carried forward to the next financial year.

Directors' report - continued

Going concern assessment

The Directors have assessed the Bank's ability to continue to operate as a going concern, taking into account the Bank's business and profit projections, the current capital and funding resources. The Directors are of the view that there are no material uncertainties related to events or conditions that may cast significant doubt upon the bank's ability to continue as a going concern.

Future outlook

The Directors, taking into account potential new business opportunities, as well as its strong capital buffers and liquidity resources, remain optimistic on the consolidation and improvement in the Bank's financial performance for 2025.

Directors

The Directors of the Bank who held office during the period were:

Christian Farrugia - Chairman
Samuel Morrow
Otto Karasek
Sinead Curry (appointed 4 June 2024)
George Portanier
Stephen Paris

In accordance with the Bank's articles of association, the Directors remain in office until they resign or are otherwise removed from office.

Statement of Directors' responsibilities for the financial statements

The Directors are required by the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) to prepare financial statements that give a true and fair view of the state of affairs of the Bank as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances; and
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

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

Directors' report - continued

Statement of Directors' responsibilities for the financial statements - continued

The financial statements of Merkanti Bank Limited for the year ended 31 December 2024 are included in the Annual Report 2024, which is published in hard-copy printed form and may be made available on the Bank's website. The Directors are responsible for the maintenance and integrity of the annual report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Bank's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the board

Signed by:



48DBADC2E8AA4C5...
Christian Farrugia
Chairman

Signed by:



98BB5D756DA49E...
Stephen Paris
Director

Registered Office:
Aragon House Business Centre
Dragonara Road
St Julians STJ 3140
Malta

30 April 2025



Independent auditor's report

To the Shareholders of Merkanti Bank Limited

Report on the audit of the financial statements

Our opinion

In our opinion:

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

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

What we have audited

Merkanti Bank Limited's financial statements, set out on pages 15 to 76, comprise:

- the statement of financial position as at 31 December 2024;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with these Codes.



Independent auditor’s report - continued

To the Shareholders of Merkanti Bank Limited

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

The non-audit services that we have provided to the Bank, in the period from 1 January 2024 to 31 December 2024, are disclosed in note 23 to the financial statements.

Our audit approach

Overview

Materiality	Overall materiality: €476,000, which represents approximately 1% of total assets
Key audit matters	Expected credit loss allowance in respect of loans and advances to customers

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

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



Independent auditor's report - continued

To the Shareholders of Merkanti Bank Limited

Materiality

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

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

Overall materiality	€476,000
How we determined it	Approximately 1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is a more appropriate benchmark for this type of bank, given that it is a wholly owned subsidiary of a larger group for which assets held are considered to be the key driver of the business and the determinant of the Bank's value. We chose 1% which is within the range of quantitative materiality thresholds that we consider acceptable.

We have applied a specific lower materiality of €79,000 solely for financial statement line items in the income statement, since we deemed that misstatements of a lower amount than overall materiality in those line items might reasonably influence stakeholders.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €47,600, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.



Independent auditor’s report - continued

To the Shareholders of Merkanti Bank Limited

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
<i>Expected credit loss allowance in respect of loans and advances to customers</i>	
Impairment allowances in respect of loans and advances to customers represent management’s best estimate of Expected Credit Losses (‘ECLs’) within the portfolio at the balance sheet date.	During our audit of the financial statements for the year ended 31 December 2024, we continued to focus on the key drivers of the estimation of ECL.
A considerable level of judgement is required to measure ECLs on loans measured at amortised cost in accordance with IFRS 9.	Our audit procedures in respect of expected credit losses attributable to the Bank’s loan portfolio included: • Testing the completeness and accuracy of the critical data that is utilised within the model for the purposes of the year-end ECL calculation. • Testing the assumptions, inputs and formulas used in the ECL model. This included assessing the appropriateness of the model design and formulas used in calculating PDs, LGDs and EADs.
Credit loss allowances relating to all non-defaulted loans and advances (Stages 1 and 2) are determined at an instrument level through the use of an internally developed ECL model based on a number of key parameters including the borrowers’ respective financial information to determine an implied internal rating, the calibration of the internal rating to Through-The-Cycle (TTC) Probability of Defaults (“PDs”) attributable by public rating agencies (peer data), as well as the use of macro-economic modelling to determine Point-in-Time (PiT) PDs.	Since modelling assumptions and parameters are based on peer data, we assessed the reasonableness of the PDs and LGDs generated by the model and the appropriateness of management’s judgements in respect of the calibration of PDs and LGDs.
The methodology used for modelling PDs and LGDs is based on peer data and may limit the reliability to appropriately estimate ECLs.	• Testing a significant sample of loans to independently review the borrower’s financial performance and ability to meet loan repayments and assessing the appropriateness of the staging classification assigned by management.



Independent auditor's report - continued

To the Shareholders of Merkanti Bank Limited

Key audit matter	How our audit addressed the Key audit matter
As at 31 December 2024, none of the Bank's loans and advances to customers were classified as defaulted (Stage 3) exposures. However, judgment is required to determine whether a significant increase in credit risk ('SICR') or default has occurred and as a result, to allocate the appropriate stage classification. Staging is determined based on a combination of criteria including days past due, borrowers' performance and how strategic and economic developments affect borrowers' future payment capabilities. Since the estimation of ECLs is subjective in nature and inherently judgemental, the Bank's application of the IFRS 9 impairment requirements is deemed to be an area of focus. Accordingly, summarising the key areas relevant to the Bank's measurement of ECLs would include: • Allocation of loans to Stage 1, 2, or 3 using criteria in accordance with IFRS 9; • Modelling assumptions used to build the models that calculate the ECL; • Completeness and accuracy of data used to calculate the ECL; and • Inputs and assumptions used to estimate the impact of multiple macro- economic scenarios. Relevant references in the Annual Report and Financial Statements: – Summary of material accounting policies: Note 1.3; – Credit risk: Note 2.2; – Note on loans and advances to customers: Note 6; and – Note on changes in expected credit losses: Note 22.	• Reviewing the multiple economic scenarios and variables to assess their reasonableness. Based on the evidence obtained, we found management's judgments to be reasonable.



Independent auditor's report - continued

To the Shareholders of Merkanti Bank Limited

Other information

The directors are responsible for the other information. The other information comprises the Directors' report, the Additional Regulatory Disclosures and the 5 Year Summary (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except as explicitly stated within the Report on other legal and regulatory requirements.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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



Independent auditor's report - continued

To the Shareholders of Merkanti Bank Limited

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Independent auditor’s report - continued

To the Shareholders of Merkanti Bank Limited

Report on other legal and regulatory requirements

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

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

Area of the Annual Report and Financial Statements 2024 and the related Directors’ responsibilities	Our responsibilities	Our reporting
Directors’ report (on pages 1 to 4) The Maltese Companies Act (Cap. 386) requires the directors to prepare a Directors’ report, which includes the contents required by Article 177 of the Act and the Sixth Schedule to the Act.	We are required to consider whether the information given in the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements. We are also required to express an opinion as to whether the Directors’ report has been prepared in accordance with the applicable legal requirements. In addition, we are required to state whether, in the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors’ report, and if so to give an indication of the nature of any such misstatements.	In our opinion: - the information given in the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and - the Directors’ report has been prepared in accordance with the Maltese Companies Act (Cap. 386). We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.



Independent auditor’s report - continued

To the Shareholders of Merkanti Bank Limited

Area of the Annual Report and Financial Statements 2024 and the related Directors’ responsibilities	Our responsibilities	Our reporting
	Other matters prescribed by the Maltese Banking Act (Cap. 371) In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the Bank, so far as appears from our examination of those books; • the Bank’s financial statements are in agreement with the books of account; • in our opinion, and to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law which may from time to time be in force in the manner so required.	In our opinion: • we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit; • proper books of account have been kept by the Bank, so far as appears from our examination of those books; • the Bank’s financial statements are in agreement with the books of account; and • to the best of our knowledge and according to the explanations given to us, the financial statements give the information required by any law in force in the manner so required.



Independent auditor’s report - continued

To the Shareholders of Merkanti Bank Limited

Area of the Annual Report and Financial Statements 2024 and the related Directors’ responsibilities	Our responsibilities	Our reporting
	Other matters on which we are required to report by exception We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion, adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us.	We have nothing to report to you in respect of these responsibilities.

Other matter – use of this report

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

Appointment

We were first appointed as auditors of the Bank on 10 August 2016 for the year ended 31 December 2016. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 9 years.

DocuSigned by:
Norbert Paul Vella
66182230A63C487...
Norbert Paul Vella
Principal

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

30 April 2025

MERKANTI BANK LIMITED
Annual Report and Financial Statements – 31 December 2024

Statement of financial position

		As at 31 December	
	Notes	2024 €	2023 €
ASSETS			
Balances with Central Bank of Malta and cash	4	20,314,638	27,979,716
Loans and advances to banks and other financial institutions	5	6,900,569	6,548,893
Loans and advances to customers	6	13,018,573	13,374,699
Financial assets mandatorily measured at fair value through profit or loss	7	792,600	792,600
Financial assets measured at fair value through other comprehensive income	8	5,145,690	6,946,560
Property, plant and equipment	9	28,645	106,550
Intangible assets	10	881,195	921,766
Accrued income and other assets	11	558,800	1,879,765
Total assets		47,640,710	58,550,549
EQUITY AND LIABILITIES			
Equity			
Share capital	12	10,000,000	10,000,000
Capital contribution	13	28,460	-
Fair value reserve	14	(90,201)	(314,698)
Retained earnings		9,686,351	9,270,849
Total equity		19,624,610	18,956,151
Liabilities			
Amounts owed to banks	15	4,965,200	4,965,600
Amounts owed to customers	16	22,919,949	34,335,931
Other liabilities	17	130,951	292,867
Total liabilities		28,016,100	39,594,398
Total equity and liabilities		47,640,710	58,550,549

The notes on pages 20 to 76 are an integral part of these financial statements.

The financial statements on pages 15 to 76 were authorised for issue by the board on 30 April 2025 and were signed on its behalf by:

Signed by:

Christian Farrugia

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Christian Farrugia
Director

Signed by:

Stephen Paris

98BB5D756DAC49E...

Stephen Paris
Director

MERKANTI BANK LIMITED
Annual Report and Financial Statements – 31 December 2024

Income statement

		Year ended 31 December	
	Notes	2024 €	2023 €
Interest and similar income	18	2,993,434	3,330,236
Interest and similar expense	19	(539,708)	(504,032)
Net interest income		2,453,726	2,826,204
Fee and commission income	20	1,531,504	1,547,893
Fee and commission expense	20	(12,948)	(57,802)
Net fee and commission expense		1,518,556	1,490,091
Net trading income	21	(174,624)	546,426
Other operating income		-	485,608
Operating income		3,797,658	5,348,329
Changes in expected credit losses	22	(108,810)	(102,102)
Administrative expenses	23	(3,273,346)	(2,858,980)
Profit for the year		415,502	2,387,247

The notes on pages 20 to 76 are an integral part of these financial statements.

MERKANTI BANK LIMITED
Annual Report and Financial Statements – 31 December 2024

Statement of comprehensive income

		Year ended 31 December	
	Note	2024 €	2023 €
Profit for the year		415,502	2,387,247
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Fair valuation of financial assets measured at fair value through other comprehensive income:			
Net changes in fair value arising during the year, before tax	8	223,350	273,088
Changes in expected credit losses attributable to debt instruments measured at fair value through other comprehensive income		1,147	144
Other comprehensive income for the year, net of tax		224,497	273,232
Total comprehensive income for the year		639,999	2,660,479

The notes on pages 20 to 76 are an integral part of these financial statements.

MERKANTI BANK LIMITED
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Statement of changes in equity

		Share capital	Capital contribution reserve	Fair value & other reserves	Retained earnings	Total equity
	Notes	€	€	€	€	€
Balance at 1 January 2023		10,000,000	-	(587,930)	6,883,602	16,295,672
Comprehensive income						
Profit for the year		-	-	-	2,387,247	2,387,247
Other comprehensive income:						
<i>Fair valuation of available-for-sale financial assets</i>						
Net changes in fair value arising during the year, net of tax	8	-	-	273,088	-	273,088
Net change attributable to changes in credit risk		-	-	144	-	144
Total comprehensive income		-	-	273,232	2,387,247	2,660,479
Balance at 31 December 2023		10,000,000	-	(314,698)	9,270,849	18,956,151
Balance at 1 January 2024		10,000,000	-	(314,698)	9,270,849	18,956,151
Comprehensive income						
Profit for the year		-	-	-	415,502	415,502
Other comprehensive income:						
<i>Fair valuation of available-for-sale financial assets</i>						
Net changes in fair value arising during the year, net of tax	8	-	-	223,350	-	223,350
Net change attributable to changes in credit risk				1,147	-	1,147
Total comprehensive income		-	-	224,497	415,502	639,999
Transactions with owners						
Unabsorbed tax losses utilised by parent entity	13	-	28,460	-	-	28,460
Total transactions with owners recognized directly in equity		-	28,460	-	-	28,460
Balance at 31 December 2024		10,000,000	28,460	(90,201)	9,686,351	19,624,610

The notes on pages 20 to 76 are an integral part of these financial statements.

MERKANTI BANK LIMITED
Annual Report and Financial Statements – 31 December 2024

Statement of cash flows

		As at 31 December	
	Notes	2024 €	2023 €
Operating activities			
Interest and commission income received		5,789,299	5,237,394
Interest and commission expense paid		(551,014)	(536,256)
Cash payments to employees and suppliers		(3,226,518)	(2,787,815)
		2,011,767	1,913,323
Cash flows generated from operating activities before changes in operating assets and liabilities			
Changes in operating assets and liabilities:			
Net decrease/(increase) in reserve deposit with Central Bank	4	141,310	(19,011)
Net increase in money market placement with Central Bank	4	(10,588,122)	-
Net increase in loans and advances to banks and other financial institutions	5	(5,415)	(22,666)
Net decrease in loans and advances to customers	6	253,710	458,830
Net decrease in amounts owed to banks	15	(400)	(400)
Net (decrease)/increase in amounts owed to customers	16	(11,415,982)	3,878,047
Net cash (used in)/generated from operating activities		(19,603,132)	6,208,123
Cashflows from investing activities			
Proceeds from maturity or redemption of financial assets measured at fair value through other comprehensive income	8	2,000,000	11,500,000
Purchase of property, plant and equipment	9	(17,365)	(16,816)
Purchase of intangible assets	10	-	(50,466)
Net cash generated from investing activities		1,982,635	11,432,718
Cashflows from financing activities			
Repayment of subordinated loan	25	-	(4,500,000)
Repayment of finance leases	17	(102,578)	(101,658)
Net cash used in financing activities		(102,578)	(4,601,658)
Net movement in cash and cash equivalents		(17,723,075)	13,039,183
Effect of exchange rate changes on cash and cash equivalents		(37,307)	(117,282)
Cash and cash equivalents at beginning of year		29,285,664	16,363,763
Cash and cash equivalents at end of year	26	11,525,282	29,285,664

The notes on pages 20 to 76 are an integral part of these financial statements.

Notes to the financial statements

1. Summary of material accounting policies

The material accounting policies adopted in the preparation of these financial statements are set out below. Unless otherwise stated, these policies have been consistently applied to all the years presented.

1.1 Basis of preparation

The Bank's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRSs') as adopted by the EU and with the requirements of the Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386) enacted in Malta. These financial statements are prepared under the historical cost convention, as modified by the fair valuation of financial assets and financial liabilities measured at fair value through profit or loss, including derivative financial instruments, and financial assets measured at fair value through other comprehensive income.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Bank's accounting policies (see Note 3 - Critical accounting estimates, and judgments in applying accounting policies).

Assessment of going concern assumption

The financial statements have been prepared on a going concern basis which assumes that the Bank will continue in existence for the foreseeable future. The directors believe that the use of the going concern assumption is appropriate.

Standards, interpretations and amendments to published standards effective in 2024

In 2024, the Bank adopted amendments to existing standards that are mandatory for the Bank's accounting period beginning on 1 January 2024. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in changes to the Bank's accounting policies impacting the financial performance and position.

Standards, interpretations and amendments to published standards that are not yet adopted

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Bank's accounting periods beginning after 1 January 2024.

The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Directors are of the opinion that there are no requirements which will have a possible material impact on the Bank's financial statements in the period of initial application, other than what is described below.

1. Summary of material accounting policies - continued

1.1 Basis of preparation - continued

Standards, interpretations and amendments to published standards that are not yet adopted - continued

IFRS 18 'Presentation and Disclosure in Financial Statements' (effective for annual periods beginning on or after 1 January 2027)

IFRS 18 (issued on 9 April 2024) is yet to be endorsed for use in the EU however it is set to replace IAS 1 Presentation of financial statements, introducing new requirements that will help to achieve comparability of the financial performance of similar entities and provide more relevant information and transparency to users. Even though IFRS 18 will not impact the recognition or measurement of items in the financial statements, its impacts on presentation and disclosure are expected to be pervasive, in particular those related to the statement of financial performance. IFRS 18 will also require the disclosure of management-defined performance measures within the financial statements.

Management is currently assessing the detailed implications of applying the new standard on the Bank's financial statements.

The new standard will be applicable from its mandatory effective date of 1 January 2027, subject to endorsement for use in the EU, with retrospective application.

1.2 Foreign currency transactions

a) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euro, which is the Bank's functional and presentation currency.

b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

1.3 Financial assets

1.3.1 Initial recognition and measurement

The Bank recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on the trade date, which is the date on which the Bank commits to purchase or sell the asset. Accordingly, the Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

1.3.1 Initial recognition and measurement - continued

At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognises the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.3.2 Classification and subsequent measurement

The Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors the Bank classifies its debt instruments into one of the following three measurement categories:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 1.4. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. As at 31 December 2024 and 31 December 2023, the Bank's 'Loans and advances to banks and other financial institutions', and 'Loans and advances to customers' are measured at amortised cost.

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

1.3.2 Classification and subsequent measurement - continued

Debt instruments - continued

- *Fair value through other comprehensive income ('FVOCI')*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net trading gains/(losses)'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. As at 31 December 2024 and 31 December 2023, the Bank's financial investments are measured at FVOCI (Note 8).
- *Fair value through profit or loss ('FVTPL')*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net trading gains/(losses)'. Debt instruments that contain contractual terms that give rise on specified dates to cash flows that are not consistent with a basic lending arrangement and thus fail the solely payments of principal and interest test are 'mandatorily' measured at FVTPL. Interest income from these financial assets, including those that are 'mandatorily' measured at FVTPL, is included in 'Interest and similar income' using the effective interest rate method. As at 31 December 2024 and 31 December 2023, the Bank mandatorily measured at FVTPL a financial asset on the basis that it failed the SPPI test (Note 7).

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

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

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

1.3.2 Classification and subsequent measurement - continued

Debt instruments - continued

(a) Business model assessment

Key management personnel determine the Bank's business model by considering the way financial instruments are managed in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Such assessment is performed at a 'portfolio level' as it best reflects the way the business is managed and information is provided to management.

The information that will be considered in such assessment includes:

- the objectives for the portfolio including 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 assets;
- the method for the evaluation of the performance of the portfolio and how such performance is reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and 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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

1. Summary of material accounting policies - continued

1.3 Financial assets - continued

1.3.2 Classification and subsequent measurement - continued

Debt instruments - continued

(b) Cash flows that represent solely payment of principal and interest ('SPPI')

In respect of assets where the intention of the business model is to hold the financial assets to collect the contractual cash flows or to hold to collect and to sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending agreement. 'Principal' is the fair value of the financial asset at initial recognition. It is not the amount that is due under the contractual terms of an instrument. 'Interest' is the compensation for time value of money and credit risk of a basic lending-type return. A basic lending-type return could also include consideration for other basic lending risks (for example, liquidity risk) and consideration for costs associated with holding the financial asset for a particular period of time (for example, servicing or administrative costs) and/or a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Unlike the business model assessment, the SPPI assessment is performed for each individual product or portfolio of products. The following considerations are made when assessing consistency with SPPI:

- contingent events that would change the amount and timing of cash flows such as contractual term resetting interest to a higher amount in the event of a missed payment;
- leverage features, being contractual cash flow characteristics that increase the variability of the contractual cash flows with the result that they do not have economic characteristics of interest;
- contractual terms that allow the issuer to prepay (or the holder to put a debt instrument back to the issuer) before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest, which may include reasonable compensation for early termination of the contract;
- contractual terms that allow the issuer or holder to extend the contractual term and the terms of the extension option result in contractual cash flows during the extension period that are solely payments of principal and interest, which may include reasonable compensation for the extension of the contract; and
- features that modify consideration for the time value of money (for example, periodic reset of interest rates).

