

CREDORAX BANK LIMITED

Annual Report
31 December 2022

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Directors' report

The directors present their annual report and the audited financial statements of Credorax Bank Limited now trading as Finaro (the 'Bank') for the year ended 31 December 2022.

Principal activity

The Bank's principal activity is the provision of integrated acquiring and payment processing services to merchants within the EU and two other EEC States, and is also a principal level member with Visa (Europe) and MasterCard. During the financial year under review, the Bank continued operating as a credit institution under the Banking Act (Cap. 371 of the Laws of Malta), in accordance with the credit institution license granted by the Malta Financial Services Authority.

Review of the business

During the year ended 31 December 2022, the Bank increased processing volumes by €3.1 billion over prior year to €12 billion (2021: €8.9 billion) and generated revenues of €215 million (2021: €153 million). The Bank's operating income has increased by €18 million to €77.2 million (2021: €59 million). Other operating expenses increased by €14.2 million and amounted to €68.6 million (2021: €54.4 million). Against this setting, the Bank registered a profit after tax of €8.3 million (2021: €4.4 million).

During 2022, customer deposits decreased by €17.4 million to €43.2 million (2021: €60.6 million) primarily due to maturing term deposits from deposit-raising marketplaces. Loans and advances to customers increased by €2.2 million as a result of the issuance of a new loan to one of the Bank's merchants whilst financial investments declined by €9.6 million to €19.9 million (2021: €29.5 million) as a result of (i) early repayments received from financial instruments measured at amortised cost; (ii) the disposal of the 19,400 Class A Common Stock received following the announcement by Visa Inc. of the release of Series C Convertible Participating Preferred Stock during 2022; and (iii) fair value movements of Malta Government Stocks. Additionally, during 2022 interest rates moved out of the negative territory resulting in improved interest margins.

Total net assets stood at €41 million (2021: €39 million). The resilient performance by the Bank and its financial position are considered satisfactory and the directors expect that the Bank will continue to improve its position in the future.

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.

	2022	2021	YOY
	€'000	€'000	
Processing values	12,002,576	8,864,640	35%
Revenues	215,145	152,559	41%
Operating profits	77,197	59,015	31%
EBITDA	10,280	6,613	55%
Shareholders' equity	41,045	39,281	4%
Total assets	212,530	190,867	11%
CET 1 capital ratio	21.03%	24.57%	-14%

The Board of Directors does not monitor any specific non-financial KPIs.

Directors' report (continued)

Principal risks and uncertainties

Credorax Bank Limited faces a range of business, financial, operational and reputational risks. The directors believe that the Bank's most important risks are: (i) credit risk arising from failure of counterparties to fulfil contractual obligations as they fall due and/or the possibility that card schemes of which it is a member may chargeback credit card purchases which are not recovered from merchants; (ii) settlement risk whereby the Bank fails to settle with merchants as a result of settlement failure by the correspondent bank where merchant funds are held; (iii) market risk, particularly foreign exchange risk; and (iv) reputational risk.

Accordingly, the Bank adopts a robust risk management approach to understand what its risks are, define its acceptable risk levels and manage such risks. Such approach aims to create value for shareholders whilst meeting regulatory requirements and ensure that stakeholders are protected without compromising integrity, ethical behaviour and transparency.

The Bank's risk management approach depends on the interaction of a number of key components, which operate together as an integrated whole including: (1) a robust risk identification and risk assessment process; (2) monitoring of the Bank's Risk Appetite Statement; (3) embedding the Bank's risk management objectives within policy documents and procedures; and (4) quantifying the residual risk to which the Bank is exposed.

Successfully embedding this risk management framework into the Bank's governance and working practices is deemed vital by the directors to the overall effectiveness of this framework. It requires the Bank's Board, Board Committees and Senior Management to consider actively the ways in which they act and behave, ensuring that risk management is a core element of the Bank's culture.

In this context, the Bank has adopted a sound corporate governance framework, which consists of three key functions: the Board, the entity-wide risk management function and the independent assessment of risk governance that enables the Bank to create and sustain stakeholder value.

In relation to the Bank's use of financial instruments and the assessment of its assets, liabilities, financial position and financial performance, Note 2 within the financial statements includes information about the Bank's financial risk management objectives and policies, and its exposure to credit risk, market risk, and liquidity risk.

Dividends and reserves

During the year, the Bank declared and paid an interim dividend of €5 million from the Bank's profits available for distribution to the Bank's shareholder. The directors do not recommend the payment of a final dividend.

The directors propose that the balance of retained earnings amounting to €19,296,788 (2021: €16,027,874) be carried forward to the next financial year.

Acquisition by Shift 4 Payments Inc.

On 1 March 2022, the Bank's parent, Credorax Inc. announced its acquisition by Shift4 Payments Inc. an American payment processing company publicly listed on the New York Stock Exchange. Joining forces with Shift4 Payments Inc. allows both companies to expand their services and provide global merchants a complete offering and a multi-dimensional processing experience unlike any other. The acquisition is expected to close in 2023.