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

1.3.3 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to receive cash flows from the assets have expired or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the Bank has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

1. Summary of material accounting policies - continued

1.4 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses ('ECLs') associated with its debt instruments carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. As at 31 December 2024 and 2023, the Bank did not have any loan commitments or financial guarantee contracts. The Bank recognises a loss allowances for such losses at each reporting date. The measurement of ECLs reflects:

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

The Bank calculates ECL using three main components: a probability of default ('PD'), a loss given default ('LGD'), and the exposure at default ('EAD'). Note 2.2.3 provides more detail of how the expected credit loss allowance is measured.

Expected credit loss allowances 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;
- financial instrument with both a drawn and undrawn component, whereby the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components, as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position against the carrying amount of the asset because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve, i.e. presented within other comprehensive income.

1.5 Write-off policy

The Bank writes off financial assets when it determines that these are uncollectible and it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. This is generally the case when the Bank determines that the counterparty does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-offs.

1.6 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1. Summary of material accounting policies - continued

1.7 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

	%
Computer equipment	25
Office improvements and equipment	10-25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

1.8 Leases

The Bank is the lessee

The Bank has lease agreements in place related to the leases of property used as office space.

At the inception of a contract, the Bank assesses if the contract is or contains a lease and hence conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For leases of property, the Bank has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease liabilities arising from such contracts are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate, which is the rate that the Bank would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment with similar terms and conditions. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank measures the associated right-of-use assets at an amount equal to the lease liability at the date at which the leased asset is made available for use. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Right-of-use assets relating to items of property are presented within these financial statements with 'Property, plant and equipment'. The corresponding lease liabilities are similarly presented within these financial statements with 'Other liabilities'.

1. Summary of material accounting policies - continued

1.8 Leases - continued

The Bank elects not to recognise right-of-use assets and lease liabilities for low value leases or leases with a term shorter than 12 months. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

1.9 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use specific software. These costs are amortised over their estimated useful lives of ten years. Costs associated with maintaining computer software programme are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

At the end of each reporting period, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable (Note 1.10).

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the Administrative expenses as Amortisation of intangible assets.

1.10 Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test can also be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

1. Summary of material accounting policies - continued

1.11 Current and deferred tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

During 2024, the Bank formed part of a Fiscal Unit for Maltese income tax purposes as a transparent subsidiary with its immediate parent company as the principal taxpayer effective from 1 January 2023, which allows the Fiscal Unit group members to be treated as a single taxpayer. Under the Fiscal Unit the principal taxpayer assumes the tax responsibilities in its entirety towards the tax authorities, while both entities within the Unit being jointly liable for such tax obligations.

According to the Tax Sharing Agreement entered into between the immediate parent company and the Bank, the Fiscal Unit's tax liability is calculated based on the respective entities' notional tax obligation based on standalone taxable profits and/or losses incurred during the year. The immediate parent remits tax payments on behalf of the subsidiary within the Fiscal Unit, where any such remittances are due. Under the terms of the agreement current tax assets and liabilities are recognised as receivables from or payables to the parent entity.

Under the terms of the Tax Sharing Agreement, the principal taxpayer shall compensate the Bank whenever and to the extent, the unutilised and unrecognised tax losses assumed by the principal taxpayer are "utilised" in the reduction of the taxable profit of the Fiscal Unit or utilised against the current tax liability of the Fiscal Unit. Such utilisation is deemed to occur and a compensatory obligation created, if in any year, any one of the members in the Fiscal Unit reports taxable profit/tax liability, against which a utilisation is required under the same agreement.

For any unutilised tax losses brought forward that are set off by the principal taxpayer against the Bank's notional tax expense and liability in a given year, the payment receivable from the Principal Taxpayer for the utilisation of such tax losses is credited to the tax charge in the Bank's Income Statement in the year in which the relevant taxable profits arise (Note 24).

1. Summary of material accounting policies - continued

1.11 Current and deferred tax - continued

Entitlement to compensation to be received by the Bank with respect to unutilised tax losses set off by the principal taxpayer against its own (i.e. the parent entity's) notional tax liability are treated as a capital contribution from the principal taxpayer within the equity reserves in the year in which the Fiscal Unit files its consolidated tax return, which may be in year(s) subsequent to the financial year in which the Principal Taxpayer's taxable profit arises (Note 13).

Conversely, deferred tax in respect of other temporary differences do not represent receivables from or payables to the parent.

1.12 Financial liabilities

1.12.1 Initial recognition and measurement

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

1.12.2 Classification and subsequent measurement

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- financial guarantee contracts and loan commitments.

Financial liabilities measured at amortised cost comprise principally amounts owed to customers, subordinated liabilities and other liabilities.

1. Summary of material accounting policies - continued**1.12 Financial liabilities - continued****1.12.3 Derecognition**

The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, cancelled or expired.

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

1.13 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest and similar income' and 'Interest and similar expense' in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets - assets that are credit-impaired at initial recognition - the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

1. Summary of material accounting policies - continued

1.13 Interest income and expense - continued

The Bank's income streams includes loan facility origination fees, rescheduling fees (charged when a customer applies to extend the repayment date), loan facility amendment fees and other fees and interest charged on revolving and longer term credit products. All these fees are considered to be an integral part of the effective interest rate of the loans and advances taking cognisance of the nature of these fees, the purposes for which these fees are assessed and the substance of the services provided. Accordingly, these fees are amortised to profit or loss using the effective interest method over the expected term of the instruments and presented within 'Interest and similar income'.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset;
- financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

1.14 Fee and commission income and expense

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract.

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

Other fees and commission income, including account servicing fees and corporate servicing fees are recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously.

Where the contracts include multiple performance obligations, the transaction price is allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

1. Summary of material accounting policies - continued

1.14 Fee and commission income and expense - continued

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. The timing of revenue recognition may differ from customer invoicing. If the services rendered exceed the payment, a contract asset is recognised. Contract assets are subject to impairment for credit risk. If the payments exceed the services rendered, a contract liability is recognised.

1.15 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value less expected credit loss allowances. In the statement of cash flow, cash and cash equivalents include cash in hand, deposits held at call with banks and other financial institutions and other short-term highly liquid investments with original maturities of three months or less.

2. Financial risk management

2.1 Introduction

The Bank's activities expose it to a variety of financial risks and these activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the entity's financial performance.

The most important types of risk include financial risk, which comprises credit risk, market risk, liquidity risk and capital risk. These categories of risk are described in Note 2.2, Note 2.3, Note 2.5 and Note 2.6 respectively.

The Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Board is responsible for the overall effectiveness of the risk management function, which function is however carried out by all the members of the Bank's management.

2.2 Credit risk

2.2.1 Introduction

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Accordingly, management carefully manages its exposure to this risk. Credit exposures arise principally through the Bank's credit transactions primarily with entities within the Scully Royalty group and also with third parties, through the Bank's transactions with correspondent banks, and through its investments in debt securities and other exposures arising from its investing activities.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.1 Introduction - continued

In order to minimise the credit risk undertaken in examining a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates, are considered.

In addition, the Bank continues to integrate climate risk into its credit risk management activities, with physical and transition risks considered to be the key climate risks impacting credit risk. As at 31 December 2024, the Bank determined that the impact of climate risk on credit risk is immaterial on the basis that the Bank's exposures have a short-term maturity.

The Bank has also set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit facilities. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

2.2.2 Credit risk measurement

The measurement of credit exposure for risk management purposes considers that an exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank measures credit risk using Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD'). The Bank calculates the ECL at instrument level across all portfolios.

The Bank's financial assets primarily comprise the following three portfolios upon which credit risk is assessed: investments in debt securities, loans and advances to banks and other financial institutions and loans and advances to customers. Where published ratings are issued by recognised external rating agencies, such as Standard & Poor's, Fitch and Moody's, mainly in respect of issuers of debt securities and other banks, the Bank refers to such ratings to determine the probability of default of individual counterparties. These published grades are continuously monitored and updated. Where published ratings are not available, a credit risk modelling solution, developed by an external vendor, is used to determine implied credit ratings. Implied credit ratings are determined on the basis of exposure-specific characteristics, including financial performance and qualitative characteristics captured through a scorecard. The implied ratings are calibrated with the rating scales as defined by the recognised external rating agencies, which in turn allow for the determination of the probability of default attributable to each individual unrated counterparty.

In determining the probability of default of individual counterparties, the Bank distinguishes between exposures considered 'investment-grade' defined by recognised external rating agencies as a rating between AAA to BBB- (Standard & Poor's, Fitch) and Aaa to Baa3 (Moody's), and 'non-investment grade' exposures.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss ('ECL') measurement

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

- i. A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- ii. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 2.2.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- iii. If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 2.2.3.2 for a description of how the Bank defines credit-impaired and default.
- iv. Financial instruments in 'Stage 1' have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in 'Stage 2' or 'Stage 3' have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 2.2.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- v. A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 2.2.3.4 includes an explanation of how the Bank has incorporated this in its ECL models.
- vi. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis ('Stage 3').

The expected credit loss requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months ("12-month ECL"). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered 'Stage 1'. Financial assets which are considered to have experienced a significant increase in credit risk would be classified as 'Stage 2' and financial assets for which there is objective evidence of impairment, thus considered to be in default or otherwise credit-impaired, would be classified as 'Stage 3'.

The Bank recognises loss allowances at an amount equal to 12-month ECL for debt securities measured at amortised cost and FVOCI and counterparty banks that are determined to have low credit risk at the reporting date. The Bank considers a debt security to have low credit risk when it is considered 'investment-grade', defined by recognised external rating agencies as a rating between AAA to BBB- (Standard & Poor's and Fitch) and Aaa to Baa3 (Moody's).

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.1 Significant increase in credit risk

The Bank's assessment to determine the extent of increase in credit risk of a financial instrument since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument.

To determine whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Such analysis is based on the Bank's historical experience, credit assessment and forward-looking information.

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the counterparty is more than 30 days past due on its contractual repayments.

2.2.3.2 Definition of default and credit impaired assets

The Bank applies the definition of default in a consistent manner with internal credit risk management practices for the relevant instruments and the definition considers qualitative and quantitative factors where appropriate.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the criteria below.

The Bank determines that a financial instrument is credit-impaired (in default and in Stage 3 for IFRS 9 purposes) by considering relevant objective evidence, when it meets one or more of the below criteria:

- contractual payments of either principal or interest are past due for more than 90 days for any material credit obligations to the Bank;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons of an enduring nature relating to the borrower's financial condition, which indicates the borrower is in significant financial difficulty (unlikelihood to pay criteria); and
- the loan is otherwise considered to be in default. If unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is more than 90 days past due.

Therefore, the definitions of credit-impaired and default are aligned so that Stage 3 represents all loans which are considered defaulted or credit-impaired.

The default definition has been applied consistently to model the PD, EAD and LGD throughout the Bank's expected loss calculations.

The Bank considers certain financial assets, mainly loans and advances to banks and other financial institutions and investments in debt securities respectively, to be in default when a payment due (including a coupon payment) is not effected.

In the case of certain portfolio of financial assets (specifically loans and advances to banks and other financial institutions and investment in debt securities), the Bank applies the low credit risk simplification to all its exposures considered 'investment grade', thus they are not subject to the SICR assessment. Moving from investment grade does not automatically mean that there is SICR.

2. Financial risk management - continued**2.2 Credit risk - continued****2.2.3 Expected credit loss measurement - continued****2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques**

The ECL is measured on either a 12-month (12M) or on a lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the PD, EAD, and LGD. These three components are multiplied together effectively calculating the forward-looking ECL, which is then discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the residual life of the exposure.

The PD, EAD and LGD parameters are estimated through the use of internally developed statistical models on the basis of market available data, adjusted to reflect forward-looking information as described below.

The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "definition of default and credit-impaired" above), either over the next 12 months ('12M PD'), or over the remaining lifetime ('Lifetime PD') of the obligation. Accordingly, the 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

Market data is used in order to develop the PDs in respect of the Bank's portfolios of financial assets, including loans and advances to banks and other financial institutions, loans and advances to customers and investment securities. If a counterparty or exposure migrates between internal rating grades or external credit ratings, then this will lead to a change in the associated PD. During the year, the Bank has updated its ECL model to use more recent available market data to develop the PDs in respect of the Bank's portfolio of financial assets.

The conditional PD is adjusted to consider forward-looking information through macroeconomic modelling. In this respect, and as described in further detail in section 2.2.3.4, during the year, PDs used in the calculation of expected credit loss adjustments were re-aligned to reflect the change in macro-economic variables.

EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months ('12M EAD') or over the remaining lifetime ('Lifetime EAD').

EAD represents the expected exposure in the event of a default (including any expected drawdowns of committed facilities). The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract. The EAD of a financial asset is the gross carrying amount at default.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques - continued

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type:

- for amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12month or lifetime basis;
- for revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.

The LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. Hence, the LGD represents expected credit losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral values (if any) at the time it is expected to be realised and the time value of money. The LGD is determined based on the factors which impact the recoveries made post default.

Given that its portfolio of loans and advances to banks and other financial institutions and investments in debt securities is generally unsecured, and in respect of loans and advances to customers, the Bank has no history of defaults, the LGD for the Bank's exposures is set at levels based on market available data for similar exposure classes.

The ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. With respect to non-revolving credit facilities, the contractual life of the facility is considered. In the case of revolving credit facilities, provided that such facilities do not have a fixed term or repayment structure, the Bank defines the lifetime of such exposures as 12 months, in case the next substantive credit review is within the next 12 months.

Forward-looking economic information is also included in determining the 12-month and lifetime PD and LGD. Refer to note 2.2.3.4 for an explanation of forward-looking information and its inclusion in ECL calculations.

The calculation of ECL incorporates forward-looking information. During 31 December 2024, the Bank changed its methodology for identifying the key macro-economic variables. The Bank selected the macro-economic variables deemed to be effective indicators of global default rates by authoritative sources.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques – continued

In addition to the updates made by the Bank to its model in relation to the market data used in developing PDs, the Bank has also updated its model to factor in updates to macro-economic variables that consider the current economic environment and forecasts that are based on such macro-economic variables, including the respective ECL weights to each scenario applied. The key drivers, for 2024 are predominantly the unemployment rate in the US and high-yield spreads in the US, while for 2023, are predominantly real GDP growth rate in the Euro Area and real GDP growth rate in the US.

2.2.3.4 Forward-looking information incorporated in the ECL model

As at 31 December 2024 and 31 December 2023, two possible scenarios are considered to capture non-linearity across credit portfolios. The 'Base' scenario represents the most-likely outcome. It is based on authoritative sources forecasting these economic variables referred to above and providing the best estimate view of the economy. Apart from the base scenario, the Bank considers one other macro-economic scenario – 'Downside' scenario – which represents a more pessimistic outcome. The downside scenario is economically plausible and will not necessarily be as severe as scenarios used in stress testing.

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

Base scenario

The base scenario reflects the current economic conditions. As at 31 December 2024, the base scenario is based on the assumption that the ongoing fiscal policy changes pursued by the new US administration will result in higher tariffs, lower spending and lower taxes. Interest rates are expected to decline further in 2025. The slower recent progress in reducing inflation and additional inflationary pressures as a result of the foreseeable higher tariffs, suggest a slower road to normalisation than previously expected. In this respect, the US high-yield spreads are still expected to increase from 3.1% in 2024 to 4.1% in 2025. The outlook for the labour market has shifted modestly as a result of the changes in fiscal and immigration policy. A reduction in net international migration will lower labour supply growth and cause a modest reduction in job gains. This is expected to be off-set by a weakening in labour demand as a return to pre-pandemic levels of layoffs would likely result in job losses, undermining consumer spending and growth. As a result, US unemployment rate is expected to remain relatively stable with a minor increase from 4.1% in 2024 to 4.2% in 2025.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.4 Forward-looking information incorporated in the ECL model – continued

Base scenario - continued

As at 31 December 2023, the baseline scenario was based on an increase in economic growth in the US, which was partially set-off by an economic slowdown in the Euro area. As a result, real GDP growth rate in the US was projected to increase from 0.66% in 2023 to 1.23% in 2024. In contrast, the Real GDP growth rate in the Euro area was forecasted to decline from 2.01% in 2023 to 1.48%.

Downside scenario

As at 31 December 2024, the downside scenario is based on subdued economic activity as a result of the US administration's evolving policies on tariffs, taxes, spending and immigration. Higher tariffs, in particular, would raise prices for consumers and undermine economic growth in the US and globally. In addition, ongoing geopolitical risks could disrupt supply chains, boost energy market volatility, further eroding economic conditions and weighing on market sentiment. All of these will negatively affect corporate earnings and cash flow and increase default risk. Other risks may arise from stress in commercial real estate spilling over into the economy more broadly and shocks that trigger a collapse of risk appetite, leading to asset prices to fall, credit spreads to widen and credit conditions to tighten significantly. In this respect, under this scenario US unemployment is forecasted to increase from 4.1% in 2024 to 7.5% in 2025 and US high-yield spreads to increase from 3.1% in 2024 to 6.47% in 2025.

Similarly, as at 31 December 2023, the downside scenario was based on a decline in economic activity, with GDP in both the US and the Euro area forecasted to experience a negative growth of 1.42% and 0.43% respectively.

As at 31 December 2024, the weightings assigned to each economic scenario were 61% (2023: 60%) for the base scenario and 39% (2023: 40%) for the downside scenario. The number of scenarios and their attributes are reassessed at each reporting date to ensure that non-linearities are captured.

The Board considers that the above probability weightings assigned to the respective scenarios reflect an unbiased evaluation of a range of possible outcomes.

As with any macro-economic forecasts, the projections and the likelihood of their occurrence are subject to a high degree of uncertainty and therefore, the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

As at 31 December 2024, the sensitivity of the ECL outcome to the economic forecasts was assessed by recalculating the ECL under the base and downside scenarios described above for the loan portfolio, applying a 100% weighting to each scenario.

In this respect, if the ECL outcome was estimated solely on the basis of the base and downside scenarios respectively, the credit loss allowances in respect of the loan portfolios would amount to €260,009 (2023: €202,876) and €525,166 (2023: €305,998) respectively, compared to a weighted average credit loss allowances estimated at year end amounting to €363,420 (2023: €244,125). In view of this, as at 31 December 2024, the sensitivity impact was not considered to be significant.

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.3 Expected credit loss measurement - continued

2.2.3.4 Forward-looking information incorporated in the ECL model – continued

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

2.2.4 Maximum exposure to credit risk

An 'exposure' is defined as the amount at risk arising from the Bank's assets and off-balance sheet items. The Bank's maximum credit risk with respect to on- and off-balance sheet items can be classified into the following categories:

- Financial assets recognised on-balance sheet comprising principally investments in debt securities and loans and advances to banks and other financial institutions, customers and group companies. The maximum exposure to credit risk of these financial assets equals their gross carrying amounts or fair value.
- Loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities. The maximum exposure to credit risk is the full amount of the committed facilities. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. These exposures are monitored in the same manner in respect of loans and advances.

The following table sets out the Bank's credit risk exposures relating to on-balance sheet assets and off-balance sheet instruments, reflecting the maximum exposure to credit risk before collateral held or other credit enhancements, as well as an analysis by staging classification:

	Stage Classification	2024 Gross Exposure €	ECL allowance €	Stage Classification	2023 Gross Exposure €	ECL allowance €
Credit risk exposures relating to on-balance sheet assets:						
Financial assets mandatorily measured at FVTPL:						
Non-fixed income instruments		792,600	-		792,600	-
<i>Subject to IFRS 9 impairment allowances</i>						
Financial assets measured at FVOCI:						
Debt securities	Stage 1	5,145,690	(3,134)	Stage 1	6,946,560	(1,987)
Financial assets measured at amortised cost:						
Balances with Central Bank of Malta	Stage 1	20,313,638	-	Stage 1	27,978,416	-
Loans and advances to banks and other financial institutions	Stage 1	6,928,902	(28,333)	Stage 1	6,571,979	(23,086)
Loans and advances to customers	Stage 1	8,787,500	(18,153)	Stage 1	8,675,000	(20,459)
Loans and advances to customers	Stage 2	4,552,541	(303,315)	Stage 2	4,918,751	(198,593)
Accrued income and other assets	Stage 1	341,896	-	Stage 1	1,703,858	-
Credit risk exposure		46,862,767	(352,935)		57,587,164	(244,125)

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.4 Maximum exposure to credit risk - continued

As at 31 December 2024 and 2023, the Bank did not have any loan commitments or financial guarantee contracts.

As at 31 December 2024 and 2023, there were no purchased or credit-impaired assets which are subject to the IFRS 9 impairment requirements.

2.2.5 Credit risk mitigation techniques

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, in certain cases, as part of the Bank's credit risk mitigation techniques, the Bank holds collateral against loans and advances to customers, the nature and level of which generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved. Collateral utilised to secure loans and advances includes cash collateral. As at 31 December 2024, the Bank had cash collateral amounting to €6,000,000 (2023: €6,000,000) against loans granted to related parties amounting to €8,787,500 (2023: €8,675,000). The Bank also held other cash collateral amounting to €900,000 (2023: €1,800,000) securing receivables due from third parties amounting to €900,000 (2023: €4,918,751 representing receivables purchased from a related party with residual exposure to a third party). As at 31 December 2024 there were €3,652,541 remaining unsecured loans granted to a third party (2023: nil).

2.2.6 Credit concentration risk

Within the Bank, concentration risk of losses results from inadequate diversification of the credit exposures. This risk is managed by actively measuring, reporting and monitoring on a regular and ongoing basis risk concentration levels against reasonable thresholds for counterparties, products, and territories.

In order to manage its principal risk exposures arising from its financial assets, primarily its loans and advances to customers, the Bank compiles and updates credit review reports in respect of these financial assets. Where available, reference is also made to external reviews of primary borrowers.

Credit concentration risk by name

At 31 December 2024 and 2023, loans granted to related parties amounting to €8,787,500 (2023: €8,675,000) and loans granted to a third party amounting to €4,552,541 (2023: €4,918,751) were considered to be reportable as large exposures, exceeding 10% of the Bank's Total Own Funds. In this respect, 66% of the Bank's gross lending exposures at 31 December 2024 (2023: 64%) comprised exposures to entities within the Scully Royalty Group, and 34% (2023: 36%) comprised exposures to a single third party.

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2. Financial risk management - continued

2.2 Credit risk - continued

2.2.6 Credit concentration risk - continued

Credit concentration risk by geographical region

The geographical concentration of the Bank's financial assets at their carrying amounts as at the end of the reporting period is analysed below. For the purposes of this table, the Bank has allocated exposures to regions based on the country of domicile of the respective counterparties or customers. As at 31 December 2024 and 2023, the rest of the world exposures mainly consist of exposures in Canada.

	Malta €	Other EU countries €	Rest of world €	Total €
As at 31 December 2024				
Financial assets measured at FVTPL	-	792,600	-	792,600
Financial assets measured at FVOCI	5,145,690	-	-	5,145,690
Balances with Central Bank of Malta	20,313,638	-	-	20,313,638
Loans and advances to banks and other financial institutions	6,900,569	-	-	6,900,569
Loans and advances to customers	4,249,226	-	8,769,347	13,018,573
Accrued income and other assets	159,773	-	210,603	370,376
	36,768,896	792,600	8,979,950	46,541,446
As at 31 December 2023				
Financial assets measured at FVTPL	-	792,600	-	792,600
Financial assets measured at FVOCI	6,946,560	-	-	6,946,560
Balances with Central Bank of Malta	27,978,416	-	-	27,978,416
Loans and advances to banks and other financial institutions	6,548,893	-	-	6,548,893
Loans and advances to customers	4,720,158	-	8,654,541	13,374,699
Accrued income and other assets	212,634	1,035,341	455,883	1,703,858
	46,406,661	1,827,941	9,110,424	57,345,026

Credit concentration risk by industry sector

Loans and advances to customers, gross of allowances, are analysed by industry concentration as follows:

	2024 €	2023 €
Manufacturing activities	4,552,541	4,918,751
Mining activities	8,787,500	8,675,000
	13,340,041	13,593,751

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.7 Information on credit quality of balances with banks and other financial assets

As part of its treasury management activities the Bank invests in listed sovereign bonds issued by local and foreign governments, listed debt securities issued by foreign corporates generally with high credit quality and strong financial background. These transactions are monitored through the practical use of exposure limits. All such investments are listed on the Malta Stock Exchange, which is currently the only locally-based Recognised Investment Exchange (RIE) in Malta and other major stock exchanges. External ratings such as Moody's rating or their equivalents are used for monitoring these credit risk exposures.

At the end of the reporting period, none of the Bank's financial assets, which are subject to the IFRS 9 impairment requirements, were past due or impaired.

The following tables present an analysis of the Bank's financial assets by rating agency based on Moody's ratings or their equivalent:

	Balances with Central Bank of Malta €	Loans and advances to banks and other financial institutions €	Financial assets mandatorily measured at fair value through profit or loss €	Financial assets measured at fair value through other comprehensive Income €
31 December 2024				
A1 to A3	20,313,638	-	-	4,928,880
Baa1 - Baa3	-	1,661,640	-	-
Unrated	-	5,238,929	792,600	216,810
Total	20,313,638	6,900,569	792,600	5,145,690

	Balances With Central Bank of Malta €	Loans and advances to banks and other financial institutions €	Financial assets mandatorily measured at fair value through profit or loss €	Financial assets measured at fair value through other comprehensive Income €
31 December 2023				
A1 to A3	20,313,638	-	-	4,928,880
Baa1 - Baa3	-	1,661,640	-	-
Unrated	-	5,238,929	792,600	216,810
Total	20,313,638	6,900,569	792,600	5,145,690

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Loss allowances

Reconciliation of 12-month and lifetime ECL provision

The following disclosure provides a reconciliation by stage of the Bank's on balance sheet gross carrying/nominal amount and allowances for loans and advances to customers, including accrued interest.

Transfers across stages represent the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL of the financial instruments that are outstanding at the beginning of the year.

The 'Net remeasurement of ECL arising from stage transfers' represents the increase or decrease in ECL due to moving, for example, from a 12-month (Stage 1) to a lifetime (Stage 2) ECL measurement basis or vice versa. Net remeasurement excludes the movements resulting from changes in risk parameters such as changes in PDs and LGDs when compared to those used for the previous reporting period. This is captured, along with other credit quality movements in the 'Changes in risk parameters' line item which shows the impact of changes in risk parameters in respect of the allowances specifically for loans and advances to customers outstanding at the beginning of the year. The impact of model overlays is also included within the 'Changes in risk parameters' line item.

The 'Net new and further lending/repayments' represent the gross carrying/nominal amount and associated ECL impact from volume movements within the Bank's lending portfolio, i.e. originations and repayments during the financial reporting period. Accordingly, loans originated during the year are classified in the table below using the respective stage classification as at the end of the reporting period, without the effect of stage transfers from origination. The allowance in respect of these is included using the current year's risk parameters, and therefore no such impact is included within the 'Changes in risk parameters' line item. Similarly, stage transfers in respect of loans and advances originated or repaid during the year are also included within the 'Net new and further lending/repayments' line item.

The movement in ECL is illustrated in the following tables:

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Loss allowances - continued

	Stage 1		Stage 2		Total	
	Gross carrying amount	Allowance for ECL	Gross Carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€
At 31 December 2023	8,675,000	20,459	4,918,751	198,593	13,593,751	219,052
New and further lending/(repayments)	112,500	704	(366,210)	(15,623)	(253,710)	(14,919)
Changes in risk parameters	-	(3,010)	-	120,345	-	117,335
At 31 December 2024	8,787,500	18,153	4,552,541	303,315	13,340,041	321,468
Change in expected credit losses on loans and advances to customers						102,416
Change in expected credit losses attributable to:						
Loans and advances to banks and other financial institutions						5,247
Financial assets measured at fair value through other comprehensive income						1,147
Total expected credit loss charge for the year						108,810

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.8 Loss allowances – continued

	Stage 1		Stage 2		Total	
	Gross carrying amount	Allowance for ECL	Gross Carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€
At 31 December 2022	2,650,000	24,463	11,402,581	70,106	14,052,581	94,569
New and further lending/(repayments)	6,025,000	927	(6,483,830)	(15,623)	(458,830)	(14,696)
Changes in risk parameters	-	(4,931)	-	144,110	-	139,179
At 31 December 2023	8,675,000	20,459	4,918,751	198,593	13,593,751	219,052
Change in expected credit losses on loans and advances to customers						124,483
Change in expected credit losses attributable to:						
Loans and advances to banks and other financial institutions						(22,525)
Financial assets measured at fair value through other comprehensive income						144
Total expected credit loss charge for the year						102,102

2. Financial risk management - continued

2.2 Credit risk - continued

2.2.9 Modification of loans and advances to customers

The contractual terms of a loan may be revised for a number of reasons, including changes in market conditions, customer retention and other factors that are not related to the credit quality of a customer. Forbearance measures comprise concessions made on the contractual terms of a loan in response to a customer's financial difficulties. As at 31 December 2024, the Bank had only one loan which was forbore loan which is classified as Stage 2.

2.3 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

(a) Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. To the extent that such matching is not possible, the Bank hedges its open foreign exchange exposures by entering into foreign exchange forward contracts with terms matching those of the hedged items.

The following tables summarise the Bank's exposure to foreign exchange risk at 31 December. Included in the tables are the Bank's financial instruments at carrying amounts, categorised by currency.

	EUR €	USD €	CAD €	GBP €	Total €
As at 31 December 2024					
Financial assets					
Financial assets measured at FVTPL	792,600	-	-	-	792,600
Financial assets measured at FVOCI	5,145,690	-	-	-	5,145,690
Balances with Central Bank of Malta	7,034,779	10,588,122	2,690,737	-	20,313,638
Loans and advances to banks and other financial institutions	6,011,315	264,087	623,284	1,882	6,900,569
Loans and advances to customers	13,018,573	-	-	-	13,018,573
Accrued income and other assets	340,546	1,191	159	-	341,896
Total financial assets	32,343,503	10,853,400	3,314,180	1,882	46,512,965
Financial liabilities					
Amounts owed to banks	4,965,200	-	-	-	4,965,200
Amounts owed to customers	9,825,171	10,876,604	2,218,174	-	22,919,949
Other liabilities	130,951	-	-	-	130,951
Total financial liabilities	14,921,322	10,876,604	2,218,174	-	28,016,100
Net on-balance sheet position	17,422,181	(23,203)	1,096,006	1,882	

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2. Financial risk management - continued

2.3 Market risk - continued

(a) Foreign exchange risk - continued

	EUR €	USD €	CAD €	GBP €	Total €
As at 31 December 2023					
Financial assets					
Financial assets measured at FVTPL	792,600	-	-	-	792,600
Financial assets measured at FVOCI	6,946,560	-	-	-	6,946,560
Balances with Central Bank of Malta	17,880,169	9,405,845	693,702	-	27,979,716
Loans and advances to banks and other financial institutions	6,080,675	422,884	44,629	705	6,548,893
Loans and advances to customers	13,374,699	-	-	-	13,374,699
Accrued income and other assets	1,684,105	18,490	1,263	-	1,703,858
Total financial assets	46,758,808	9,847,219	739,594	705	57,346,326
Financial liabilities					
Amounts owed to banks	4,965,600	-	-	-	4,965,600
Amounts owed to customers	23,898,893	9,633,627	711,767	91,644	34,335,931
Other liabilities	292,867	-	-	-	292,867
Total financial liabilities	29,157,360	9,633,627	711,767	91,644	39,594,398
Net on-balance sheet position	17,601,448	213,592	27,827	(90,939)	

The net exposure to foreign exchange rates as at 31 December 2024 includes exposures denominated in CAD which arises principally due to money market placements with CBM and deposits from customers which are denominated in CAD which are not hedged. Under the scenario that the euro appreciates against the CAD from 1.4948 to 1.6948 the impact recognised in profit or loss would amount to a loss of €129,338. If on the other hand, the euro depreciates against the CAD to 1.0000 the impact recognised in profit or loss would amount to a profit of €542,305.

The net unhedged on-balance sheet exposure to other currencies such as the USD, as at 31 December 2024 and 2023, is not considered significant taking into account the amounts reported in the statement of financial position. Accordingly, a sensitivity analysis for foreign exchange risk disclosing how profit or loss and equity would have been affected by changes in foreign exchange rates that were reasonably possible at the end of the reporting period is not deemed necessary since the directors are of the opinion that the net impact would be insignificant.

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2. Financial risk management – continued

2.3 Market risk - continued

(b) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates either through the re-pricing of floating rate instruments or through the maturity and replacement of fixed rate instruments. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank's exposures analysed by their fixed or floating nature as at 31 December is shown below:

	Floating rates €	Fixed rates €	Total €
At 31 December 2024			
<i>Interest-bearing assets</i>			
Financial assets measured at FVTPL	-	792,600	792,600
Financial assets measured at FVOCI			
Debt securities	-	5,145,690	5,145,690
Financial assets measured at amortised cost:			
Balances with Central Bank of Malta	-	20,313,638	20,313,638
Loans and advances to banks and other financial institutions	4,979,626	-	4,979,626
Loans and advances to customers	9,272,170	3,746,403	13,018,573
	14,251,796	29,998,331	44,250,127
<i>Interest-bearing liabilities</i>			
Amounts owed to customers	-	6,900,000	6,900,000
	-	6,900,000	6,900,000
Net exposure	14,251,796	23,098,331	37,350,127

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2. Financial risk management - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

	Floating rates €	Fixed rates €	Total €
At 31 December 2023			
<i>Interest-bearing assets</i>			
Financial assets measured at FVTPL	-	792,600	792,600
Financial assets measured at FVOCI			
Debt securities	-	6,946,560	6,946,560
Financial assets measured at amortised cost:			
Balances with Central Bank of Malta	-	27,978,416	27,978,416
Loans and advances to banks and other financial institutions	4,976,860	-	4,976,860
Loans and advances to customers	13,374,699	-	13,374,699
	18,351,559	35,717,576	54,069,135
<i>Interest-bearing liabilities</i>			
Amounts owed to customers	-	7,800,000	7,800,000
Lease liabilities	-	101,116	101,116
	-	7,901,116	7,901,116
Net exposure	18,351,559	27,816,460	46,168,019

As at 31 December 2024 and 31 December 2023, the remaining balance of 'Loans and advances to banks and other financial institutions', 'Amounts owed to customers' and 'Other liabilities', are non-interest bearing and accordingly are not included in the above table. Amounts owed to banks as at 31 December 2024 and 31 December 2023 are non-interest bearing and are not included in the above.

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Balances with Central Bank of Malta, loans and advances to banks and customers, amounts owed to customers and lease liabilities are measured at amortised cost and are therefore not subject to fair value interest rate risk.

The Bank's instruments which are subject to fixed interest rates and that are fair valued comprise the Bank's investments in debt securities amounting to €5,145,690 (2023: €6,946,560). This exposes the Bank to the risk of losses arising from fair value interest rate risk.

Using sensitivity analyses, by performing a full revaluation of the portfolio using an instantaneous shock which measures the potential loss in market value arising from a 200 basis-point upward parallel shift in yields, the estimated impact as at 31 December 2024 on the fair valuation of its investments in debt securities measured at FVOCI amounts to a loss of €87,119 (2023: €229,495).

Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk. The Bank is also exposed to cash flow interest rate risk principally in respect of financial assets that are subject to floating interest rates as well as those fixed rate financial instruments that mature in the short-term.

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2. Financial risk management - continued

2.3 Market risk - continued

(b) Interest rate risk - continued

In this respect, at the end of the reporting period, if interest rates had increased/decreased by 1% (assuming a parallel shift of 100 basis points in yields) with all other variables held constant, in particular foreign currency rates, the pre-tax result for the following one year, excluding changes in fair values, would decrease/increase by €391,905 (2023: €468,458).

The following table includes the Bank's principal financial instruments at carrying amounts, categorised by re-pricing dates, taking cognisance of the instruments' interest rate terms. The re-pricing period in respect of the Bank's interest-bearing assets and liabilities subject to fixed interest rates is equivalent to the remaining period to maturity.

	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2024					
Financial assets					
Financial assets measured at FVTPL	-	-	792,600	-	792,600
Financial assets measured at FVOCI	-	-	3,965,100	1,180,590	5,145,690
Balances with Central Bank of Malta	9,595,380	130,136	10,588,122	-	20,313,638
Loans and advances to banks and other financial institutions	-	-	-	4,979,626	4,979,626
Loans and advances to customers	-	3,746,403	9,272,170	-	13,018,573
	9,595,380	3,876,539	24,617,992	6,160,216	44,250,127
Financial liabilities					
Amounts owed to customers	-	900,000	6,000,000	-	6,900,000
	-	900,000	6,000,000	-	6,900,000
Interest rate gap	9,595,380	2,976,539	18,617,992	6,160,216	
Cumulative gap	9,595,380	12,571,919	31,189,911	37,350,127	

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2. Financial risk management – continued

2.3 Market risk - continued

(b) Interest rate risk - continued

	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	Total €
As at 31 December 2023					
Financial assets					
Financial assets measured at FVTPL	-	-	792,600	-	792,600
Financial assets measured at FVOCI	-	-	1,964,600	4,981,960	6,946,560
Balances with Central Bank of Malta	27,978,416	-	-	-	27,978,416
Loans and advances to banks and other financial institutions	-	4,976,860	-	-	4,976,860
Loans and advances to customers	3,851,581	868,577	8,654,541	-	13,374,699
	31,829,997	5,845,437	11,411,741	4,981,960	54,069,135
Financial liabilities					
Amounts owed to customers	1,800,000	-	6,000,000	-	7,800,000
Lease liabilities	26,216	-	74,900	-	101,116
	1,826,216	-	6,074,900	-	7,901,116
Interest rate gap	30,003,781	5,845,437	5,336,841	4,981,960	
Cumulative gap	30,003,781	35,849,218	41,186,059	46,168,019	

2. Financial risk management – continued

2.4 Other risk attributable to the Bank's investments that are mandatorily measured at FVTPL

As at 31 December 2024 and 31 December 2023, the Bank's financial assets that are mandatorily measured at fair value through profit or loss comprise of a fixed rate loan to a customer that has failed the SPPI test due to a profit participation feature that enables the Bank to participate in any profit earned as a result of the activity being financed.

The interest rate element to which the Bank is exposed by virtue of originating the profit participating fixed income loan, is assessed as part of the Bank's interest rate risk management framework and considered within the respective disclosures in section 2.3. In addition, the Bank is also exposed to model risk, which is the risk of the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.

In this respect, the directors have determined that in view of the immateriality of these assets relative to the Bank's asset base, model risk is insignificant. Accordingly, a sensitivity analysis disclosing the effect of changes to key unobservable inputs is not deemed necessary by the directors.

2.5 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

The Bank manages this risk by maintaining a strong base of shareholders' capital considering the stage of its operations. The Bank manages its asset base with liquidity in mind and monitors future cash flows and changes in available liquidity on a regular basis.

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- short term placements with the Central Bank of Malta; and
- unencumbered Malta Government stocks amounting to €4,928,880 (2023: €6,729,750) that are readily acceptable as collateral for open market operations with the European Central Bank.

Liquidity is managed by the Bank's treasury function through the Bank's liquidity management process. Liquidity management includes:

- day to day funding, managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios underlying the statement of financial position against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

Moreover, sources of liquidity are regularly reviewed by the treasury function to maintain a diversification by provider, product and term. Monitoring takes the form of cash flow projections for the next day, week and month respectively, as these are key periods for short-term liquidity management. Medium-term liquidity management is a regular subject at the meetings of the Board of directors. Built on cash flow projections on a monthly and quarterly basis, the Board steers the medium-term liquidity position of the Bank and proactively sets actions to avoid any liquidity gaps.