Directors' report (continued)

Directors

The directors of the Bank who held office during the year were:

Binyamin Nachman
Frederick Ellul
Nathan Shaked
Igal Rotem
David Blumberg
Tonio Fenech
Anthony Depasquale
Aviram Shemer

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

Ultimate shareholders holding five per cent or more of the share capital of the Bank are as follows:

	31 December 2021	31 December 2022	19 April 2023
FTV IV, LP	25.63%	25.11%	25.11%
Blumberg Capital II, L.P.	11.68%	11.44%	11.44%
Israeli VC Partners, LP	7.99%	7.82%	7.82%
Blumberg Capital Opportunity Fund (CR), L.P.	7.67%	7.51%	7.51%
Mr. Benjamin Nachman	4.50%	5.15%	5.15%

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Banking Act, 1994 and the Maltese Companies Act, 1995 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, 1994 and the Maltese Companies Act, 1995. 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)

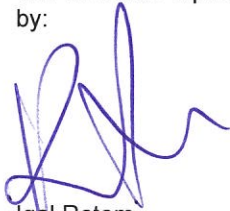
Statement of directors' responsibilities for the financial statements (continued)

The financial statements of Credorax Bank Limited for the year ended 31 December 2022 are included in this Annual Report, which is published in hard-copy printed form and will 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.

The directors' report was approved by the board of directors on 19 April 2023 and was signed on its behalf by:



Igal Rotem
Director

80, Palazzo Homedes
Strait Street
Valletta
VLT 1436



Aviram Shemer
Director



Independent auditor's report

To the Shareholders of Credorax 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 Credorax Bank Limited (the Bank) as at 31 December 2022, 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

Credorax Bank Limited's financial statements, set out on pages 14 to 70, comprise:

- the statement of financial position as at 31 December 2022;
- 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, which include significant accounting policies 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 Credorax 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 2022 to 31 December 2022, are disclosed in note 33 to the financial statements.

Our audit approach

Overview



Overall materiality: €1.8 million, which represents 3% of net fee and commission income.

Fee and commission income and settlement processing obligations.

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

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

Materiality

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



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

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	€1.8 million
How we determined it	3% of net fee and commission income
Rationale for the materiality benchmark applied	We chose net fee and commission income as the benchmark because, in our view, it is a key financial statement metric used in assessing the performance of the Bank and is not as volatile as other profit and loss measures. We chose 3% based on our professional judgement noting that it is also within the range of commonly accepted profit and loss related thresholds that we consider acceptable.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €92,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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
<p><i>Fee and commission income and settlement processing obligations</i></p> <p>Fee and commission income is recognised based on the nature, number and value of transactions processed and the rates agreed with merchants, while settlement processing obligations are recognised on the basis of payment volumes processed, the income attributable to the Bank as well as the settlement cycle (time taken to receive cash from card schemes, and remit it to merchants) and collateral reserves agreed by the Bank with merchants.</p>	<p>We assessed and tested the design and operating effectiveness of the controls over the calculation of fee and commission income and settlement processing obligations. This included testing general IT controls relating to access to programs and data, program changes, program development, and computer operations in order to address the risk of unauthorised changes being made to the operation of IT application controls.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Key audit matter	How our audit addressed the Key audit matter
<p>Payment transaction details, upon which fee and commission income and settlement processing obligations are determined, are processed through the Bank's proprietary acquiring platforms. This calculation is complex given the extent of automation and the high volume of business.</p> <p>There is a risk that the systems may not be configured correctly from the outset such that revenues and settlement amounts are calculated incorrectly, that data does not correctly flow through the operational IT systems, and that unauthorised changes may be made to any of these systems, which may result in the misstatement of revenue and settlement balances.</p> <p>There is also the risk that transaction fee and settlement details are not recorded accurately, i.e. as stipulated within the merchant agreements.</p> <p>We focused on fee and commission income and settlement processing obligations due to the complexities involved in the respective calculations.</p> <p>Relevant references in the Annual Report and Financial Statements:</p> <p>Accounting policy: Note 1.16;</p> <p>Note on fee and commission income: Note 26; and</p> <p>Note on settlement processing obligations: Note 21.</p>	<p>We also tested the operating effectiveness of the automated calculation of fees and commissions charged to merchants as well as the effectiveness of the controls over the reconciliation of gateway submissions, card scheme incoming and outgoing files and merchant balances posted on the Bank's acquiring platform. We have also tested the controls that are in place to verify that merchant payments made through different payment channels are accurate.</p> <p>In addition, we performed detailed testing in relation to fee and commission income on a sample basis by vouching items recorded within the Bank's systems back to source data. This included agreeing merchant related standing data (such as rates and settlement cycle details) to merchant contracts (and contracts addendums) to ensure that the appropriate inputs are assigned to each merchant in the system based on signed contractual terms.</p> <p>We tested the reconciliation between the balances held with other banks attributable to merchants and balances that are expected to be recovered from card schemes to the settlement processing obligations including those that are not recognised in the Statement of Financial Position.</p> <p>We agreed funds that are expected to be recovered from card schemes as at 31 December 2022 to receipts after year-end, loans and advances to banks attributable to merchants, and to third-party confirmations and third-party reports. We also tested, on a sample basis, merchants' settlement processing obligation balances to supporting documentation.</p> <p>We have also reviewed merchant complaints relating to merchant balances and payments.</p> <p>The combination of the tests over the Bank's controls and the detailed testing that we carried out gave us sufficient evidence to enable us to conclude that the Bank's fee and commission income and settlement processing obligations balance are reasonable and appropriate.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Other information

The directors are responsible for the other information. The other information comprises the *Directors' report* and the *Five 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.

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.



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

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

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

Report on other legal and regulatory requirements

The *Annual Report 2022* 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 <i>Annual Report 2022</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
<p>Directors' report (on pages 1 to 4)</p> <p>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.</p>	<p>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.</p> <p>We are also required to express an opinion as to whether the Directors' report has been prepared in accordance with the applicable legal requirements.</p> <p>In addition, we are required to state whether, in the light of the knowledge and understanding of the Bank and its environment obtained in the course of our audit, we have identified any material misstatements in the Directors' report, and if so to give an indication of the nature of any such misstatements.</p>	<p>In our opinion:</p> <ul style="list-style-type: none"> 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). <p>We have nothing to report to you in respect of the other responsibilities, as explicitly stated within the <i>Other information</i> section.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Area of the <i>Annual Report 2022</i> and the related Directors' responsibilities	Our responsibilities	Our reporting
	<p>Other matters prescribed by the Maltese Banking Act (Cap. 371)</p> <p>In terms of the requirements of the Maltese Banking Act (Cap. 371), we are also required to report whether:</p> <ul style="list-style-type: none"> • 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. 	<p>In our opinion:</p> <ul style="list-style-type: none"> • 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.
	<p>Other matters on which we are required to report by exception</p> <p>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.</p>	<p>We have nothing to report to you in respect of these responsibilities.</p>



Independent auditor's report - continued

To the Shareholders of Credorax Bank Limited

Other matter – use of this report

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

Appointment

We were first appointed as auditors of the Bank on 12 February 2010 for the year ended 31 December 2009. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 14 years. The Bank became licensed as credit institution in terms of the Maltese Banking Act (Cap. 371) on 9 June 2015.

PricewaterhouseCoopers

78, Mill Street
Zone 5, Central Business District
Qormi
Malta

A handwritten signature in blue ink that reads 'Fabio Axisa'.

Fabio Axisa
Partner

19 April 2023

Statement of financial position

	Notes	As at 31 December	
		2022	2021
		€	€
ASSETS			
Cash and balances with Central Bank of Malta	4	77,929,412	71,522,603
Funds receivable from merchants	5	3,098,176	1,797,922
Loans and advances to banks and financial institutions	6	50,511,632	43,917,276
Loans and advances to customers	7	6,824,088	4,635,676
Financial investments	8	19,941,006	29,502,410
Funds advanced under collateral arrangements	9	33,627,939	27,190,859
Property and equipment	10	292,789	238,038
Right-of-use assets	11	1,183,188	150,020
Intangible assets	12	2,924,428	2,530,088
Deferred tax assets	13	81,237	-
Other assets	14	16,116,544	9,381,929
Total assets		212,530,439	190,866,821
EQUITY			
Share capital	15	23,000,000	23,000,000
Fair value reserve	16	(1,985,079)	(141,469)
Share-based compensation reserve	17	733,706	394,913
Retained earnings		19,296,788	16,027,874
Total equity		41,045,415	39,281,318
LIABILITIES			
Amounts owed to customers	20	43,184,845	60,633,781
Settlement processing obligations	21	118,459,673	81,614,640
Deferred tax liabilities	13	-	6,071
Lease liabilities	22	1,310,346	77,784
Other liabilities	23	8,530,160	9,253,227
Total liabilities		171,485,024	151,585,503
Total equity and liabilities		212,530,439	190,866,821

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 14 to 70 were approved and authorised for issue by the Board of Directors on 19 April 2023 and were signed on its behalf by:


Igal Rotem
Director


Aviram Shemer
Director

Income statement

	Notes	Year ended 31 December	
		2022	2021
		€	€
Interest and similar income	24	1,825,489	939,928
Interest expense	25	(874,340)	(1,006,859)
Net interest income/(expense)		951,149	(66,931)
Fee and commission income	26	213,319,180	151,618,617
Fee and commission expense	27	(152,161,803)	(107,512,727)
Net fee and commission income		61,157,377	44,105,890
Other income	28	-	1,269,075
Remeasurement of financial assets measured at amortised cost	8	(782,453)	-
Net trading income	29	12,408,297	12,843,839
Net income from financial instruments mandatorily measured at FVPL	30	2,680,580	672,281
Gain on disposal of financial instruments measured at FVOCI	31	-	190,841
Operating income		76,414,950	59,014,995
Employee compensation and benefits	32	(10,132,240)	(7,911,089)
General and administration expenses	33	(56,186,052)	(44,341,848)
Changes in expected credit losses and other impairment allowances	34	183,243	(149,059)
Depreciation and amortisation expense		(1,708,009)	(2,007,440)
Profit before income tax		8,571,892	4,605,559
Tax expense	35	(302,978)	(198,777)
Profit for the year		8,268,914	4,406,782

The accompanying notes are an integral part of these financial statements.

Statement of other comprehensive income

	Notes	Year ended 31 December	
		2022	2021
		€	€
Profit for the year		8,268,914	4,406,782
Other comprehensive income for the year			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Financial assets measured at fair value through other comprehensive income:			
Net changes in fair value arising during the year, before tax		(1,940,642)	(594,771)
Reclassification to profit or loss upon sale of investment	31	-	190,841
Income tax relating to components of other comprehensive income		97,032	20,196
Other comprehensive income for the year, net of tax		(1,843,610)	(383,734)
Total comprehensive income for the year		6,425,304	4,023,048

The accompanying notes are an integral part of these financial statements.