2. Financial risk management - continued

2.5 Liquidity risk - continued

(i) Liquidity Coverage Ratio

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile, and became a minimum regulatory standard from 1 October 2015, under European Commission ("EC") Delegated Regulation 2015/61. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

As at 31 December 2024 and 2023 and during the respective financial years, the LCR was within both the regulatory minimum and the risk appetite set by the Bank.

(ii) Net stable funding ratio

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR. During 2021, the Bank updated its methodology for the calculation of the NSFR to conform with the provisions of the amendments to Regulation (EU) No.575/2013, known as the Capital Requirements Regulation ('CRR II'), which became effective as from 28 June 2021. CRR II mandates a minimum NSFR requirement of 100%.

As at 31 December 2024 and 2023 and during the respective financial periods, the NSFR was within both the regulatory minimum and the risk appetite set by the Bank.

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2. Financial risk management - continued

2.5 Liquidity risk - continued

The following table discloses financial assets and liabilities at the end of the reporting period by remaining period to maturity.

	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	No maturity €	Total €
As at 31 December 2024						
Financial assets						
Financial assets measured at FVTPL	-	-	792,600	-	-	792,600
Financial assets measured at FVOCI	-	-	3,965,100	1,180,590	-	5,145,690
Balances with Central Bank of Malta	9,595,380	-	10,588,122	-	130,136	20,313,638
Loans and advances to banks	1,920,943	-	-	4,979,626	-	6,900,569
Loans and advances to customers	-	3,746,403	9,272,170	-	-	13,018,573
Accrued income and other assets	159	327,740	42,476	-	-	370,375
	11,516,482	4,074,143	24,660,468	6,160,216	130,136	46,541,445
Financial liabilities						
Amounts owed to banks	-	4,965,200	-	-	-	4,965,200
Amounts owed to customers	16,019,949	900,000	6,000,000	-	-	22,919,949
Other liabilities	122,045	8,906	-	-	-	130,951
	16,141,994	5,874,106	6,000,000	-	-	28,016,100
Maturity gap	(4,625,512)	(1,799,963)	18,660,468	6,160,216		
Cumulative gap	(4,625,512)	(6,425,475)	12,234,993	18,395,209		

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2. Financial risk management - continued

2.5 Liquidity risk - continued

	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	No maturity €	Total €
As at 31 December 2023						
Financial assets						
Financial assets measured at FVTPL	-	-	792,600	-	-	792,600
Financial assets measured at FVOCI	-	-	1,964,600	4,981,960	-	6,946,560
Balances with Central Bank of Malta	27,706,970	-	-	-	271,446	27,978,416
Loans and advances to banks	1,577,394	-	-	4,971,499	-	6,548,893
Loans and advances to customers	3,851,581	-	-	9,523,118	-	13,374,699
Accrued income and other assets	1,061,425	95,091	547,342	-	-	1,703,858
	34,197,370	95,091	3,304,542	19,476,577	271,446	57,345,026
Financial liabilities						
Amounts owed to banks	-	4,965,600	-	-	-	4,965,600
Amounts owed to customers	28,120,711	-	6,215,220	-	-	34,335,931
Other liabilities	79,929	137,088	75,850	-	-	292,867
	28,200,640	5,102,688	6,291,070	-	-	39,594,398
Maturity gap	5,996,730	(5,007,597)	(2,986,528)	19,476,577		
Cumulative gap	5,996,730	989,133	(1,997,395)	17,479,182		

At 31 December 2024, deposits payable on demand or at short notice amounted to €16,019,949 (2023: €28,120,711). This amount is disclosed within the 'Not more than three months' maturity grouping. However, in practice these deposits are maintained with the bank for longer periods. Hence, the effective behavioural date of repayment is later than the contractual date. This amount represents a significant part of the bank's funding. The bank places considerable importance on maintaining the stability of these deposits.

As at 31 December 2024, financial assets measured at fair value through other comprehensive income amounting to €5,145,690 (2023: €6,946,560), which principally mature after more than one year, were available for immediate sale in case the need arises, including under stress.

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2. Financial risk management - continued

2.5 Liquidity risk - continued

The following table analyses the Bank's principal undiscounted cash flows payable under non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	Within one month €	Within three months but over one month €	Within one year but over three months €	More than one year €	Total €	Carrying amount €
As at 31 December 2024						
Amounts owed to banks	-	4,965,200	-	-	4,965,200	4,965,200
Amounts owed to customers	16,019,949	906,114	6,081,822	-	23,007,885	22,919,949
Other liabilities	130,951	-	-	-	130,951	130,951
	16,150,900	5,871,314	6,081,822	-	28,104,036	28,016,100
As at 31 December 2023						
Amounts owed to banks	-	4,965,600	-	-	4,965,600	4,965,600
Amounts owed to customers	28,137,688	-	6,303,095	-	34,440,783	34,335,931
Other liabilities	80,209	137,651	76,649	-	294,509	292,867
	28,217,897	5,103,251	6,379,744	-	39,700,892	39,594,398

As at 31 December 2024 and 2023 all of the Bank's assets were unencumbered. Accordingly, all of the Bank's financial assets are available to support potential future funding and collateral needs.

2. Financial risk management - continued

2.6 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' as disclosed in the statement of financial position, are:

- to comply with the capital requirements set by the Malta Financial Services Authority ("MFSA");
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Union Directives and Regulations, as implemented by the MFSA for supervisory purposes.

In terms of its banking licence conditions, the Bank is required to maintain at all times a minimum ratio of total regulatory capital to risk-weighted assets ("Capital requirements ratio") of 17.5%. This consists of an overall capital requirement ("OCR") of 16.5%, together with a Pillar 2 Guidance ("P2G") of 1%. During the year, the Bank has met all externally imposed capital requirements.

As at 31 December 2024 and 2023 and during the respective financial periods, the capital adequacy ratio was within the regulatory minimum and the risk appetite set by the Bank.

2.7 Fair value of financial instruments

Financial instruments measured at fair value

The following table analyses financial instruments that are measured in the statement of financial position at fair value, by level of the following fair value measurement hierarchy. The different levels have been defined as follows:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3). If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

2. Financial risk management - continued

2.7 Fair value of financial instruments - continued

Financial instruments measured at fair value - continued

The following table presents the Bank's financial instruments that are measured at fair value.

	Level 1 €	Level 2 €	Level 3 €	Total €
As at 31 December 2024				
Assets				
Financial assets measured at FVTPL	-	-	792,600	792,600
Financial assets measured at FVOCI	5,145,690	-	-	5,145,690
Total financial assets at fair value	5,145,690	-	792,600	5,938,290
	Level 1 €	Level 2 €	Level 3 €	Total €
As at 31 December 2023				
Assets				
Financial assets measured at FVTPL	-	-	792,600	792,600
Financial assets measured at FVOCI	6,946,560	-	-	6,946,560
Total financial assets at fair value	6,946,560	-	-	7,739,160

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

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price.

As at 31 December 2024 and 2023, instruments included in level 1 comprise debt instruments issued by the Government of Malta and debt instruments issued by local credit institutions which are listed on the Malta Stock Exchange.

(b) Financial instruments in level 2

Fair values of instruments included in level 2 are based on quoted prices but in markets that are not active. As at 31 December 2024 and 2023, there were no instruments included under this hierarchy.

2. Financial risk management - continued

2.7 Fair value of financial instruments - continued

Financial instruments measured at fair value - continued

(c) Financial instruments in level 3

Fair values of instruments included in level 3 consist of instruments for which a valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes a loan to a customer that has failed the SPPI test and is therefore mandatorily measured at fair value. In view of the absence of quoted market prices or observable inputs for modelling value, the fair value of the instrument held is derived using an internal model. Unobservable inputs and assumptions in this regard include cash inflows under different scenarios, the timing of cashflows, the probability outcomes under the different scenarios and the discount rate.

In view of the immateriality of the level 3 assets, the disclosure of unobservable inputs to level 3 financial instruments and the sensitivity of level 3 fair values to reasonably possible alternatives in respect of significant unobservable assumptions was not deemed necessary by the directors.

Financial instruments not measured at fair value

Loans and advances to banks and customers are carried at amortised cost in the statement of financial position. The directors consider the carrying amounts of loans and advances to customers and banks to be a reasonable estimate of their fair value principally in view of the relatively short periods to repricing or maturity from the end of the reporting periods.

The fair value of amounts owed to customers and amounts owed to banks and other financial institutions are estimated by reference to discounted cash flows, applying current interest rates offered for deposits of similar remaining maturities. The fair value of the Bank's amounts owed to customers and amounts owed to banks at 31 December 2024 and 2023 are approximately equivalent to their carrying values in view of their short period to maturity.

3. Critical estimates, and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the opinion of the directors, other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers, the accounting estimates and judgments made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

Accordingly, the directors believe there are no areas involving a higher degree of judgement that would have a significant effect on the amounts recognised in the financial statements, and there are no key assumptions and other key sources of estimation uncertainty relating to estimates that require subjective or complex judgments, other than for estimates relating to expected credit losses in respect of the Bank's loans and advances to customers.

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3. Critical estimates, and judgments - continued

The measurement of the expected credit loss allowance for loans and advances to customers is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. In this respect, a number of significant judgements are made by management. Most notably, these include defining SICR and UTP criteria and determining whether a SICR or UTP event has occurred. Judgement is also required in choosing appropriate assumptions for the measurement of ECLs, both in the case of modelled ECLs for Stage 1 and Stage 2 exposures.

In the case of modelled ECLs, judgements are also made in respect of determining the forward-looking macroeconomic variables under different scenarios and the associated weightings for each scenario.

In view of this uncertainty, management considered the sensitivity of the ECL outcome to the macro-economic forecasts by recalculating the ECL under the different scenarios, applying a 100% weighting to each scenario, the effect of which is disclosed in Note 2.2.3.4.

4. Balances with Central Bank of Malta and cash

	2024 €	2023 €
Cash in hand	1,000	1,300
Balances held with Central Bank of Malta	20,313,638	27,978,416
	20,314,638	27,979,716

Balances held with Central Bank of Malta include reserve deposits relating to the Minimum Reserve Requirement in terms of Regulation (EC) No 1745/2003 of the ECB. The average reserve deposit held for the relevant maintenance period amounted to €130,136 (2023: €271,446). Deposits with the Central Bank amounting to €6,904,642 (2023: €17,607,423) are withdrawable on demand and were subject to an interest rate of 3% (2023: of 4%) per annum. The remaining deposits of €13,278,859 (2023: €10,099,547) consisted of money market placements in USD with a contractual maturity of six months (2023: contractual maturity of one month) and CAD with a contractual maturity of seven days (2023: contractual maturity of one month) and with interest rates of up to 4.2% and 2.3% per annum for USD and CAD respectively.

5. Loans and advances to banks and other financial institutions

	2024 €	2023 €
Repayable on call and at short notice	1,928,902	1,577,394
Term loans and advances	5,000,000	4,994,585
Allowances for expected credit losses	(28,333)	(23,086)
	6,900,569	6,548,893

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5. Loans and advances to banks and other financial institutions - continued

Term loans and advances are unsecured, have been granted for an initial period of 18 months and subsequently rolled over for a further 12 months until 26 March 2026, and bear interest at a rate equal to the ECB deposit facility rate plus margin of 2.38% per annum. As at 31 December 2024, the interest rate was 5.38% (2023: 6.38%). The loans are designated as lower ranking liabilities as referred to in regulation 108(4) of the Recovery and Resolution Regulations (Subsidiary Legislation 330.09).

6. Loans and advances to customers

	2024 €	2023 €
Gross carrying amount	13,340,041	13,593,751
Allowances for expected credit losses	(321,468)	(219,052)
Net carrying amount	13,018,573	13,374,699
	2024 €	2023 €
Credit loss allowances:		
Allowances booked under Stage 1	18,153	20,459
Allowances booked under Stage 2	303,315	198,593
	321,468	219,052

Gross loans and advances to customers as at 31 December 2024 include credit exposures with related parties amounting to €8,787,500 (2023: €8,675,000) (Note 27).

7. Financial assets mandatorily measured at fair value through profit or loss

	2024 €	2023 €
Loans and advances to customers	792,600	792,600
	2024 €	2023 €
Analysed by issuer:		
- other issuers	792,600	792,600
Listing status:		
- unlisted	792,600	792,600

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7. Financial assets measured at fair value through profit or loss - continued

Financial assets mandatorily measured at fair value through profit or loss consist of an exposure to a customer that does not qualify for measurement at either amortised cost or fair value through other comprehensive income on the basis that it failed the SPPI test as a result of a profit participation feature that enables the Bank to participate in any residual profit earned from the activity being financed.

8. Financial assets measured at fair value through other comprehensive income

	2024 €	2023 €
Debt instruments	5,145,690	6,946,560
	5,145,690	6,946,560
Analysed by issuer:		
- local general government	4,928,880	6,729,750
- local credit institutions	216,810	216,810
	5,145,690	6,946,560
Listing status:		
- listed on Malta Stock Exchange	5,145,690	6,946,560
	5,145,690	6,946,560

The movement in financial assets measured at fair value through other comprehensive income may be summarised as follows:

	2024 €	2023 €
Year ended 31 December		
At 1 January	6,946,560	18,153,403
Disposals/redemptions	(2,000,000)	(11,500,000)
Amortisation	(24,220)	20,069
Net fair value movements	223,350	273,088
	5,145,690	6,946,560
At 31 December		

As at 31 December 2024, an expected credit loss allowance amounting to €3,134 was accounted for in terms of IFRS 9 (2023: €1,987).

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9. Property, plant and equipment

	Computer equipment €	Office improvements and equipment €	Right-of- Use asset €	Total €
At 1 January 2023				
Cost	140,955	78,614	367,351	586,920
Accumulated depreciation	(107,559)	(70,673)	(220,410)	(398,642)
Net book amount	33,396	7,941	146,941	188,278
Year ended 31 December 2023				
Opening net book amount	33,396	7,941	146,941	188,278
Additions	14,508	2,308	-	16,816
Disposals	(8,033)	-	-	(8,033)
Depreciation charge	(23,640)	(4,296)	(70,076)	(98,012)
Depreciation released on disposals	7,501	-	-	7,501
Closing net book amount	23,732	5,953	76,865	106,550
At 31 December 2023				
Cost	147,430	80,922	367,351	595,703
Accumulated depreciation	(123,698)	(74,969)	(290,486)	(489,153)
Net book amount	23,732	5,953	76,865	106,550
At 1 January 2024				
Cost	147,430	80,922	367,351	595,703
Accumulated depreciation	(123,698)	(74,969)	(290,486)	(489,153)
Net book amount	23,732	5,953	76,865	106,550
Year ended 31 December 2024				
Opening net book amount	23,732	5,953	76,865	106,550
Additions	14,557	2,808	-	17,365
Disposals	(18,961)	(6,137)	-	(25,098)
Depreciation charge	(14,874)	(3,531)	(76,865)	(95,270)
Depreciation released on disposals	18,961	6,137	-	25,098
Closing net book amount	23,415	5,230	-	28,645
At 31 December 2024				
Cost	143,026	77,593	367,351	587,970
Accumulated depreciation	(119,611)	(72,363)	(367,351)	(559,325)
Net book amount	23,415	5,230	-	28,645

9. Property, plant and equipment - continued

On 16 January 2020, the Bank entered into a sub-lease agreement for office space with its immediate parent for a fixed period until 16 December 2024. The right-of-use asset in respect of this lease has been included within the above table. On 4 December 2024, the Bank entered into a short-term sub-lease agreement with its immediate parent until 16 June 2025 to continue to use the office space, for which the Bank has elected not to recognise right-of-use assets.

As at 31 December 2023, the Bank did not have leases with contract terms shorter than one year and leases of low-value items, for which the Bank has elected not to recognise right-of-use assets.

10. Intangible assets

	Computer software €
At 1 January 2023	
Cost	1,419,428
Accumulated amortisation	(464,707)
Net book amount	954,721
Year ended 31 December 2023	
Opening net book amount	954,721
Additions	50,466
Amortisation charge	(83,421)
Closing net book amount	921,766
At 31 December 2023	
Cost	1,469,894
Accumulated amortisation	(548,128)
Net book amount	921,766
Year ended 31 December 2024	
Opening net book amount	921,766
Disposals	(4,158)
Amortisation charge	(40,571)
Amortisation released on disposals	4,158
Closing net book amount	881,195
At 31 December 2024	
Cost	1,465,736
Accumulated amortisation	(584,541)
Net book amount	881,195

As at 31 December 2024, computer software amounting to €699,580 (2023: €699,580) related to the implementation of a new core banking system which was still in the course of development. As at 31 December 2024 and 2023, the fully amortised computer software with an original cost of €263,238 is still in use.

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11. Accrued income and other assets

	2024 €	2023 €
Accrued interest receivable	133,115	753,076
Other receivables	237,260	950,782
Prepayments	188,425	175,907
	558,800	1,879,765

Accrued interest receivables amounting to €1,803 (2023: €5,883), fee receivables amounting to €208,800 (2023: €450,000) and other receivables amounting to €28,460 (2023: €nil) are due to the Bank from related parties (Note 27).

12. Share capital

	2024 €	2023 €
Authorised		
500,000,000 Ordinary shares of €1 each	500,000,000	500,000,000
Issued and fully paid up		
10,000,000 Ordinary shares of €1 each	10,000,000	10,000,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

13. Capital contribution

During 2024 and by virtue of the Tax Sharing Agreement entered by the Bank with its immediate parent company, the Bank formed part of a Fiscal Unit for Maltese income tax purposes effective from 1 January 2023 being the Bank is the transparent subsidiary and the immediate parent company as the principal taxpayer.

Upon forming the Fiscal Unit and under the terms of the Tax Sharing Agreement, unabsorbed tax losses carried forward by the Bank amounting to €60.9 million as at 31 December 2022 were transferred to the principal taxpayer for utilisation against the Fiscal Unit's current and future taxable profits. The principal taxpayer compensates the Bank whenever and to the extent, the unutilised and unrecognised tax losses assumed by the principal taxpayer are "utilised" in the reduction of the taxable profit of the Fiscal Unit or utilised against the current tax liability of the Fiscal Unit.

As at 31 December 2024, the capital contribution amounting to €28,460 represents the compensation received from the principal taxpayer on the "utilised" tax losses against the notional current tax liability of the principal taxpayer.

14. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial investments measured at fair value through other comprehensive income, net of any deferred taxes. This reserve is non-distributable.

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15. Amounts owed to banks

	2024 €	2023 €
Repayable at short notice	4,965,200	4,965,600

Amounts owed to banks are repayable subject to a 35-day prior notice period and are not subject to interest.

16. Amounts owed to customers

	2024 €	2023 €
Repayable at call and short notice	16,019,949	26,320,711
Term deposits	6,900,000	8,015,220
	22,919,949	34,335,931

Amounts owed to customers include amounts of €22,900,678 (2023: €33,991,180) due by the Bank to related parties (Note 27). At 31 December 2024, term deposits amounting to €6,900,000 (2023: €7,800,000) are subject to fixed interest rates. At 31 December 2023, the remaining term deposits amounting to €215,220 are repayable at call and short notice are not subject to interest.

17. Other liabilities

	2024 €	2023 €
Accrued interest payable	8,906	15,013
Other payables and accrued expenses	122,045	176,738
Lease liability	-	101,116
	130,951	292,867

Accrued interest payable amounting to €8,906 (2023: €15,013) and other payables and accrued expenses amounting to €382 (2023: €58,185) are due by the Bank to related parties (Note 27).

Lease liabilities as at 31 December 2023 amounting to €101,116 related to an arrangement which the Bank had entered with the parent, Merkanti Holding p.l.c., to sub-lease the premises which the Bank subsequently started operating from during 2020. The sub-lease agreement was for a fixed term of until 16 December 2024. After the expiration of the sub-lease agreement, the Bank entered into a short-term sub-lease agreement to extend until 16 June 2025 and has no intention to further extend this agreement. On 16 October 2024, the Bank entered into a new sub-lease agreement, whereby as from 1 April 2025, it will be moving to new premises.