Statement of changes in equity

	Notes	Share capital €	Share-based compensation reserve €	Fair value reserve €	Retained earnings €	Total €
Balance at 1 January 2021		23,000,000	87,119	242,265	11,621,092	34,950,476
Comprehensive income						
Profit for the year		-	-	-	4,406,782	4,406,782
Other comprehensive income:						
Financial assets measured at FVOCI:						
- fair value losses, net of tax		-	-	(574,575)	-	(574,575)
- reclassification to profit or loss upon sale of investment		-	-	190,841	-	190,841
Total comprehensive income		-	-	(383,734)	4,406,782	4,023,048
Transactions with owners						
Share-based compensation value attributable to:	18					
- employees' services	32	-	478,806	-	-	478,806
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	17	-	(171,012)	-	-	(171,012)
Total transactions with owners		-	307,794	-	-	307,794
Balance at 31 December 2021		23,000,000	394,913	(141,469)	16,027,874	39,281,318
Balance at 1 January 2022		23,000,000	394,913	(141,469)	16,027,874	39,281,318
Comprehensive income						
Profit for the year		-	-	-	8,268,914	8,268,914
Other comprehensive income:						
Financial assets measured at FVOCI:						
- fair value losses, net of tax		-	-	(1,843,610)	-	(1,843,610)
Total comprehensive income		-	-	(1,843,610)	8,268,914	6,425,304
Transactions with owners						
Share-based compensation value attributable to:	18					
- employees' services	32	-	800,119	-	-	800,119
Recharge of value of employee services determined by reference to vested share options granted by the parent entity	17	-	(461,326)	-	-	(461,326)
Dividends	39	-	-	-	(5,000,000)	(5,000,000)
Total transactions with owners		-	338,793	-	(5,000,000)	(4,661,207)
Balance at 31 December 2022		23,000,000	733,706	(1,985,079)	19,296,788	41,045,415

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

	Notes	Year ended 31 December	
		2022	2021
		€	€
Cash flows from operating activities			
Interest received		1,835,928	939,545
Interest paid		(733,593)	(877,667)
Fees and commission received		225,200,013	165,483,380
Fees and commission paid		(152,325,030)	(106,621,097)
Payments to employees and suppliers		(16,230,188)	(12,446,085)
Cash flows from operating activities before changes in operating assets and liabilities		57,747,130	46,478,076
(Increase)/decrease in operating assets:			
Loans and advances to customers		(2,062,275)	3,860,865
Funds advanced under collateral arrangements		(5,950,000)	(7,503,402)
Funds receivable from merchants		(1,207,361)	2,032,275
Other assets:			
Advances to group undertakings		(70,728,335)	(45,845,591)
Repayments from group undertakings		1,128,562	72,836
Funds received on behalf of group undertakings	40	6,533,844	2,416,016
Other advances		988,090	105,108
Increase/(decrease) in operating liabilities:			
Amounts owed to customers		(17,521,040)	(515,005)
Settlement processing obligations		37,351,195	20,160,280
Other liabilities		2,476,801	2,112,462
Net cash from operating activities		8,756,611	23,373,920
Cash flows from investing activities			
Dividends received		46,505	24,625
Purchase of debt instruments		-	(15,953,770)
Proceeds from sale or maturity of debt instruments		5,875,000	10,677,178
Proceeds from sale of equity instruments		3,923,321	-
Purchase of equipment	10	(152,410)	(80,103)
Proceeds from disposal of equipment		600	4,970
Purchase of intangible assets		(361,847)	(176,017)
Net cash from/(used in) investing activities		9,331,169	(5,503,117)
Cash flows from financing activities			
Payment of lease liabilities	22	(86,615)	(234,288)
Dividends paid	39	(5,000,000)	-
Net cash used in financing activities		(5,086,615)	(234,288)
Net movement in cash and cash equivalents		13,001,165	17,636,515
Cash and cash equivalents at beginning of the year		115,439,879	97,803,364
Cash and cash equivalents at end of the year	36	128,441,044	115,439,879

The accompanying notes are an integral part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

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

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, 1994 and the Maltese Companies Act, 1995. These financial statements have been prepared under the historical cost convention, as modified by the fair valuation of derivative instruments and investments measured at fair value through profit or loss or 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).

1.1.1 Appropriateness of going concern assumption in the preparation of the Bank's financial statements

The Bank's financial statements have been prepared utilising the going concern assumption with the view that the Bank will continue to operate as a going concern. In assessing the appropriateness of going concern assumption in the preparation of the Bank's financial statements, the directors have taken cognisance of the financial projections for the year ending 31 December 2023, which are reviewed regularly in view of macroeconomic and geopolitical factors and banking sector specific developments. The projections consider the nature of planned initiatives in the continued implementation of the Bank's business plan, the likelihood of occurrence of these actions and the Bank's ability to continue generating positive operating cash flows in the context of estimated growth in revenues and activity levels.

Accordingly, the Bank's Board of directors has a reasonable expectation that the Bank will continue in operational existence for the foreseeable future and the Board's view is that there appears to be no material uncertainty that may cast significant doubt on the Bank's ability to continue operating as a going concern as at the date of authorisation for issue of these financial statements.

1.1.2 Standards, interpretations and amendments to published standards effective in 2022

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

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

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 accounting periods beginning after 1 January 2022. The Bank has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Bank's directors are of the opinion that there are no new requirements that will have a possible significant impact on the Bank's financial statements in the period of initial application.

1. Summary of significant accounting policies (continued)

1.2 Foreign currency translation

(a) Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Bank 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 of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates, are recognised in the 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.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss immediately. Immediately after initial recognition, an Expected Credit Loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in accounting loss being recognised in profit or loss when an asset is newly originated.

1.3.2 Classification and subsequent measurement

On initial recognition the Bank classifies its financial assets in the following measurement categories: (a) amortised cost; (b) fair value through profit or loss (FVPL); or (c) fair value through other comprehensive income (FVOCI). The classification varies depending on whether the financial asset is a debt or an equity instrument, taking into account the business model for managing the financial assets and the contractual terms of the cash flows.

Debt instruments

Classification and subsequent measurement of debt instruments depends on:

- The Bank's business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following two measurement categories.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.2 Classification and subsequent measurement (continued)

Debt instruments (continued)

Amortised cost: Financial assets are measured at amortised cost if they meet both the following conditions and are not designated as measured at FVPL:

- the assets are held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding.

The carrying amount of these financial assets is adjusted by an expected credit loss allowance recognised and measured as described in Note 1.3.3. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in 'Net gain or loss on disposal of financial assets measured at amortised cost'.

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, are measured at fair value through other comprehensive income (FVOCI).

Movements in the carrying amount are recognised in OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are all 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 gain or loss on disposal of financial instruments measured at FVOCI. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method. Impairment gains or losses are presented separately in profit or loss.

Business model assessment. The business model reflects how the Bank manages the assets in order to generate cash flows, that is, whether the 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 FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for the assets were collected, how the asset's performance is evaluated and reported to the Bank's management, and how risks are assessed and managed.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI). Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the outstanding principal and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.2 Classification and subsequent measurement (continued)

Debt instruments (continued)

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

Equity instruments

The Bank classifies its equity instruments into the 'FVPL' category. Consequently, the Bank subsequently measures all equity investments at fair value through profit or loss. The Bank does not elect, at initial recognition, to irrevocably designate equity investments at fair value through other comprehensive income.

Dividends from such investments are recognised in profit or loss when the Bank's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in 'Net income from financial instruments mandatorily measured at FVPL' in the income statement.

1.3.3 Impairment of amortised cost and FVOCI financial assets

The Bank recognises loss allowances for ECL on financial assets measured at amortised cost, debt instruments measured at FVOCI and certain loan commitments.

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

- A financial instrument that is not credit-impaired on initial recognition is classified as 'Stage 1' and has its credit risk continuously monitored by the Bank. At initial recognition, an impairment allowance (or provision) is required for ECLs resulting from default events that are possible within the next 12 months ('12-month ECLs').
- 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. An allowance (or provision) is required for ECLs resulting from all possible default events over the expected life of the financial instrument ('lifetime ECLs').
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Assets in Stage 3 also carry a lifetime ECL allowance or provision.

Purchased or originated credit-impaired financial assets ('POCI') are treated differently, as set out below. 'POCI' financial assets cannot be transferred between categories.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.3 Impairment of amortised cost and FVOCI financial assets (continued)

Significant increase in credit risk (SICR)

The Bank's principal financial assets carried at 'Amortised cost' include balances with the Central Bank of Malta, loans and advances to banks and financial institutions, funds advanced under collateral arrangements and debt securities, the majority of which attract an 'investment grade' rating from Rating agencies such as Standard & Poor's and Moody's. The other financial assets within these categories of assets that are 'not rated' are considered by the Bank to be financial assets having 'low credit risk' in terms of paragraphs 5.5.10 and B5.5.23 of IFRS9. This consideration is made in the light of the fact that all obligors within these categories are considered by the Bank to have a strong capacity to meet their obligations, and that adverse changes in economic conditions should not reduce their ability to fulfill obligations. This includes funds receivable from merchants, which in substance represent funds receivable from card schemes, which attract strong credit ratings.

The Bank assumes that the credit risk on these financial assets has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk, within the meaning of paragraph 5.5.10 of IFRS 9, at the reporting date. If, on the other hand, these financial assets suffer a significant increase in credit risk, for example following a downgrade to below investment grade, the financial instrument will be re-classified as a Stage 2 exposure. This will impact the measurement of the loss allowance, moving from a 12-month ECL assumption to a lifetime ECL assumption.

In respect of receivables from merchants and receivables from group undertakings (included within 'Other assets'), the Bank applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

In respect of loans and advances to customers, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The Bank typically considers that a loan or advance to a customer has experienced a significant increase in credit risk when one or more of the following criteria have been met:

- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors/loans.

Further, unless identified at an earlier stage, all financial assets are deemed to have experienced a significant increase in credit risk when they are 30 days past due.