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17. Other liabilities - continued

The following table discloses lease liabilities at the end of the reporting period by remaining period to maturity.

	2024 €	2023 €
Within one year	-	110,116
At 31 December	-	110,116

The lease liabilities were initially measured at the present value of the remaining lease payments, discounted using the Bank's incremental borrowing rate. The movement of the lease liabilities are analysed below:

	Lease liabilities 2024 €	2023 €
As at 1 January	101,116	177,195
Repayments of lease liability	(102,758)	(101,658)
Interest expense on lease liability	1,642	25,579
At 31 December	-	101,116

The income statement reflects interest expense of €1,642 (2023: €25,579) in respect of the original lease, as well as depreciation charges in respect of the corresponding right-of-use asset amounting to €76,864 (2023: €70,076). In addition, a rent expense of €3,767 was recognised in the income statement in respect of the extension to the agreement accounted for as a short-term lease.

The total cash payments for leases in 2024 was €102,758 (2023: €101,658).

18. Interest and similar income

	2024 €	2023 €
On financial assets classified at fair value through other comprehensive income:		
- coupon interest	38,119	39,450
- net amortisation of premiums and discounts	(24,221)	20,069
On loans and advances to banks and other financial institutions	1,242,658	1,311,471
On loans and advances to customers	1,736,878	1,959,246
	2,993,434	3,330,236

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19. Interest and similar expense

	2024 €	2023 €
On amounts owed to customers	538,066	339,078
On subordinated liabilities	-	139,375
On lease liabilities	1,642	25,579
	539,708	504,032

20. Fee and commission income and expense

(a) Fee and commission income

The Bank derives revenue from the provision of services, over time, as follows:

	2024 €	2023 €
Corporate services	1,445,581	1,493,658
Account maintenance, payment services and other related fees	85,923	54,235
	1,531,504	1,547,893

(b) Fee and commission expense

	2024 €	2023 €
Other fee expense	12,948	57,802

21. Net trading income

	2024 €	2023 €
Foreign exchange revaluation (losses)/gains	(16,283)	266,489
Income from foreign exchange activities	52,248	135,287
Interest (written down) / income on financial assets mandatorily measured at fair value through profit and loss	(210,589)	144,650
	(174,624)	546,426

Net trading gains arise mainly from balances and transactions with related parties.

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22. Changes in expected credit losses

	2024 €	2023 €
<i>Change in expected credit losses</i>		
- loans and advances to banks and other financial institutions	5,247	(22,525)
- loans and advances to customers	102,416	124,483
- financial assets measured at fair value through other comprehensive income	1,147	144
	108,810	102,102

23. Administrative expenses

	2024 €	2023 €
Staff costs		
- Other staff salaries	1,361,374	1,301,433
- Social security costs	32,624	27,352
- Other staff costs	198,051	161,602
Directors' fees	324,009	296,808
Professional fees	583,543	343,560
Information technology	350,634	320,032
Depreciation of property, plant and equipment (Note 9)	95,270	98,012
Repairs and maintenance	62,833	52,760
Licenses	24,996	24,998
Utilities and janitorial expenses	4,693	4,933
Amortisation of intangible assets (Note 10)	40,571	83,421
Insurance costs	6,018	5,963
Other administrative expenses	188,730	138,106
	3,273,346	2,858,980

Other administrative expenses mainly comprise maintenance expenditure, marketing expenses and other services or expense items which are incurred during the Bank's operations.

Average number of persons employed by the Bank throughout the financial year:

	2024	2023
- Managerial	9	7
- Clerical	4	4
	13	11

23. Administrative expenses - continued

Auditor's remuneration

Fees charged by the auditor and affiliated entities for services rendered during the financial year relate to the following:

	2024 €	2023 €
Annual statutory audit	62,000	55,000
Other non-assurance services	48,020	8,625
	110,020	63,625

24. Tax expense

Current taxation

During 2024 the Bank and its immediate parent company (the “Parent”) formed part of a Fiscal Unit for Maltese income tax purposes effective from 1 January 2023 being the Parent as the principal taxpayer and the Bank as the transparent subsidiary, which allows the Fiscal Unit to be treated as a single taxpayer. By virtue of the Tax Sharing Agreement, unabsorbed tax losses carried forward by the Bank amounting to €60.9 million as at 31 December 2022 were transferred to the principal taxpayer for utilisation against the Fiscal Unit’s current and future taxable profits from the formation of the Fiscal Unit (Note 13).

Under the Tax Sharing Agreement and at the level of Fiscal Unit members’ standalone financial statements, entitlement to compensation to be received by the Bank with respect to unutilised tax losses utilised by the Parent against its own notional tax liability are treated as an investment in subsidiary by the Parent and as a capital contribution within the equity reserves (Note 13) by the Bank in the year in which the Fiscal Unit files its consolidated tax return, which may be in year(s) subsequent to the financial year in which the Company’s taxable profit arises.

As a consequence of the formation of the Fiscal Unit, the Bank recognises a liability to the Parent for the notional tax expense and liability transferred. Under the terms of the Tax Sharing Agreement, for any unutilised tax losses brought forward that are utilised by the Parent against the Bank’s notional tax expense and liability in a given year, the amount receivable by the Bank, for the utilisation of such tax losses is credited to the tax charge in the Bank’s Income Statement in the year in which the relevant taxable profits arise. The amount receivable from the Parent will be equivalent to the Bank’s payable balance against for tax liability transferred to the Parent, hence set off in the intercompany accounts.

24. Tax expense - continued

Current taxation - continued

The Parent is currently in the process of registering its shareholder with the Commissioner for Tax and Customs for tax refund purposes in accordance with applicable Maltese tax legislation. Following successful registration, owing to the fact that the Parent forms part of a fiscal unit as its shareholder, is expected for the profits of the Fiscal Unit to be subject to a rate of 5% (being a rate that takes account of the tax refund that the shareholder would be entitled to receive in terms of Maltese tax legislation). As a result, for the purposes of the Bank’s financial statements, the effective tax rate of 35% is still being applied.

The tax on the Bank’s profit before tax differs from the theoretical amount that would arise using the effective tax rate applicable to the Bank as follows:

	2024 €	2023 €
Profit before tax	415,502	2,387,247
Tax on profit at 35%	145,426	835,536
Tax effect of:		
Expenses not deductible for tax purposes	100,985	143,796
Utilisation of unabsorbed tax losses during the current year	(246,411)	(979,332)
	-	-

Deferred taxation

During 2024 and by virtue of the Tax Sharing Agreement, unabsorbed tax losses carried forward by the Bank amounting to €60.9 million as at 31 December 2022 were transferred to the principal taxpayer for utilisation against the Fiscal Unit’s current and future taxable profits from the formation of the Fiscal Unit.

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25. Subordinated liabilities

As at 31 December 2022, the Bank had subordinated liabilities amounting to €4,500,000, which were governed by a Subordinated Loan Agreement dated 27 August 2019 entered into with the Bank's immediate parent entity. It was included as Tier 2 capital following approval granted by the Malta Financial Services Authority. On 14 August 2023, following regulatory approval, the Bank exercised its prepayment option available under the Subordinated Loan Agreement and the subordinated loan was terminated. The Bank's immediate parent entity placed such proceeds into current account deposits with the Bank which are repayable at call and short notice.

26. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with contractual maturities of not more than three months and which form an integral part of the Bank's cash management:

	2024 €	2023 €
Cash in hand	1,000	1,300
Balances held with Central Bank of Malta	9,595,380	27,706,970
Loans and advances to banks	392,263	418,176
Loans and advances to other financial institutions	1,536,639	1,159,218
	11,525,282	29,285,664

27. Related party transactions

Related parties of the Bank include the ultimate parent company, Scully Royalty Ltd, all entities controlled by the ultimate parent, key management personnel, close family members of key management personnel and entities which are controlled or jointly controlled by key management personnel or their close family members.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of Merkanti Bank Limited, being the directors of the Bank.

During the year, the Bank carried out the following transactions with the ultimate parent company, its controlled entities (referred to as other related parties), the Bank's immediate parent company and its subsidiaries referred to as fellow subsidiaries and at year end had the following balances with these entities:

	2024 €	2023 €
Assets		
Loans and advances to other related parties	8,787,500	8,675,000
Accrued income and other assets	239,063	455,883
Liabilities		
Amounts owed to ultimate parent company	304,734	332,132
Amounts owed to immediate parent company	2,192,089	7,258,184
Amounts owed to fellow subsidiaries	7,551,464	7,646,987
Amounts owed to other related parties	12,852,391	18,753,877
Other liabilities	9,288	174,314

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27. Related party transactions - continued

	2024 €	2023 €
<i>Interest income:</i>		
On loans to ultimate parent company	-	254,146
On loans to fellow subsidiaries	-	59,873
On loans to other related parties	1,179,799	1,153,828
<i>Fee and commission income:</i>		
From ultimate parent company	283,322	317,637
From immediate parent company	2,592	2,819
From fellow subsidiaries	3,485	13,721
From other related parties	1,221,822	1,209,347
<i>Fee and commission expense:</i>		
From immediate parent company	12,948	57,802
<i>Interest expense:</i>		
On amounts owed to immediate parent company	13,181	154,711
On amounts owed to fellow subsidiaries	175,375	112,875
On amounts owed to other related parties	349,510	210,867
On lease liability with immediate parent company	1,642	25,579
<i>Net income from foreign exchange activities:</i>		
On transactions with ultimate parent company	10,385	3,746
On transactions with parent company	2,737	2,688
On transactions with fellow subsidiaries	-	3
On transactions with other related parties	39,126	411,551
Administrative expenses	101,840	89,986

Key management personnel compensation, consisting of directors' remuneration, has been disclosed in Note 23 to these financial statements. Directors' emoluments comprise solely of short-term employee benefits.

28. Events after reporting date

There are no events after the reporting date that require disclosure in these financial statements.

29. Statutory information

Merkanti Bank Limited is a limited liability company and is incorporated in Malta, having its registered address at Aragon House Business Centre, Dragonara Road, St Julian's, STJ 3140, Malta.

The immediate parent company of Merkanti Bank Limited is Merkanti Holding p.l.c., a company registered in Malta that owns all the shares of Merkanti Bank Limited with the exception of one share held by Scully Royalty Ltd. Its registered address is Aragon Business Centre, Dragonara Road, St Julians, Malta.

Merkanti Bank Limited is ultimately owned by Scully Royalty Ltd, a company registered in The Cayman Islands under registration number HS-323455 and having its registered office at Vistra (Cayman) Ltd, P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman Ky1-1205, Cayman Islands. Scully Royalty Ltd is listed under the New York Stock Exchange (NYSE: SRL).

The financial statements of Merkanti Bank Limited are included in the consolidated financial statements of its immediate parent Merkanti Holding p.l.c. and ultimately of Scully Royalty Ltd, which are prepared in accordance with the requirements of International Financial Reporting Standards.

Additional Regulatory Disclosures
31 December 2024

1. Introduction

Merkanti Bank Ltd ("Merkanti Bank", the "Bank" / the "Institution") is a limited company operating as a specialty trade and structured finance bank domiciled and incorporated in Malta. The Bank's risk management strategies and processes are designed to align with its scale, structure, and business model.

The Pillar 3 Disclosures (Additional Regulatory Disclosures ('ARDs')) aim to enhance public understanding regarding a bank's capital structure, adequacy, and risk management policies and practices. These disclosures are prepared by the Bank in compliance with the requirements specified in Part Eight of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019, which amends Regulation (EU) No 575/2013 (referred to as the Capital Requirements Regulation or "CRR"), as well as the related guidelines and technical standards issued by the European Banking Authority ("EBA"). Additionally, these disclosures are governed by Banking Rule BR/07: 'Publication of Annual Report and Audited Financial Statements of Credit Institutions authorised under the Banking Act 1994' ("BR/07"), promulgated by the Malta Financial Services Authority.

All tables and templates adhere to the nomenclature defined by the European Banking Authority (EBA) guidelines.

The Bank is required to disclose its return on assets pursuant to Banking Rule BR/07 "Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Maltese Banking Act (Cap. 371)" ("BR/07"). In this respect, the Bank's return on assets for the financial year ended 31 December 2024 amounted to 0.78% (2023: 3.95%).

1.1 Preparation of the Pillar 3 Disclosures report

(Article 431 (3) CRR)

The Bank adheres to the requirements laid down in Article 431 of the CRR in terms of the compilation of this report, in line with the requirements of Part Eight of the CRR and the guidelines and technical standards published by the EBA.

1.1.1 Basis of preparation

These Pillar 3 disclosures have been prepared in accordance with the requirements of Part Eight of CRR, the guidelines and technical standards published by the EBA, as well as the requirements laid down in BR/07.

The Pillar 3 Disclosures reflect exposures reported in the Bank's Annual Report and Financial Statements, which are prepared in accordance with International Financial Reporting Standards ("IFRS"). Unlike the Bank's Annual Report and Financial Statements, the information included within the Pillar 3 Disclosures is not subject to an external audit review.

The term 'capital requirements' refers to the minimum total capital charge set at 8% of risk-weighted exposure amounts ("RWEAs") as per Article 92 of the CRR.

1.1.2 Scope of application

These Pillar 3 Disclosures in respect of Merkanti Bank Ltd, which operates as an independent credit institution. The Bank is regulated and supervised by the Malta Financial Services Authority (MFSA) and is categorized as an 'Other Institution'.

1. Introduction - continued

These disclosures provide detailed information regarding the Bank's risk exposure, as well as the objectives, policies, and procedures for measuring and managing these risks. Additionally, they address the Bank's approach to capital management.

1.1.3 Frequency and Means of Disclosures

As a non-listed "Other institution," the Bank must comply with Article 433c(2) of the CRR. Therefore, the Bank is required to publish annual Pillar 3 disclosures on the following points:

- risk management objectives and policies disclosures outlined in points (a), (e) and (f) of Article 435(1);
- governance arrangements disclosures outlined in points (a) to (c) of Article 435(2);
- own funds disclosures outlined in point (a) of Article 437;
- disclosure of own funds requirements and risk-weighted exposure amounts outlined in points (c) and (d) of Article 438;
- the key metrics referred to in Article 447; and
- disclosures relating to remuneration outlined in points (a) to (d), (h) to (k) of Article 450(1).

To enhance transparency, this report includes additional disclosures not mandated by Article 433c (2) to provide more insight into the Bank's risk profile.

Disclosures not specified here are considered non-material according to Article 432 of the CRR. Items that are greyed out in the tables below indicate that the information is not required for the Bank.

The Bank makes available its Annual Report and Financial Statements and the Pillar 3 Disclosures in the Useful Information section of the Bank's website <https://www.merkantibank.com/English/Useful-Information/default.aspx>.

1.1.4 Verification and sign-off process

In line with banking regulations and market practices, these Pillar 3 Disclosures are not externally audited. The Bank is satisfied that internal verification procedures ensure that this report is presented fairly. The Audit Committee reviews and approves these disclosures before they are submitted to the Board of Directors for authorisation prior to public release.

Following the Bank's assessment and verification, it has been determined that the disclosures accurately and comprehensively represent the Bank's overall risk profile as of 31 December 2024.

Merkanti Bank Limited
Additional Regulatory Disclosures – 31 December 2024

1. Introduction - continued

1.2 Key Metrics

(Article 447(a) to (g) & Article 438(b) CRR – Table EU KM1)

Table EU KM1 presents essential regulatory metrics and ratios along with corresponding input components. These include own funds, risk-weighted exposure amounts (“RWEAs” / “RWAs”), capital ratios, additional requirements derived from the Supervisory Review and Evaluation Process (“SREP”), capital buffer requirements, leverage ratio, liquidity coverage ratio (“LCR”), and net stable funding ratio (“NSFR”).

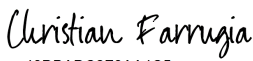
		a	b
	Amounts in EUR	31 Dec 2024	31 Dec 2023
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	18,714,955	18,034,385
2	Tier 1 capital	18,714,955	18,034,385
3	Total capital	18,714,955	18,034,385
	Risk-weighted exposure amounts		
4	Total risk exposure amount	24,052,901	21,062,030
	Capital ratios (as a percentage of risk-weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	77.81%	85.63%
6	Tier 1 ratio (%)	77.81%	85.63%
7	Total capital ratio (%)	77.81%	85.63%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	6.00%	6.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	4.50%	4.50%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	4.50%	4.50%
EU 7d	Total SREP own funds requirements (%)	14.00%	14.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0.00%	0.00%
9	Institution specific countercyclical capital buffer (%)	0.04%	0.03%
EU 9a	Systemic risk buffer (%)	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0.00%	0.00%
11	Combined buffer requirement (%)	2.54%	2.53%
EU 11a	Overall capital requirements (%)	16.54%	16.53%
12	CET1 available after meeting the total SREP own funds requirements (%)	70.77%	78.60%
	Leverage ratio		
13	Total exposure measure	46,759,515	57,628,783
14	Leverage ratio (%)	40.02%	31.29%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)		
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	28,432,227	35,940,670
EU 16a	Cash outflows - Total weighted value	7,651,186	10,031,569
EU 16b	Cash inflows - Total weighted value	2,414,040	2,261,317
16	Total net cash outflows (adjusted value)	5,331,955	7,770,252
17	Liquidity coverage ratio (%)	1177%	494%
	Net Stable Funding Ratio		
18	Total available stable funding	29,041,814	31,540,599
19	Total required stable funding	14,066,795	17,867,790
20	NSFR ratio (%)	206.46%	176.52%

1. Introduction - continued**1.3 Attestation by the Board of Directors**

The Board of Directors confirm that these Pillar 3 Disclosures, to the best of our knowledge, complies with Part Eight of the CRR, including any related guidelines and technical standards published by the EBA, and has been prepared in compliance with the Bank's internal governance process including policies, processes and systems and internal control environment.

The Board of Directors is of the opinion that the policies and procedures in place are adequate in measuring and controlling the various risks faced by the Bank and reflect well the Bank's size, business model and its position in the market.

On behalf of the Board of Directors

Signed by:

48DBADC2F8AA4C5...
Christian Farrugia
Chairman

Signed by:

98BB5D756DAC49E...
Stephen Paris
Director

30 April 2025

2. Risk management

2.1 Information on risk management objectives, framework and policies

(Article 435(1) (a) to (d) CRR – Table EU OVA)

The business model adopted by the Bank throughout the years has been primarily based on corporate banking and structured finance transactions consistent with its previous parent group business strategy. Risk Management is crucial to the Bank's strategy and is integrated into its Risk Appetite Statement, policies, and frameworks, approved annually by the Board of Directors.

The Board oversees the entire risk management framework, essential for the Bank's financial stability and sound business model. In this respect, the Board of Directors deems the risk management framework adopted by the Bank to be adequate and hence gives assurance to the Bank's stakeholders that the risk management systems adopted by the Bank are appropriate in relation to the Bank's risk profile and strategy.

The Bank has established a Risk Committee to advise the Board on the strategies and policies for taking up, managing, monitoring and mitigating the risks that the Bank is or might be exposed to. The Risk Committee should meet at least four times a year and more frequently as circumstances require, and ultimately reports to the Board of the Bank.

The Risk management function ensures the Bank maintains a robust risk management program. It develops policies with the Board, creates reporting tools, monitors compliance, evaluates risks and capital adequacy, identifies risk trends, and implements stress tests. The function is also responsible for the implementation of the risk strategy as approved by the Board of Directors or as delegated through the Risk Committee, subject to the required governance and escalation process – these are documented in the following documents:

- Risk Management Framework ('RMF');
- ICT Risk Management Framework
- Risk Appetite Statement ('RAS');
- Risk Tolerance and Limits;
- Risk Identification and Assessment;
- Internal Capital and Liquidity Adequacy Assessment Process ('ICLAAP');
- Stress Testing Framework

The Bank's Risk Appetite Statement (RAS) highlights the general principles for the Bank's risk-taking. The main purpose of the RAS is to raise risk awareness across the organisation and to guide staff regarding accepted and unacceptable practices. The RAS is embedded in the Bank's everyday processes and affects the operations of the Bank in a holistic way through its various policies and procedures, monitoring metrics, key performance indicators, key risk indicators and internal controls. Any deviations from the Bank's RAS are approved by the Board accordingly.