Definition of default and credit-impaired assets

The Bank determines that a financial instrument is credit-impaired and in Stage 3 by considering relevant objective evidence, primarily when there are indications that the obligor is unlikely to pay. If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.3 Impairment of amortised cost and FVOCI financial assets (continued)

Purchased or originated credit-impaired ('POCI') assets

Integral to the Bank's business is the risk of incurring financial losses due to the inability to recover gross transaction amounts due from merchants that arise from chargebacks raised by cardholders, that exceed funds withheld by the Bank from merchants to serve as collateral ('merchant reserves').

The Bank monitors the Net Expected Exposure, an internal metric to assess chargeback performance and hence potential future risk of losses vis-à-vis collateral held. Receivables from terminated merchants arising as a result of chargeback transactions exceeding merchant reserves are considered originated credit-impaired. Lifetime ECL is recognised in profit or loss until such exposures are derecognised.

Write-off

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. In addition, the Bank has a write-off policy for the designation and writing off of irrecoverable amounts with respect to merchant balances. The objective is to ensure timely and accurate write-off of negative merchant balances in the period in which the balances are reasonably determined as uncollectable and after all avenues to collect the amounts due have failed.

Measurement of ECL

The Expected Credit Loss ('ECL') is measured on either a 12-month (12M) or 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 Probability of Default ('PD'), Exposure at Default ('EAD') and Loss Given Default ('LGD'), defined as follows:

- The PDs estimates are estimates at the date of calculating ECL allowances. In the absence of sufficient internal historical default data, in order to estimate its PDs, the Bank makes reference to external information published by Moody's. More specifically, the Bank assigns a PD to each of its exposures on the basis of the credit rating of the counterparty or issuer, by reference to Moody's default rates.

The Bank calibrates unrated counterparties to Moody's default rates by reference to external ratings of comparable financial assets. The Bank assigns a 1-year default rate to all exposures deemed to have low credit risk, and for very short-term financial assets, the 1-year default rate is scaled down to estimate a PD over a one or two day horizon, dependable on the said exposure. This is consistent within the meaning of paragraph 5.5.10 of IFRS 9, at the reporting date.

Receivables from merchants, from group undertakings (included within 'Other assets') and loans and advances to customers are calibrated on the same basis. Receivables from merchants typically have a contractual life which is lower than 12 months, usually a few days. In respect of receivables for group undertakings, the Bank's credit risk management actions are taken no less frequently than on an annual basis and therefore the life in respect of receivables from group undertakings is also considered to be no longer than 12 months.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.3 Impairment of amortised cost and FVOCI financial assets (continued)

Measurement of ECL (continued)

For loans and advances to customers with a contractual and/or expected life that is beyond 12 months, a Lifetime PD is developed by determining marginal PDs and reflecting such PDs within the maturity profile of the financial instrument using the 12M PD referred to above as the starting point. This is relevant for loans and advances to customers within the Stage 2 category, i.e. those that would have experienced an SICR event.

A 100% probability of default is assigned to exposures classified as 'Stage 3'. In the case of chargebacks raised by cardholders that exceed funds withheld by the Bank from merchants to serve as collateral, expected credit losses of the same amount are held. Such exposures are classified as 'POCI'.

- EAD represents the expected exposure of the Bank at the time of default, over the next 12 months ('12M EAD') or over the remaining lifetime ('Lifetime EAD'). For the majority of the Bank's financial assets, since they are of a short-term nature, the 12M EAD and Lifetime EAD are equivalent.
- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. In estimating LGD, the Bank refers to the historical recovery rates published by Moody's. Calibration is performed in the same manner as described for PD estimates above. In the case of receivables from merchants arising as a result of chargeback transactions, a 100% LGD is assumed.

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

In this respect, the recognition of ECL should incorporate forward-looking information. However, since the average duration of the instruments in scope are short-term, principally within one year and the majority of which within a few days of the reporting period, no forward-looking elements are included within the Bank's expected credit loss model.

Presentation of ECL in statement of financial position

For financial assets that are measured at amortised cost, the ECL allowance is presented as a deduction from the gross carrying amount of the assets on the balance sheet, thereby reducing the carrying amount. For debt instruments measured at FVOCI, no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in other comprehensive income.

1.3.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership or the Bank has not retained control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

1. Summary of significant accounting policies (continued)

1.3 Financial assets (continued)

1.3.4 Derecognition (continued)

The Bank is involved in transactions whereby it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (i) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) is prohibited from selling or pledging the assets; and
- (iii) has an obligation to remit any cash it collects from the assets without material delay.

1.4 Derivative financial instruments

Derivative financial instruments, including currency forwards, are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently remeasured at their fair value. The fair value of currency forwards is determined using forward exchange market rates at the end of the reporting period. Discounting techniques, reflecting the fact that the respective exchange or settlement will not occur until a future date, are used when the time value of money has a significant effect on the fair valuation of these instruments. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss under 'Net trading income'.

1.5 Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes 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.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as an asset are amortised over their estimated useful lives, which does not exceed five years.

1. Summary of significant accounting policies (continued)

1.5 Intangible assets (continued)

At the end of each reporting period, intangible assets are reviewed for indicators of impairment or changes in estimated future economic benefits (see Note 1.8). If such indicators exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable.

1.6 Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. 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 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 expensed in profit or loss during the financial period in which they are incurred.

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

	%
Fixtures and fittings and office furniture	10 – 20
Computer and electronic equipment	17 – 20

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

1.7 Leases

The Bank is the lessee

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. The Bank recognises a right-of-use asset and a lease liability at the lease commencement date.