Policies are updated throughout the year on an annual basis, or as required, to align with changes in regulatory standards or the business environment. However, all policies undergo a mandatory annual review. The Board of Directors of the Bank approves any respective amendments.

The Bank's policies are designed to be consistent with its risk appetite. The risk management framework is structured in such a way that the Bank's management can effectively mitigate risks through both the units that undertake risks and those that manage them. This framework encompasses a collection of internal policies, which are approved by the Board and address the various risks associated with the Bank as well as other governance requirements. These include, but are not limited to:

- Credit Risk Policy
- Market Risk Policy
- Liquidity Risk Policy
- Operational Risk Management Policy
- Stress Testing Framework

2. Risk management - continued

2.1 Information on risk management objectives, framework and policies - continued

- ESG Risk Policy
- Collateral Management Policy
- IT Security Policy
- Operational Resilience Policy
- Information System Contingency Plan
- ICT Third-Party Risk Management Policy

2.2 Overview of key risks

(Article 435 (1) (b) CRR – Table EU OVA)

The following are the main risks categories the Bank is exposed to:

Risk	Description
<i>Credit risk</i>	Credit risk is the risk that the Bank may suffer a financial loss if a customer or counterparty fails to meet its contractual obligations. The Bank is primarily exposed to credit risk through corporate lending and trade finance (which include guarantees and commitments and factoring services). Credit risk also arises from other financial instruments held by the Bank, including interbank placements. Country risk, refers to the potential for losses or adverse impact on the Bank's financial position as a result of political, economic, legal, or social events occurring in a specific country. These events may impair the ability of the customer or counterparties operating in, or exposed to, that country to meet their obligations to the Bank. As such country risk is indirectly embedded within the Bank's broader credit risk exposure. The Bank assesses both credit and country risks through a combination of internal ratings, due diligence processes, and external data sources, applying risk limits and mitigation strategies to ensure alignment with the Bank's risk appetite and capital adequacy framework. These limits are approved at the Board level or as delegated by the Board of Directors.
<i>Market risk</i>	Market risk refers to the potential financial losses the Bank may incur due to unfavourable movements in market prices, including interest rates, foreign exchange rates, and credit spreads (unrelated to changes in the obligor's or issuer's credit quality). These changes will impact the Bank's income or the value of its financial instrument holdings. Market risk predominantly arises from the Bank's investment portfolio; however, other facets of market risk include interest rate risk and foreign exchange risk. Structural interest rate risk is an intrinsic aspect of banking, stemming from the potential for losses due to fluctuations in interest rates affecting the income statement (revenues and expenses) and the equity structure (current valuation of assets, liabilities, and off-balance sheet positions sensitive to interest rate variations). The Bank faces foreign exchange (FX) risk from dealing in multiple currencies, primarily the US Dollar, Sterling, and Canadian Dollar. This risk stems from fluctuations in exchange rates with the Euro, potentially leading to financial losses. To manage this risk, the Board sets FX limits and documents them in policies and procedures.. Daily monitoring and periodic reports to Board Committees ensure compliance with these limits.

2. Risk management - continued

2.2 Overview of key risks - continued

<i>Liquidity risk</i>	Liquidity risk is the of losses being incurred as a result of not being able (even though temporarily) to honour payment commitments when they fall due as a result of a lack of liquid assets (funding liquidity risk) or not being able to access the markets to refinance debts at a reasonable cost (market liquidity risk). The Bank's current liquidity position is strong, with excess liquidity and therefore such risk is considered as low risk.
<i>Operational risk</i>	Operational risk refers to the potential for financial losses or reputation damage arising from a wide variety of causes associated with inadequate or failed internal processes, personnel, technology and infrastructure, and from other external factors effecting the business exist in the normal course of business which could affect the Bank's business performance and may weaken its standing with stakeholders. Sub-classifications of such risks include process failures risk, technological breakdown, fraud risk, misconduct risk and people risk. Merkanti Bank has adopted an operational risk management framework and procedures that aims to identify, assess, manage, monitor, and report operational risks throughout the Bank. The operational risk management framework is overseen by the Board of Directors, with the Risk Committee and other relevant Committees playing a key role in the governance and oversight of operational risk management. The Board ensures that operational risk management is aligned with the Bank's overall business objectives, risk appetite, and regulatory requirements.
<i>Business risk</i>	Business risk refers to the potential for financial losses arising from inadequate or failed strategy execution, ineffective marketing and sales practices, inefficient distribution channels, suboptimal pricing strategies, or delayed responses to changes in the business environment. This type of risk is closely linked to the Bank's ability to successfully implement its business plan and adapt to evolving market conditions. The Bank is exposed to business risk from various sources, including, but not limited to: • Changes in Regulations: New or revised regulations that impact pricing, introduce price caps, or impose operational restrictions may directly affect the Bank's profitability. • Strategic Shifts: Shifts in the Bank's business strategy could lead to unanticipated costs or challenges in execution, particularly if the strategy fails to align with market conditions. • Volume and Cost Factors: The Bank may face reduced volumes of business, leading to a decrease in revenue. Additionally, rising fixed costs or higher-than-expected loan losses could further strain profitability. • Market Dynamics: The Bank's ability to maintain competitive advantage may be compromised by external changes in the market, such as economic downturns, technological advancements, or increased competition. Business risk is monitored through regular reviews of the Bank's strategy, performance metrics, and operational processes, enabling adjustments and risk mitigation measures where necessary.

2. Risk management - continued

2.2 Overview of key risks - continued

ESG risk	ESG risk refers to the potential financial, operational, and reputational risks that a bank or organization may face as a result of Environmental, Social, or Governance factors. These risks can arise from a range of issues such as environmental sustainability, social equity, regulatory compliance, and governance practices. As ESG factors increasingly influence financial performance, investor behaviour, and market dynamics, the integration of ESG risk into the Bank's overall risk management framework is essential. The Bank recognizes that ESG risks can impact on its business growth, operations and financial stability, including exposure to physical risks from climate change, legal and regulatory changes, reputational damage, and disruptions in the market from shifts towards sustainability
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The Bank manages risks by closely monitoring positions to ensure compliance with regulatory levels. Currently, the Bank's levels exceed minimum requirements, ensuring no breaches occur.

2.3 Risk management governance

(Article 435(1) (c) to (d) CRR – Table EU OVA & Article 435(2) (d) to (e) CRR – Table EU OVB)

The Board of Directors are responsible for all risks emanating from the Bank's business and for all related internal controls applied to mitigate such risks. As at the date of this statement, the Bank's Board is composed of six non-executive Directors, including the Chair of the Board, four independent and one non-independent director. The Board of Directors has resolved to set up the following Board Committees and Executive Committees to assist it in the oversight of its functions:

Board Committees	Executive Committees
Risk Committee	Business Committee
Audit Committee	IT Steering Committee
Corporate Governance Committee	AML/ATF Executive Committee
Nomination and Remuneration Committee	

Risk Committee

The Bank's key personnel have a direct reporting line to the Chairman of their designated committees (as highlighted in the terms of reference of each of the above listed committees) and report to the Chief Executive Officer on an administrative basis.

The Bank adopts the three lines model, having its business generating unit as the first line, the Risk and Compliance units as the second line and its outsourced Internal Audit function as the third line.

In the Bank's first line of defense, all Chief Officers and Heads of Departments (or any other person that is in charge) are responsible for all the risks emanating from their areas of responsibility. There must be a clear separation of duties:

The Chief Executive Officer

The Chief Executive Officer (CEO) is primarily responsible for the management of strategic business risk. The objective is fulfilled through the annual preparation/update of the Bank's strategic business plan.

2. Risk management - continued**2.3 Risk management governance - continued**

Nevertheless, the CEO also oversees ERM governance, delegates policy and day-to-day oversight to senior management and committees and monitors key risk indicators. The CEO utilizes the ERM structure and processes to provide an overall view of risks across the Bank and to assess whether the aggregate risk profile has the potential to impact the Bank's viability.

The Chief Financial Officer and Deputy CEO

The Chief Financial Officer (CFO) is a senior executive responsible for managing the financial activities of the Bank. The CFO plays a critical role in strategic decision-making, ensuring financial health, and driving long-term value creation. The CFO, amongst other responsibilities, manages the liquidity and market risk oversight.

The CFO is not only the financial steward of the Bank but also a strategic partner to the CEO and a vital bridge between the Bank and its stakeholders. The CFO's leadership ensures financial stability, compliance, and a roadmap for sustainable growth.

Payroll administration and assisting the CEO in the execution of the Bank's HR policies and procedures also fall within the remit of the CFO's responsibilities. The CFO also handles the Bank's fiscal matters (including tax, VAT and other fiscal compliance) and acts as the Bank's Data Protection Officer.

The Chief Information Officer

The Chief Information Officer (CIO) is responsible for overseeing the Bank's IT function, setting its strategic direction and policies. Key responsibilities include selecting and implementing technologies to enhance operations and customer experience, managing IT infrastructure and projects, approving technology purchases, and guiding IT staff. The CIO also monitors technological advancements to maintain a competitive edge and advises management on IT-related costs, value, and risks.

Risk Management Function

The Risk Management function operates as part of the Bank's second line of defence and plays a central role in its internal control system. It is responsible for implementing and maintaining a robust risk management framework that aligns with regulatory standards and the Bank's internal policies. This includes monitoring key risk indicators, ensuring activities remain within the Board-approved risk appetite, and fostering a culture of risk awareness. As part of the Enterprise Risk Management (ERM) system, it engages senior management in risk discussions, evaluates new initiatives, records and escalates incidents, and maintains the risk register. The function also reports risk-related matters to senior management, the Risk Committee, and to the Board through the established governance framework.

Compliance Function

The Compliance function is responsible to ensure that the Bank maintains an appropriate compliance monitoring programme, that changes in regulations are disseminated to the appropriate business units, that unit heads maintain procedures and systems to ensure that guidelines and regulations are followed, that the Board of Directors and Bank employees are knowledgeable of the rules, laws and regulations applicable through ongoing training programmes and relative reporting.

2. Risk management - continued

2.3 Risk management governance - continued

Financial Crime Compliance

Financial Crime Compliance (FCC) is responsible for identifying, assessing, managing, and mitigating risks related to financial crime (i.e. AML/CFT) within a financial institution. The primary goal of FCC is to ensure that the institution adheres to applicable laws, regulations, and industry standards designed to prevent illegal financial activities, such as money laundering, fraud, terrorist financing, and corruption.

Internal Audit

Internal audit serves as an independent validation function of the risk management and compliance functions, and departmental control activities. They leverage risk assessment information as input to annual audit planning, identify and report risk, compliance and control issues that require resolution, monitor key risk indicators and are the independent link to the Board of Directors through the Audit and Corporate Governance Committee. Internal Audit also coordinates the audits of compliance activities.

2.4 Disclosures on the Bank's risk management strategies and processes by category of risks

(Article 435(1) (a), (b), (d) and (f) CRR & Article 446 (1) (a) – Tables EU OVA, EU CRA, EU MRA, EU ORA Article 451a(4) CRR – Table EU LIQA)

The Bank undertakes a process in order to identify its risks based on various techniques and methodologies, which emanate from the business model and strategy adopted by the Bank.

In terms of Article 435(1) and Tables EU OVA, EU CRA, EU MRA, EU ORA and EU LIQA, the Bank is disclosing its risk management strategies and processes for credit risk, market risk, operational risk and liquidity risk. As at 30 September 2024, the Bank is not exposed to other risks described in Title II of Part Eight of the CRR.

2.4.1 Credit risk

Overview

The Bank is exposed to credit risk arising from its lending activities and treasury activities. The Bank's Treasury and Operations Department monitors loans and advances to customers on an individual basis throughout the different stages of the cycle, from approval upon origination until maturity. The Bank reviews and grades loans and advances in accordance with internal credit gradings. The Bank's internal credit system is based on a number of different qualitative and quantitative data, which takes into consideration the following criteria:

- financial strength and profitability;
- servicing of interest;
- market position, dependence and industry environment; and
- other criteria e.g. management organisation and access to capital markets/other financing.

The Bank runs the risk of loss of funds due to the possible delay in the repayment of existing and future obligations by counterparty banks. The Bank is also exposed to concentration risk as a result of the concentration of exposures, whether it is geographical location, business product or counterparty type. These risks are managed through adherence to Board approved lending criteria.

The Bank also runs the risk of loss of funds due to the possible political, economic and other events in a particular country where funds have been placed or invested with several counterparties.

2. Risk management - continued

2.4 Disclosures on the Bank's risk management strategies and processes by category of risks - continued

Credit risk quantification

The Bank also grades its loan and advances portfolio into two main external reporting categories: 'performing' and 'non-performing'. 'Performing' customers represent those customers with exposures which are less than 90 days past due, whilst 'Non-performing' customers are those customers with exposures which are past due by 90 days or more. The 'Performing' category is further sub-divided into sub-categories based on (a) past due days and (b) renegotiated loans.

Loans are considered past due when a counterparty has failed to make a payment when contractually due. Past due but not impaired loans comprise loans and advances where contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Bank.

As at 31 December 2024, an amount of €792,600 included under loans and advances to corporate customers were deemed to be non-performing. This represents 5.5% (gross basis) of the total loans and advances to corporate customers. The Bank did not hold any renegotiated financial assets as at the end of the reporting period.

Impaired loans and advances to customers represent those advances which are either more than 90 days past due, or for which the Bank has determined that it is probable that it will be unable to collect all principal and interest due as prescribed within the contractual terms of the loans and advances agreement(s). During the period under review, there were no write offs on any loans and advances to customers (2023: nil).

Credit risk management and monitoring

In order to minimise the credit risk undertaken in examining a counterparty's creditworthiness, country risk, quantitative and qualitative characteristics, as well as the industry sector in which the counterparty operates are considered. The Bank has also set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the approval process and to control new and existing credit facilities. Credit review procedures are designed to identify at an early stage exposures which require more detailed monitoring and review.

The Bank monitors concentrations of credit risk by location. The Bank monitors these exposures on an individual basis throughout the different stages of the cycle from approval upon origination to ongoing monitoring until maturity. The Bank focuses on the compilation, together with ongoing and event-driven updating, of credit review analyses taking cognisance of actual account developments, repayment history, ability to meet commitments, collateral measurement, credit reviews and country risk.

Within its daily operations the Bank transacts with banks and other financial institutions which are pre-approved and subject to a limits framework. In the normal course of business, the Bank places deposits and enters into foreign exchange derivative contracts with credit institutions of international repute. By conducting these transactions, the Bank is running the risk of losing funds due to the possible delays in the repayment to the Bank of the existing and future obligations of the counterparty banks. The positions are checked against the limits on a regular basis. Countries are assessed according to their size, economic data and prospects and their credit ratings from international rating agencies. Existing country risk exposures are monitored and reviewed periodically.

The Bank's approach when granting credit facilities is based on the customer's capacity to repay rather than placing primary reliance on credit risk mitigants. Notwithstanding, as part of the Bank's credit risk mitigation techniques, the Bank generally holds collateral against loans and advances to customers, the nature and level of which generally depends on the amount of the exposure, the type of facility provided, the term of the facility and the level of credit risk involved. Collateral utilised to secure loans and advances generally includes guarantees and the assignments of receivables.

2. Risk management - continued

2.4 Disclosures on the Bank's risk management strategies and processes by category of risks - continued

2.4.2 Market risk

Overview

Market risk for the Bank consists of the following elements:

- Interest rate risk, which is the risk of losses because of changes in interest rates; and
- Foreign exchange risk, which is the risk of losses on the Bank's positions in foreign currency because of changes in exchange rates.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Financial instruments issued at fixed rates potentially expose the Bank to fair value interest rate risk. Loans and advances to customers and to banks, and amounts owed to customers are measured at amortised cost and are therefore not subject to fair value interest rate risk.

Foreign Exchange Risk (or Currency risk)

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. Foreign exchange risk arises when financial assets or liabilities are denominated in currencies which are different from the Bank's functional currency. The Bank's risk oversight function provides oversight with respect to the foreign exchange risk management process, by ensuring its design is appropriate and functioning properly.

The Bank does not maintain any trading book positions and consequently, exposure to trading book risks is negligible.

Market risk quantification

With respect to FX risk, the Bank takes 8% of the sum of its overall net foreign exchange position and net gold position. With respect to interest rate risk, whilst no Pillar 1 requirement exists, the Bank calculates the supervisory shock scenarios required by the EBA to quantify changes to economic value of equity ("EVE") and changes of net interest income ("NII").

Market risk management and monitoring

The Bank is exposed to cash flow interest rate risk principally in respect of certain financial instruments which were subject to floating interest rates. Financial assets and liabilities issued at variable rates expose the Bank to cash flow interest rate risk. Cashflow interest rate risk is measured and monitored by reference to a sensitivity analysis in respect of interest rate changes in relation to the Bank's net floating rate assets or liabilities.

The Bank manages interest rate risk by utilising sensitivity analysis based on modified duration, which measures the potential loss in market value arising from a 200 basis-point upward parallel shift in yields. The Bank's Senior Management is responsible for the management of interest rate risk and for actively monitoring the interest rate risk measures used by the Bank, by reporting on a regular basis to the Board. Responsibility for day-to-day interest rate risk management is allocated to the Treasury function.

2. Risk management - continued

2.4 Disclosures on the Bank's risk management strategies and processes by category of risks - continued

The Bank's risk oversight function provides oversight with respect to the interest rate risk management process, by ensuring its design is appropriate and functioning properly.

The Bank manages its currency risk on an ongoing basis by ensuring that foreign currency liabilities are utilised to fund assets denominated in the same foreign currency thereby matching asset and liability positions as much as is practicable. When it is not possible to match the asset and liability currency positions, the Bank normally hedges its open foreign exchange exposures arising from customer loans by entering into forward foreign exchange contracts with terms which match those of the hedged items, with a view to reducing exposures within a limit management framework.

The Bank's treasury function is responsible for the effective management of foreign exchange risks, ensuring exposures to foreign currencies are maintained within the limits set by the Bank's Board. The Board sets these limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are actively monitored and reported on a regular basis.

2.4.3 Operational risk

Overview

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Bank's Board of directors is primarily responsible to ensure that (i) approved policies and procedures are in line with laws, regulations and best practice and that (ii) the Bank has adequate internal controls, and that such policies, procedures and internal controls are being adhered to so as to ensure that operational risks are mitigated and managed effectively.

Operational risk quantification

The Bank uses the basic indicator approach under Chapter 2 of Title III within Part Three of the CRR, which requires banks to hold minimum own funds requirement of 15% of the average over three years of the relevant indicator (namely referring to Operational Income). The operational risk regulatory capital requirement as at December 2024 amounted to €679,135, based on the preceding three financial years 2021, 2022 and 2023 (2023: €534,721 based on the preceding three financial years 2020, 2021 and 2022).

Moreover, as part of its risk management strategies and processes, the Bank undertakes a process to determine whether additional capital is required to cover any risks not covered by the minimum capital requirements (Pillar 1).

Operational risk management and monitoring

The Bank mitigates the possibility of impact risk events through the implementation of a business continuity plan, which encompasses risk mitigation achieved through back-up information security infrastructures, back-up disaster recovery sites and insurance covers over particular business risks. Such systems enable the Bank to operate on an ongoing basis and limit losses in the event of severe business disruption.

The Bank's management of operational risk relies on a framework of policies and procedures implemented across the Bank's operational functions through transaction processing and business execution. The implementation of these policies and procedures is overseen by the Bank's risk oversight function. Regular reporting of operational risk events to the Board of directors is carried when required.

2. Risk management - continued

2.4 Disclosures on the Bank's risk management strategies and processes by category of risks - continued

2.4.4 Liquidity risk

Overview

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments.

Liquidity risk quantification

The Risk Management function of the Bank performs a risk assessment to identify the significance and likelihood of liquidity risks, namely through the ILAAP. Further information on the Bank's assessment through the ILAAP is included in Section 5.2.

Liquidity risk management and monitoring

The Bank manages this risk by maintaining a strong base of shareholders' capital. The Bank manages and monitors future cash flow requirements and changes in available liquidity on a regular basis.