Lease liabilities arising from such contracts are measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security, and conditions.

1. Summary of significant accounting policies (continued)

1.7 Leases (continued)

The Bank is the lessee (continued)

Lease liabilities include the net present value of the following lease payments:

- fixed payments, less any lease incentives receivable;
- any variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- any amounts expected to be payable by the Bank under residual value guarantees;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option;
- lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank exercising that option.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and any restoration costs where applicable.

Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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.

Reassessment is required when the terms and conditions of a contract are changed. Lease liabilities are remeasured when:

- There are changes in future lease payments arising from changes in an index or rate;
- There are changes in the Bank's assessment of whether it will exercise an extension option; or
- There are modification in the scope or the consideration of the lease that was not part of the original term.

Lease liabilities are remeasured with a corresponding adjustment to the right-of-use assets, or an adjustment in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero and there is a further reduction in the measurement of the lease liability.

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. Summary of significant accounting policies (continued)

1.8 Impairment of non-financial assets

Assets that are subject to 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 flows (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. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.9 Cash and cash equivalents

For the purposes of presentation in the statement of cash flows, cash and cash equivalents comprise cash in hand and deposits with banks held at call or at short notice.

Cash and cash equivalents include cash in hand and all liquid investments with an initial maturity of three months or less when purchased. These amounts also include cash that the Bank holds related to reserve funds collected from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement. The Bank records a corresponding settlement processing obligations liability in the statement of financial position.

Cash and cash equivalents also include settlement related cash balances. Settlement related cash balances represent surplus funds that the Bank holds when the incoming amount from the card networks precedes the funding obligation to the merchant.

1.10 Share capital

Ordinary shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

1.11 Financial liabilities

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. These liabilities are subsequently measured at amortised cost using the effective interest method. The Bank derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

Financial liabilities measured at amortised cost comprise principally amounts owed to customers and settlement processing obligations. Settlement processing obligations represent transactions that have been processed but not yet funded together with funds withheld from merchants that serve as collateral to minimise contingent liabilities associated with any losses that may occur under the merchant agreement ("merchant reserve").

1. Summary of significant accounting policies (continued)

1.12 Offsetting financial instruments

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

1.13 Current and deferred tax

Income tax expense 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.

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

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. However, 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 substantially 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 if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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 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.

The Bank forms part of a Fiscal Unit for Maltese income tax purposes in terms of the Maltese Consolidated Group (Income Tax) Rules. Under the terms of these rules and a tax sharing and funding agreement entered into by the Bank with its parent company and another wholly owned Malta resident subsidiary of its parent, the Bank's current tax assets and liabilities are recognised as receivables from or payables to the parent company, respectively.

Deferred tax assets arising from unused tax losses and tax credits are also recognised as receivables from the parent company to the extent that it is probable that future taxable profit will be available to the Fiscal Unit against which the temporary differences can be utilised.

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

1. Summary of significant accounting policies (continued)

1.14 Share-based compensation

The Bank's parent, Credorax Inc., established a share-based compensation plan (the 'Plan') for the Group's employees, whereby share options are granted to directors and selected employees in exchange for their services. The fair value of the employee services received in exchange for the grant of share options is recognised as an expense in profit or loss and as a corresponding increase in shareholders' equity ('Share-based compensation reserve'). Upon vesting, Credorax Inc. recharges to the Bank the grant date fair value of the share options. The recharge is derecognised from shareholders' equity and recognised by the Bank as a liability to the parent.

The total amount to be expensed from grant date over the vesting period is determined by reference to the fair value of the options granted at the grant date. Total compensation expense is recognised from grant date over the vesting period (the period during which an employee is required to provide service in exchange for the benefit or the requisite service period) rateably through graded vesting. Accordingly, the Bank amortises the compensation cost arising on the grant of share options over the nominal vesting period for employees based on the graded vesting of the plan.

At the end of each reporting period, the entity revises its estimates of the number of options that are expected to be vested. It recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

1.15 Provisions for legal proceeding and future chargebacks

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation which has arisen as a result of past events, and for which a reliable estimate can be made.

1.16 Revenue recognition

The Bank's revenues principally represent the consideration received or receivable from the merchants for services provided. This includes acquiring revenues, other fees charged on a per transaction basis, income from foreign exchange services and interest.

Acquiring revenues relate to services provided to process transactions between the card-issuing banks and the Bank's merchants. Revenue is recognised when the transactions are successfully processed via the Bank's acquiring platform and is recognised per transaction. Acquiring revenues also include the amount of interchange fees and scheme fees recharged to merchants. The Bank is considered a principal for the acquiring services it provides to the merchants, accordingly, such revenues are reported using the gross presentation.

Income from foreign exchange services is generated on settling foreign currency transactions on behalf of merchants. Revenue is recognised when the Bank's obligation in relation to the transaction is fulfilled.

Given the nature of its transaction-based business, the Bank's revenues are recognised when the services are provided at the point in time when the transaction takes place, since there are no further performance obligations following the processing of transactions. The Bank does not provide any services which are rendered over a period of time.

Costs of sales which primarily consist of fees charged by card schemes as well as interchange fees, are matched to the revenue generated and are recognised when incurred.