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of:

- short term placements with other banks; and
- unencumbered debt securities that are readily acceptable for refinancing operations within the Eurosystem's open market operations.

Liquidity is managed by the Bank's treasury and liquidity management process, and includes:

- day to day funding managed by monitoring future cash flows to ensure that requirements can be met including plans for replenishment of funds as they mature;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- monitoring the liquidity ratios against internal and regulatory requirements; and
- managing the concentration and profile of debt maturities.

The Bank's main source of stable funding is predominantly sourced from shareholder's equity and corporate deposits. The following options aim to address a scenario where contingency funding is required:

- a. Shareholder's loans / contributions by the current shareholders of the Bank; and
- b. Open market operations with the European Central Bank (MROs or LTROs).

The Bank's liquidity monitoring is centralised, based on the combined liquidity requirements of the Bank's customer loan, deposit and own account investment business lines.

The Bank's liquidity risk is managed in line with the requirements of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). The Bank adopts a system of early warning and recovery indicators for the LCR and NSFR metrics and ensures that it operates above the prescribed early warning indicators. Ongoing liquidity management falls under the responsibility of the Operations and Treasury Department. It analyses known and expected cash flows and uses these to devise liquidity planning whilst always taking into account compliance with regulatory and internal liquidity principles. Strategic liquidity planning falls under the responsibility of the asset and liability management (ALM) function within the Bank's Business Committee, which ultimately reports to the Bank's Board.

2. Risk management - continued

2.5 Risk statements by the Board of Directors

2.5.1 Declaration on the adequacy of the risk management arrangements (Article 435 (1) (e) CRR – Table EU OVA)

The Board hereby declares, in accordance with Article 435 of the CRR, that the Bank's risk management systems and arrangements are adequate concerning its risk profile and strategy.

2.5.2 Concise risk statement by the Board of Directors (Article 435 (1) (f) CRR – Table EU OVA & EU LIQA)

The Board of Directors at Merkanti Bank Ltd upholds high standards of corporate governance and ethics, remaining accountable to shareholders and stakeholders. They ensure a top-level directive for a risk-aware culture, addressing all types of risks in decision-making processes.

The key risks associated with the Bank's business model are highlighted in Section 2.2 above.

The risk management framework allows the Bank's management to address risks effectively by coordinating between risk-taking units and risk management units. The Bank's risk profile is consistent with the risk tolerance levels approved by the Board, as outlined in the Risk Appetite Statement. The Bank uses a variety of metrics to monitor its risk profile, as defined in its Risk Tolerance and Limits Statement. This statement sets limits for various risks based on both regulatory and internally set thresholds. These limits and thresholds are regularly monitored and reported to the Board of Directors through the Risk Committee at least monthly, or more frequently if potential breaches occur, in accordance with the Bank's escalation procedures.

Detailed information regarding the Bank's risk profile across various categories of risk associated with its business model can be found in Section 2.4 above. Key ratios and figures illustrating the Bank's risk profile are included in Table EU KM1, which is presented in Section 1.2 above.

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3. Own funds

(Article 437 (a) to (f) CRR – Tables EU CC1, EU CC2 and EU CCA)

The Bank has processes to ensure that the minimum regulatory requirements in relation to own funds are met at all times, through the assessment of its capital resources and requirements. During the financial period ended 31 December 2024, the Bank has complied with all the externally imposed capital requirements to which it was subject.

For regulatory purposes, the Bank's capital base is composed solely of Common Equity Tier 1 ("CET1") capital, consisting of:

- Paid up capital;
- Share premium;
- Shareholders' contribution;
- Retained earnings;
- Other comprehensive income.

The Bank does not maintain a Reserve for General Banking Risks, since it does not have loans and advances which are classified as "Non-performing".

Table EU CC1 below provides a detailed overview of the composition of the Bank's own funds in accordance with the CRR.

		(a)	(b)
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 (CET1) capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	10,000,000	(A)
	of which: Instrument type 1	-	
	of which: Instrument type 2	-	
	of which: Instrument type 3	-	
2	Retained earnings	9,686,349	(B)
3	Accumulated other comprehensive income (and other reserves)	(90,739)	(C)
EU-3a	Funds for general banking risk	-	
4	Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1	-	
5	Minority interests (amount allowed in consolidated CET1)	-	
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	19,596,150	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	
8	Intangible assets (net of related tax liability) (negative amount)	(881,195)	(D)
9	Not applicable	-	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount)	-	
11	Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value	-	
12	Negative amounts resulting from the calculation of expected loss amounts	-	
13	Any increase in equity that results from securitised assets (negative amount)	-	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-	
15	Defined-benefit pension fund assets (negative amount)	-	
16	Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount)	-	
17	Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
20	Not applicable	-	
EU-20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
EU-20b	of which: qualifying holdings outside the financial sector (negative amount)	-	
EU-20c	of which: securitisation positions (negative amount)	-	

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3. Own funds - continued

EU-20d	of which: free deliveries (negative amount)	-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38-(3) CRR are met) (negative amount)	-	
22	Amount exceeding the 17,65% threshold (negative amount)	-	
23	of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	
24	Not applicable	-	
25	of which: deferred tax assets arising from temporary differences	-	
EU-25a	Losses for the current financial year (negative amount)	-	
EU-25b	Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount)	-	
26	Not applicable	-	
27	Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount)	-	
27a	Other regulatory adjustments	-	
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(881,195)	
29	Common Equity Tier 1 (CET1) capital	18,714,955	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Net Stable Funding Ratio	-	
EU-33a	Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1	-	
EU-33b	Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	-	
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount)	-	
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
41	Not applicable	-	
42	Qualifying T2 deductions that exceed the T2 items of the institution (negative amount)	-	
42a	Other regulatory adjustments to AT1 capital	-	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	
44	Additional Tier 1 (AT1) capital	-	
45	Tier 1 capital (T1 = CET1 + AT1)	18,714,955	
Tier 2 (T2) capital: instruments			
46	Capital instruments and the related share premium accounts	-	
47	Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR	-	
EU-47a	Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2	-	
EU-47b	Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	-	
51	Tier 2 (T2) capital before regulatory adjustments	-	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	
53	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	
54a	Not applicable	-	
55	Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	
56	Not applicable	-	

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3. Own funds - continued

EU-56a	Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount)	-	
EU-56b	Other regulatory adjustments to T2 capital	-	
57	Total regulatory adjustments to Tier 2 (T2) capital	-	
58	Tier 2 (T2) capital	-	
59	Total capital (TC = T1 + T2)	18,714,955	
60	Total Risk exposure amount	24,052,901	
Capital ratios and requirements including buffers			
61	Common Equity Tier 1 capital	77.81%	
62	Tier 1 capital	77.81%	
63	Total capital	77.81%	
64	Institution CET1 overall capital requirements	11.54%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical capital buffer requirement	0.04%	
67	of which: systemic risk buffer requirement	-	
EU-67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement	-	
EU-67b	of which: additional own funds requirements to address the risks other than the risk of excessive leverage	-	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	66.27%	
National minima (if different from Basel III)			
69	Not applicable	-	
70	Not applicable	-	
71	Not applicable	-	
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	-	
74	Not applicable	-	
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

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3. Own funds - continued

Table EU CC2 below provides a detailed overview of the composition of the Bank's own funds in accordance with the CRR.

	Amounts in EUR 000s	a & b	c
		Balance sheet as in published financial statements and under regulatory scope of consolidation	Reference
		31 December 2024	
Assets			
1	Balances with Central Bank of Malta and cash	20,314,638	
2	Loans and advances to banks and other financial institutions	6,900,569	
3	Loans and advances to customers	13,018,573	
4	Financial assets mandatorily measured at fair value through profit or loss	792,600	
5	Financial assets measured at fair value through other comprehensive income	5,145,690	
6	Property, plant and equipment	28,645	
7	Intangible assets	881,195	(D)
8	Accrued Income and other assets	558,800	
9	Total assets	47,640,710	
Liabilities			
1	Amounts owed to banks	4,965,200	
2	Amounts owed to customers	22,919,949	
3	Other liabilities	130,951	
4	Total liabilities	28,016,100	
Shareholders' Equity			
1	Share Capital	10,000,000	(A)
2	Capital Contribution	28,460	
3	Fair value reserve	(90,201)	(C)
4	Retained earnings	9,686,348	(B)
5	Total shareholders' equity	19,624,610	

3.1 Breakdown of components

(a) Ordinary share capital

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank. All shares rank equally with regard to the Bank's residual assets.

(b) Retained earnings

The retained earnings represent earnings not paid out as dividends. Retained earnings form part of Own Funds only if those profits have been verified by the Bank's independent external auditor.

(c) Fair value reserve

This represents the cumulative net change in fair values of financial assets measured at fair value through other comprehensive income held by the Bank.

4. Capital management and requirements

4.1 Capital management

(Article 438 CRR)

Capital adequacy and the use of regulatory capital are monitored on an ongoing basis by the Bank's management, employing techniques based on guidelines established by European Union Regulations and Directives, as implemented by the MFSA for supervisory purposes. The Bank's capital risk management is based on the regulatory requirements established within the CRR and by local regulations which are modelled on the requisites of the CRD rules.

4. Capital management and requirements - continued

4.1 Capital management - continued

The Bank's objectives when managing capital, which is a broader concept than the 'equity' as disclosed in the statement of financial position, are:

- to comply with the capital requirements set out in the CRD and the CRR;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

The Bank's Senior Management is primarily responsible for the Bank's capital risk management process. Capital adequacy ratios together with the level and quality of own funds are reported on a regular basis to the Board of directors by the Finance function.

The Bank's regulatory capital at 30 December 2024 and 30 December 2023 consisted of:

- Common Equity Tier 1 capital, which includes ordinary shares, capital contribution, retained earnings and fair value reserve after deductions for intangible assets and deferred tax assets amounting to €18.7 million (2023: €18.0 million)

In terms of the MFSA's current Supervisory Review and Evaluation Process ("SREP") requirements, the Bank is obliged to maintain an overall capital requirement (OCR) of 16.5%. The Bank is also required to take into account a Pillar 2 Guidance of 1% over and above the OCR of 16.5%, resulting in a total capital requirement ratio of 17.5%.

4.2 Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process

(Article 438 (a) and (c) & Article 451a CRR – Tables EU OVC and EU LIQA)

The Bank's Internal Capital and Liquidity Adequacy Assessment Process ("ICLAAP"), encompassing both ICAAP and ILAAP, involves identifying and measuring the Bank's key risks to ensure the sustained adequacy of internal capital and liquidity on a forward-looking basis, as well as ensuring sound risk management systems are maintained to further develop, measure, monitor, and provide adequate information on the Bank's risks.

The Bank has structured its ICLAAP report in accordance with its business and risk profile, fully integrating it into its Risk Management planning and control framework.

The Bank submits its ICLAAP report on an annual basis to the MFSA and is aligned with guidelines and principles provided by the ECB, EBA and MFSA, including:

- Title 8 and Title 9 of the EBA Guidelines on common procedures and methodologies for the supervisory review and evaluation process (SREP) and supervisory stress testing under Directive 2013/36/EU (EBA/GL/2022/03);
- Guidelines on Liquidity Buffers and Survival Periods issued by the Committee of European Banking Supervisors (CEBS, on 9th December 2009; and
- the requirements laid down in Banking Rule 12 The Supervisory Review Process of Credit Institutions Authorised under the Banking Act 1994 ("BR/12"), including Appendix 2 of BR/12 'Internal Capital Adequacy Assessment Process - General Framework'.

The Bank monitors its compliance with the required regulatory own funds ratios through ongoing internal activities by its Risk Management and Finance functions, and are reported to the Bank's Board at every Board meeting. The Bank's Risk Management Department oversees the ICAAP and ILAAP processes, receiving input from Finance and Executive Management. The report was reviewed, challenged and signed off by its Board of Directors. The final ICAAP document was also independently reviewed by an external party and recommendations were incorporated. The Bank also reports its regulatory positions to the Central Bank of Malta (CBM) and the MFSA in accordance with regulatory requirements.

4. Capital management and requirements - continued

4.2 Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process - continued

The Bank's approach to calculating its own capital requirement is to consider the internal capital required for credit, market and operational risks under Pillar I, and interest rate risk in the banking book, concentration risks, liquidity funding concentration risk, AML risk and IT risk under Pillar II. The Bank also maintains a cushion for "other Pillar II risks".

The Bank takes an active approach to managing risks, aiming to identify and assess risk profiles and to define, prioritise and implement risk mitigation measures. The Bank's Risk Management Department, with support from other departments, is responsible for drawing up risk policy measures to be followed by the Bank. The Risk Appetite Statement is drawn up to maintain a sustainable risk-taking strategy by assigning tolerable risk limits to ensure the best interest of the Bank and all its stakeholders.

The Bank's ICLAAP reflects the implementation of the basic principles of its Risk Management framework, as defined in the Risk Management Policy and Framework, the Risk Strategy and the Risk Appetite Statement.

The Bank's risk management process is built on the Risk Management Policy and Framework and involves the interaction of management across departments (first line and second lines of defence), the Risk Committee and the Board of Directors of the Bank. The Bank's risk management process comprises the following steps:

- **Risk identification:** The risk identification step is fundamental to the risk assessment process, requiring a review of each transaction and activity undertaken by the Bank from a risk perspective. Management must analyze all significant activities within the Bank to identify the risks associated with these activities.
- **Risk Measurement:** Risk measurement methodologies are used to quantify the impact of each significant risk identified in the previous step on the Bank's profits (i.e. potential losses) and capital.
- **Capital demand:** Based on the potential losses, the capital demand is quantified to cover all the Bank's Pillar I and Pillar II risks.
- **Capital supply:** The capital supply, or economic risk coverage capacity, includes the available capital resources to absorb losses quantified as part of the capital demand.

As part of its ICLAAP, the Bank has developed three stress scenarios, a sensitivity analysis, and a reverse stress test to identify the potential risks that could impact the Bank's capital base.

- **Stress Scenarios:** Regular stress testing is conducted to ensure the adequacy of capital and liquidity under adverse conditions using both a static and a dynamic balance sheet approach. The three stress scenarios include two adverse economic situations: the 'Geopolitical Conflict' (systemic event) and 'Reputation Risk' (idiosyncratic event), and a third scenario that combines elements of both.
- **Sensitivity Analysis:** The sensitivity analysis tests the resilience of the Bank in case there are specific reductions in deposits and loans from the Group. The Bank's Capital Adequacy Ratio was well above the minimum requirement in all the cases.
- **Reverse Stress Testing:** The reverse stress tests incorporate both qualitative and quantitative factors that could cause the Bank to fail to meet its capital requirements or result in the Bank being unable to continue operating as a going concern.

The implementation of the ICLAAP has led the Bank to continuously improve its risk management process and Risk Appetite Statement, with a focus on capital and liquidity adequacy concerning its most significant risks. The Bank's Risk Management Department oversees risk appetite levels, which are reviewed by the Risk Committee and Board for any necessary changes. These parameters are also periodically reassessed to ensure alignment with the Bank's Recovery Plan.

4. Capital management and requirements - continued

4.3 Capital requirements

(Article 438 (d) CRR – Table EU OV1)

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of directors.

The Bank uses the following methods to calculate the capital charge for each risk:

- Credit risk: the Bank uses the standardised approach to calculate its capital requirements for credit risk. To calculate the risk-weighted exposure amounts, risk weights are applied based on the exposure class and the related credit quality.
- Market risk: the Bank has adopted the Basic Method to determine its market/ foreign exchange risk. Pillar 1 minimum capital requirement in accordance with Article 325 of the CRR. Capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency.
- Operational risk: the Bank calculates its capital requirement for operational risk using the Basic Indicator Approach in terms of Article 315 of CRR. The own funds requirement amounts to 15% of the average three years of the relevant indicator, as defined in Article 316.

The total capital ratio is calculated using the definition of regulatory capital and risk-weighted assets. As required by the CRR, the minimum level of the Capital Requirements Ratio stands at 8%.

The Bank has fully implemented the CRD IV capital requirements with effect from January 2019. In this respect, Central Bank of Malta Directive No. 11: Macro Prudential Policy and Banking Rule BR/15: 'Capital Buffers of Credit Institutions authorised under the Banking Act (Cap. 371)', require additional buffers, namely the 'capital conservation buffer', the 'countercyclical buffer', 'other systemically important institutions (O-SII) buffer' and the 'systemic risk buffer'. Automatic restrictions on capital distributions apply if the local group's CET1 capital falls below the level of its CRD IV combined buffer.

The Bank is required to maintain a capital conservation buffer of 2.5%, made up of CET1 capital, on the risk weighted exposures of the Bank as from 1 January 2019. This buffer was phased in over the period from 1 January 2016 to 31 December 2018.

CRD IV contemplates a countercyclical buffer in line with Basel III, in the form of an institution-specific countercyclical buffer and the application of increased requirements to address macro-prudential or systemic risk. This is expected to be set in the range of 0-2.5% of relevant credit exposure RWAs, whereby the rate shall consist of the weighted average of the 'countercyclical buffer' rates that apply in the jurisdiction where the relevant exposures are located.

The O-SII buffer is also institution specific and may be set at a maximum of 2% of a systemically important institution's total risk exposure amount. Given the Bank's position as a non-core domestic bank, in terms of its systematic relevance to the financial system in Malta, the Bank is not currently required to maintain an O-SII buffer.

In addition to the measures above, CRD IV sets out a 'systemic risk buffer' for the financial sector as a whole, or one or more sub-sectors, to be deployed as necessary by each EU member state with a view to mitigating structural macroprudential risk. The 'systemic risk buffer' may range between 0% and 5%. There are currently no indications that the Bank will need to maintain a systemic risk buffer.

The Bank held no credit exposures as at 31 December 2023 that were subject to a countercyclical capital buffer requirement.

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4. Capital management and requirements - continued

4.3 Capital requirements - continued

As at 30 December 2024, the Bank is not exposed to other risks calculated in terms of Article 92(3) of the CRR, as highlighted in Table EU OV1 below.

		Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		a	b	c
		31 Dec 2024	31 Dec 2023	31 Dec 2024
1	Credit risk (excluding CCR)	14,465,828	14,136,597	1,157,266
2	Of which the standardised approach	14,465,828	14,136,597	1,157,266
3	Of which the foundation IRB (FIRB) approach	-	-	-
4	Of which: slotting approach	-	-	-
EU 4a	Of which: equities under the simple risk weighted approach	-	-	-
5	Of which the advanced IRB (AIRB) approach	-	-	-
6	Counterparty credit risk – CCR	-	-	-
7	Of which the standardised approach	-	-	-
8	Of which the internal model method approach	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU 19a	Of which 1250% / deduction	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	1,097,889	241,419	87,831
21	Of which the standardised approach	1,097,889	241,419	87,831
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	8,489,184	6,684,-15	679,135
EU 23a	Of which basic indicator approach	8,489,184	6,684,-15	679,135
EU 23b	Of which standardised approach	-	-	-
EU 23c	Of which advanced measurement approach	-	-	-
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	24,052,901	21,062,030	1,924,232

5. Liquidity risk

The Bank's goal in managing liquidity risk is to maintain sufficient liquidity to fulfil its short- and long-term obligations under both normal and stressed conditions, while avoiding reputation damage or costs.

As described in section 1.1.3, the following disclosures in this section are not mandatory but have been included for the purpose of transparency and to provide further insight into the Bank's risk profile.

The Bank's LCR averaged 1117% throughout the year. The Bank's Risk Appetite Statement sets internal levels to maintain these trends. Management monitors these levels weekly and reports them to the Risk Committee and the Board at each meeting.

5.1 Liquidity Coverage Ratio

(Article 451a(2) CRR – Table EU LIQ1 and EU LIQ2)

The LCR seeks to ensure a bank's short-term liquidity resilience over a 30-day stress period. It assesses the volume of unencumbered high-quality liquid assets ("HQLA") that can be readily and rapidly converted into cash in private markets, compared against net cash outflows from both contractual obligations and modelled stressed exposures during the 30-day timeframe.

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5. Liquidity risk - continued

5.1 Liquidity Coverage Ratio - continued

EU LIQ1 - Quantitative information of LCR

		a	b	c	d	e	f	g	h
		Total unweighted value (average)				Total weighted value (average)			
EU 1a	Quarter ending on (DD Month YYYY)	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024
EU 1b	Number of data points used in the calculation of averages								
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					28,432,227	29,722,054	32,392,913	34,908,633
CASH – OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	-	-	-	-	-	-	-	-
3	Stable deposits	-	-	-	-	-	-	-	-
4	Less stable deposits	-	-	-	-	-	-	-	-
5	Unsecured wholesale funding	13,065,661	15,602,390	19,128,959	19,986,477	7,651,186	9,366,266	10,738,454	10,590,447
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	13,065,661	15,602,390	19,128,959	19,986,477	7,651,186	9,366,266	10,738,454	10,590,447
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	-	-	-	-	-	-	35,741	40,499
11	Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	-	-	357,414	404,992	-	-	35,741	40,499
14	Other contractual funding obligations	75,000	75,000	75,000	75,000	-	-	-	-
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	TOTAL CASH OUTFLOWS					7,651,186	9,366,266	10,774,196	10,630,946
CASH – INFLOWS									
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	2,834,805	3,082,712	2,960,708	2,868,826	2,410,753	2,467,639	2,407,571	2,349,449
19	Other cash inflows	3,288	3,288	3,288	3,288	3,288	3,288	3,288	3,288
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-

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5. Liquidity risk - continued

5.1 Liquidity Coverage Ratio - continued

20	TOTAL CASH INFLOWS	2,838,093	3,085,999	2,963,995	2,872,113	2,414,040	2,470,927	2,410,859	2,352,737
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	2,838,093	3,085,999	2,963,995	2,872,113	2,414,040	2,470,927	2,410,859	2,352,737
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					28,432,227	29,722,054	32,392,913	34,908,633
22	TOTAL NET CASH OUTFLOWS					5,331,955	6,947,919	8,363,337	8,278,209
23	LIQUIDITY COVERAGE RATIO					1177%	753%	415%	448%

5.2 Net Stable Funding Ratio

(Article 451a(3) CRR – Table EU LIQ2)

The NSFR mandates banks to have a stable long-term funding profile for their balance sheet activities. It is calculated as the ratio of Available Stable Funding (stable capital and liquidities) to Required Stable Funding (based on asset liquidity).

EU LIQ2: Net Stable Funding Ratio

31 Dec 2024		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	18,297,893	-	-	-	18,297,893
2	Own funds	18,297,893	-	-	-	18,297,893
3	Other capital instruments		-	-	-	-
4	Retail deposits		-	-	-	-
5	Stable deposits		-	-	-	-
6	Less stable deposits		-	-	-	-
7	Wholesale funding:		27,894,055	-	-	10,326,859
8	Operational deposits		-	-	-	-
9	Other wholesale funding		27,894,055	-	-	10,326,859
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	122,045	-	-	-
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		122,045	-	-	
14	Total available stable funding (ASF)					28,624,752
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					-
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

17	Performing loans and securities:		5,938,664	9,377,949	5,297,580	12,151,449
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		1,928,902	-	5,078,400	5,271,290
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		4,009,762	9,377,949	-	6,693,856
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	219,180	186,303
25	Interdependent assets		-	-	-	-
26	Other assets:		527,362	1,003,314	909,840	2,111,705
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories		527,362	1,003,314	909,840	2,111,705
32	Off-balance sheet items		-	-	-	-
33	Total RSF					14,263,153
34	Net Stable Funding Ratio (%)					200.69%

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

30 Sep 2024		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	18,238,642	-	-	18,238,642	18,238,642
2	Own funds	18,238,642	-	-	-	18,238,642
3	Other capital instruments		-	-	-	-
4	Retail deposits		-	-	-	
5	Stable deposits		-	-	-	
6	Less stable deposits		-	-	-	
7	Wholesale funding:		26,377,968	-	-	9,328,006
8	Operational deposits		-	-	-	-
9	Other wholesale funding		26,377,968	-	-	9,328,006
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	162,419	-	-	-
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		162,419	-	-	-
14	Total available stable funding (ASF)					27,566,648
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					-
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		7,520,403	784,629	14,243,353	16,123,449
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		2,216,017	-	5,003,267	5,224,868
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		5,304,386	784,629	9,011,591	10,704,360

5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	228,495	194,221
25	Interdependent assets		-	-	-	-
26	Other assets:		664,009	-	953,131	1,196,874
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories		664,009	-	953,131	1,196,874
32	Off-balance sheet items		-	-	-	-
33	Total RSF					17,320,323
34	Net Stable Funding Ratio (%)					159.16%

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

30 Jun 2024		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	18,119,323	-	-	18,119,323	18,119,323
2	Own funds	18,119,323	-	-	-	18,119,323
3	Other capital instruments		-	-	-	-
4	Retail deposits		-	-	-	-
5	Stable deposits		-	-	-	-
6	Less stable deposits		-	-	-	-
7	Wholesale funding:		29,968,142	-	-	10,156,333
8	Operational deposits		-	-	-	-
9	Other wholesale funding		29,968,142	-	-	10,156,333
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	270,285	-	-	-
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		270,285	-	-	-
14	Total available stable funding (ASF)					28,275,656
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					-
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		4,100,252	15,537,592	-	15,274,712
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		1,862,819	-	5,085,067	5,271,349
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		2,237,433	-	10,230,075	9,814,280

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	222,450	189,083
25	Interdependent assets		-	-	-	-
26	Other assets:		689,462	-	954,740	1,226,592
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories		689,462	-	954,740	1,226,592
32	Off-balance sheet items		-	-	-	-
33	Total RSF					16,501,303
34	Net Stable Funding Ratio (%)					171.35%

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

31 Mar 2024		a	b	c	d	e
(in currency amount)		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments	18,034,726	-	-	18,034,726	18,034,726
2	Own funds	18,034,726	-	-	-	18,034,726
3	Other capital instruments		-	-	-	-
4	Retail deposits		-	-	-	-
5	Stable deposits		-	-	-	-
6	Less stable deposits		-	-	-	-
7	Wholesale funding:		27,814,600	215,220	-	9,098,560
8	Operational deposits		-	-	-	-
9	Other wholesale funding		27,814,600	215,220	-	9,098,560
10	Interdependent liabilities		-	-	-	-
11	Other liabilities:	-	101,388	74,960	-	37,480
12	NSFR derivative liabilities	-				
13	All other liabilities and capital instruments not included in the above categories		101,388	74,960	-	37,480
14	Total available stable funding (ASF)					27,170,767
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					-
EU-15a	Assets encumbered for a residual maturity of one year or more in a cover pool	-	-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		1,102,207	15,167,526	-	14,871,836
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		1,102,207	-	5,004,431	5,114,651
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		-	2,237,108	9,938,996	9,566,700

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5. Liquidity risk - continued

5.2 Net Stable Funding Ratio - continued

21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
22	Performing residential mortgages, of which:		-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		-	-	-	-
24	Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products		-	-	224,100	190,485
25	Interdependent assets		-	-	-	-
26	Other assets:		491,215	57,648	937,146	1,091,270
27	Physical traded commodities				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs		-	-	-	-
29	NSFR derivative assets		-			-
30	NSFR derivative liabilities before deduction of variation margin posted		-			-
31	All other assets not included in the above categories		491,215	57,648	937,146	1,091,270
32	Off-balance sheet items		-	-	-	-
33	Total RSF					15,963,106
34	Net Stable Funding Ratio (%)					170.21%

6. Remuneration policy and practices

In terms of Article 450 of the CRR, institutions are required to disclose information on the Bank's remuneration policy and practices of those staff whose professional activities have a material impact on its risk profile.

As required in terms of the framework for prudential supervision established by EU Directive 2013/36/EU, the Bank is required to identify individuals that are considered as Material Risk Takers ('MRTs') based on qualitative and quantitative criteria set out in EU Delegated Regulation 2021/923. In addition to the Non-Executive directors, the Bank's MRTs consist of three senior management staff members including the Chief Executive Officer.

Templates EU REM2, EU REM3 and EU REM4 are not being disclosed as they are not applicable to the Bank as at 31 December 2024.

6.1 Remuneration practices

(Article 450 and Article 450(1) (h) (i)-(ii) CRR – Tables EU REMA and EU REM1)

The Bank has an established Remuneration Policy that is implemented and managed by the Nominations and Remuneration Committee. The Committee is composed of three non-executive directors and meets at least four times a year or more often as deemed necessary. The Remuneration Policy is reviewed annually or more frequently depending on statutory and regulatory developments.

The board of directors considers that the packages offered to senior management ensure that the Bank attracts and retains management staff that is capable of fulfilling its duties and obligations. Furthermore, it is the Bank's policy to engage its senior management staff on the basis of indefinite contracts of employment after a period of probation, rather than on fixed term contracts. Accordingly, the applicable notice periods, after probation, are those provided for in the relevant legislation.

Independent non-executive directors of the Bank, in their capacities as directors of the Bank, are entitled to fixed remuneration fees from the Bank. The Bank's Chief Executive Officer is not a director of the Bank. The Bank's staff, including the CEO, are entitled to receive an annual discretionary bonus based on an assessment of one's overall performance, together with the level annual financial results of the Bank, during the previous financial year.

Share options and profit sharing do not feature in the Bank's processes and the individual contracts of employment of employees within the Bank do not contain provisions for termination payments and/or other payments linked to early termination other than as determined by Law. Currently no pension benefits are payable by the Bank.

Senior management is not entitled to contractual annual salary increases. An annual bonus is payable based on an assessment of one's overall performance, together with the level of annual financial results of the Bank, during the previous financial year. Bonus payments do not exceed 25% of the fixed component of the total remuneration for each individual. In addition, the total amount of performance related payments should not exceed 15% of the total staff costs of the Bank.

6. Remuneration policy and practices - continued

Table EU REM1 - Remuneration awarded for the financial year

Remuneration in EUR			a	b	c	d
			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	6	3	-	-
2		Total fixed remuneration	326,503	653,375	-	-
3		Of which: cash-based	326,503	653,375	-	-
EU-4a		Of which: shares or equivalent ownership interests	-	-	-	-
5		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-5x		Of which: other instruments	-	-	-	-
7		Of which: other forms	-	-	-	-
9	Variable remuneration	Number of identified staff	-	3	-	-
10		Total variable remuneration	-	51,000	-	-
11		Of which: cash-based	-	51,000	-	-
12		Of which: deferred	-	-	-	-
EU-13a		Of which: shares or equivalent ownership interests	-	-	-	-
EU-14a		Of which: deferred	-	-	-	-
EU-13b		Of which: share-linked instruments or equivalent non-cash instruments	-	-	-	-
EU-14b		Of which: deferred	-	-	-	-
EU-14x		Of which: other instruments	-	-	-	-
EU-14y		Of which: deferred	-	-	-	-
15		Of which: other forms	-	-	-	-
16		Of which: deferred	-	-	-	-
17	Total remuneration (2 + 10)		326,503	704,375	-	-

6.2 Deferred Remuneration

The Bank adopts deferral procedures for variable remuneration payable in cash. The deferral procedures apply to the following:

- a. variable remuneration payments exceeding 25% of the total remuneration for individual staff members; or
- b. in case whereby the amount of all variable remuneration payments exceed 20% of the total staff costs of the Bank.

Deferral periods should not exceed three years. For variable remuneration payments falling below the above thresholds, neither a deferred payment nor a split in cash and instruments are applicable.

To-date, variable remuneration payments were below the above thresholds and consequently, no deferred remuneration has been awarded or paid by the Bank.

7. Recruitment and Diversity policy

(Article 435(2) (b) and (c) CRR – Table EU OVB)

The Bank is aware that a vigorous and professional approach to recruitment and selection of prospective members of the Board of directors and management or other employees within the Bank helps it to attract and appoint those individuals having the necessary skills and attributes compatible with achieving the Bank's overall objectives. Thus, the Bank ensures that appointments at all levels made within the Bank are based on each individual's knowledge, skills, expertise and merit, as required by Maltese legislation and in line with policy.

The Bank undertakes a rigorous selection process for all prospective members of the Board and management together with other employees, bearing in mind the key activities, tasks and skills required for the vacant position. As part of the selection process, multiple interviews are conducted, during which the individual's knowledge, experience, skills and competency are evaluated against those of other individuals.

Bearing its objectives in mind, the Bank endeavours to appoint directors with diverse skills and expertise that allow the Board to create value for shareholders by ensuring that the specific risks pursued by the Bank in trade finance and merchant banking, as well as risks that are intrinsic to banking business in general are appropriately managed and mitigated within the Board's approach. The Bank will continue to promote this diversity by recruiting the ideal individual for the vacant position, regardless of the individual's gender, race, family, disability, sexual orientation, identity or preference.

8. Other Directorships

(Article 435(2) (a) CRR – Table EU OVB)

According to the "Guide to banking supervision" issued by the European Central Bank in November 2014, a credit institution will be considered significant if any one of the following conditions is met:

- the total value of its assets exceeds €30 billion or – unless the total value of its assets is below €5 billion – exceeds 20% of national GDP;
- it is one of the three most significant credit institutions established in a Member State;
- it is a recipient of direct assistance from the European Stability Mechanism; or
- the total value of its assets exceeds €5 billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

Merkanti Bank Limited does not meet any of the above criteria, and therefore is currently not considered significant by banking supervisors. Accordingly, the Bank is exempt from the requirements of Article 91 of CRD IV.

The number of other directorships held by the members of the Bank's Board of directors are listed in the table below:

Director	Position	Number of other directorships held
Christian Farrugia	Chairman	9
Samuel Morrow	Non-executive director	2
Otto Karasek	Non-executive director	1
George Portanier	Independent Non-executive director	4
Stephen Paris	Independent Non-executive director	15
Sinead Curry	Independent Non-executive director	3

For the purpose of the above disclosure, the number of other directorships held within the same group are counted as a single directorship.

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5 Year Summary

Statement of financial position

	2024	2023	2022	2021	2020
	€	€	€	€	€
ASSETS					
Balances with Central Bank of Malta and cash	20,314,638	27,979,716	14,572,689	9,959,793	12,371,996
Loans and advances to banks and other financial institutions	6,900,569	6,548,893	6,969,817	3,779,362	3,152,523
Loans and advances to customers	13,018,573	13,374,699	13,958,012	15,773,875	15,929,519
Financial assets designated as at fair value through profit or loss	792,600	792,600	792,600	792,600	1,352,118
Financial assets measured at FVOCI	5,145,690	6,946,560	18,153,403	7,495,000	7,059,549
Property, plant and equipment	28,645	166,550	200,339	300,854	397,966
Intangible assets	881,195	861,766	942,660	646,935	17,883
Deferred tax assets	-	-	1,110,237	449,688	-
Accrued income and other assets	558,800	1,879,765	-	-	325,905
Total assets	47,640,710	58,550,549	56,699,757	39,198,107	40,607,459
EQUITY AND LIABILITIES					
Equity					
Share capital	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Capital contribution	28,460	-	-	-	-
Other reserve	-	-	(587,930)	48,706	-
Fair value reserve	(90,201)	(314,698)	6,883,602	4,935,255	90,027
Retained earnings/(accumulated losses)	9,686,351	9,270,849	-	-	4,432,201
Total equity	19,624,610	18,956,151	16,295,672	14,983,961	14,522,228
Liabilities					
Amounts owed to banks	4,965,200	4,965,600	4,966,000	-	-
Amounts owed to customers	22,919,949	34,335,931	30,457,884	19,045,858	21,063,945
Subordinated liabilities	-	-	4,500,000	4,500,000	4,500,000
Other liabilities	130,951	292,867	480,201	668,288	521,286
Total liabilities	28,016,100	39,594,398	40,404,085	24,214,146	26,085,231
Total equity and liabilities	47,640,710	58,550,549	56,699,757	39,198,107	40,607,459
MEMORANDUM ITEMS					
Contingent liabilities	-	-	866,583	1,212,796	1,955,579

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Income statement

	2024 €	2023 €	2022 €	2021 €	2020 €
Interest income	2,993,434	3,330,236	2,160,484	1,864,757	1,194,555
Interest expense	(539,708)	(504,032)	(463,383)	(436,837)	(358,224)
Net interest income	2,453,726	2,826,204	1,697,101	1,427,920	836,331
Fee and commission income	1,531,504	1,547,893	2,300,243	1,692,807	1,597,984
Fee and commission expense	(12,948)	(57,802)	(2,864)	(126)	(6,051)
Net fee and commission income	1,518,556	1,490,091	2,297,379	1,692,681	1,591,933
Net trading gains/(losses)	(174,624)	546,426	964,920	79,904	(96,322)
(Losses)/gains on disposal of FVOCI financial assets	-	-	(216)	(423)	45,666
Other operating income/(expenditure)	-	485,608	34,870	34,917	34,906
Operating income	3,797,658	5,348,329	4,994,054	3,234,999	2,412,514
Changes in expected credit losses	(108,810)	(102,102)	(36,153)	49,148	(63,425)
Administrative expenses	(3,273,346)	(2,858,980)	(3,009,554)	(2,781,093)	(2,208,980)
Profit before tax	415,502	2,387,247	1,948,347	503,054	140,109
Tax expense	-	-	-	-	-
Profit for the year	415,502	2,387,247	1,948,347	503,054	140,109

Merkanti Bank Limited
Additional Regulatory Disclosures – 31 December 2024

Statement of cash flows

	2024 €	2023 €	2022 €	2021 €	2020 €
Cash flows from operating activities					
Interest and commission income received	5,789,299	5,237,394	4,908,341	3,512,797	3,232,080
Interest and commission expense paid	(551,014)	(536,256)	(457,141)	(511,596)	(339,541)
Cash payments to employees and suppliers	(3,226,518)	(2,787,815)	(2,979,346)	(2,312,757)	(2,019,342)
Cash flows generated from operating activities before changes in operating assets and liabilities	2,011,767	1,913,323	1,471,854	688,444	873,197
Changes in operating assets and liabilities:					
Net decrease/(increase) in reserve deposit with Central Bank of Malta	141,310	(19,011)	(153,841)	13,418	(53,969)
Net increase in money market placement with Central Bank	(10,588,122)	-	-	-	-
Net (increase)/decrease in loans and advances to banks and other financial institutions	(5,415)	(22,666)	(4,971,919)	-	-
Net decrease/(increase) in loans and advances to customers	253,710	458,830	1,786,988	237,662	(10,392,363)
Increase in loans and advances to customers measured at fair value through profit or loss	-	-	-	-	(792,600)
Net increase in amounts owed to banks	(400)	(400)	4,966,590	-	-
Net (decrease)/increase in amounts owed to customers	(11,415,982)	3,878,047	11,412,026	(2,018,087)	3,855,986
Net (decrease)/increase in other liabilities	-	-	-	-	-
Net cash used in operating activities	(19,603,132)	6,208,123	14,511,698	(1,078,563)	(6,509,749)
Cash flows from investing activities					
Payments to acquire securities	-	-	(11,454,000)	(1,119,300)	(4,824,513)
Proceeds from disposal and maturity of securities	2,000,000	11,500,000	132,900	1,192,768	5,552,715
Purchase of property, plant and equipment	(17,365)	(16,816)	(13,277)	(28,355)	(47,380)
Purchase of intangible assets	-	(50,466)	(295,725)	(629,235)	-
Net cash (used in)/generated from investing activities	1,982,635	11,432,718	(11,630,102)	(584,122)	680,822
Cash flows from financing activities					
Proceeds from issue of subordinated liabilities	-	(4,500,000)	-	-	-
Principal element of lease payments	(102,578)	(101,658)	(79,381)	(87,207)	(75,392)
Net cash (used in)/generated from financing activities	(102,578)	(4,601,658)	(79,381)	(87,207)	75,392
Effect of exchange rate changes on cash and cash equivalents	(37,307)	(117,282)	(116,594)	9,942	(251,940)
Net movement in cash and cash equivalents	(17,723,075)	13,039,183	2,685,621	(1,749,892)	(5,904,319)
Cash and cash equivalents at beginning of year	29,285,664	16,363,763	13,678,142	15,418,092	21,574,351
Cash and cash equivalents at end of year	11,525,282	29,285,664	16,363,763	13,678,142	15,418,092