1. Summary of significant accounting policies (continued)

1.16 Revenue recognition (continued)

Net fee and commission income is revenue after deducting scheme fees, interchange fees and sales commissions. This is monitored by the Bank's Management and used as a performance indicator of the financial effects of the activities in which the Bank engages.

The Bank does not have any contracts for the provision of services that result in the initial recognition of contract assets or contract liabilities.

1.17 Dividend distribution

Interim dividends to the Bank's shareholders are approved by the directors and recognised upon directors' approval. Final dividends are recognised as liability in the Bank's financial statements upon approval by the Bank's shareholders at the Annual General Meeting.

2. Financial risk management

2.1 Introduction

The Bank's activities potentially expose it to a variety of financial risks including credit risk, market risk, specifically interest rate risk, foreign exchange risk and equity risk, and liquidity risk. Accordingly, the directors provide principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, credit risk and investment of excess liquidity.

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 Bank's treasury function is responsible for managing assets, liabilities and the overall financial position of the Bank and is also responsible for the management of funding and liquidity risks. The Bank's risk oversight function has the overall responsibility for the development of the Bank's risk strategy and the implementation of risk principles, framework, policies and related limits.

2.2 Credit risk

2.2.1 Introduction

Credit risk is the risk that the Bank will incur losses as a result of a counterparty failing to fulfil its contractual obligations to the Bank. Credit risk arises from the Bank's financial assets which are inherently and predominantly subject to credit risk.

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.2 Maximum exposure to credit risk

The following table presents the maximum exposure to credit risk before taking account of any collateral held or other credit enhancements. For financial assets recognised on the statement of financial position, the maximum exposure to credit risk equals their gross carrying amount. For loan commitments, it is generally the full amount of the committed facilities.

Financial Assets	2022 €	2021 €
Balances with Central Bank of Malta	77,932,490	71,525,922
Funds receivable from merchants	3,226,889	2,019,528
Loans and advances to banks and financial institutions	50,513,567	43,918,815
Loans and advances to customers	6,906,400	4,840,292
Financial investments at amortised cost	4,869,805	11,188,513
Financial investments at FVOCI	12,806,310	14,788,780
Funds advanced under collateral arrangements	33,646,119	27,204,404
Other assets	2,915,564	464,379
Gross carrying amount	192,817,144	175,950,633
Allowances for expected credit losses	(358,417)	(562,234)
Carrying amount on-balance sheet	192,458,727	175,388,399

2.2.3 Concentration of credit risk exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Bank uses a number of controls and measures to minimise undue concentration of exposures. These include counterparty limits, approvals and review controls.

Within its daily operations the Bank transacts with banks and other financial institutions and also invests excess funds in financial investments. The Bank primarily places short-term funds with pre-approved banks and financial institutions and invests excess funds available within the medium to long-term in financial investments. These exposures are subject to large exposure limits in place and the creditworthiness of the respective counterparties (including external credit ratings where available) being within controlled parameters. Actual exposures are monitored against these limits on a daily basis and in real time together with the credit status of the counterparties.

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.3 Concentration of credit risk exposure (continued)

As at the reporting date credit risk also arose from amounts owed by group undertakings (within 'other assets') which are unsecured, interest free and have no fixed date or repayment. When the Bank has receivables from group undertakings, management evaluates such related party relationships and credit arrangements, and forms a view on the risk of expected losses from non-performance or default. As at 31 December 2022, the Bank has net receivables from group undertakings amounting to €1,950,830 (2021: nil), after netting off amounts owed to group undertakings pursuant to an assignment agreement that has been entered into by Credorax Inc. and all of its subsidiaries. The Bank has also effected prepayments to group undertakings in relation to Technical and Support services, which are subject to performance risk.

Funds receivable from merchants represent receivables in respect of prefunded amounts to merchants. These represent instances whereby the Bank agrees to transfer the money to merchants prior to receiving such funds from the card schemes. In the event that the amounts are not received from the card schemes, the Bank has the right to claim the money back from the merchants. Accordingly, the credit risk emanating from the Bank's exposure to merchants is deemed by the directors to be contained. As at 31 December 2022, the Bank held €3,105,839 (2021: €1,871,856) in receivables from 261 merchants (2021: 204) related to prefunded amounts.

The Bank also bears the risk of incurring financial losses due to the inability to recover gross transaction amounts due from merchants that arise from chargebacks raised by a cardholder (i.e. a claim from a cardholder for a payment made where the merchant has failed to deliver the goods or services). In this regard, the Bank's risk is generally mitigated by funds withheld from merchants that serve as collateral ('merchant reserves'). Thus, in the ordinary course of business, the Bank recognises a net liability position to merchants equivalent to collateral held. However, credit risk arises when the value of chargebacks exceeds the value of collateral held. Management monitors monthly movements in funds receivable from merchants whose chargeback transactions exceed collateral held by the Bank and takes necessary action to ensure such amounts are recovered. As at 31 December 2022, receivables amounting to €121,050 (2021: €147,672) were due from 149 merchants (2021: 108) relating to chargeback transactions which were in excess of collateral held.

In addition, the Bank extends loans and advances to merchants seeking funding to meet certain liquidity requirements. In this respect, the Bank is exposed to a degree of concentration risk since the amounts outstanding as at 31 December 2022 are due from one customer. Such amounts are considered large exposures for regulatory reporting purposes, in accordance with the requirements of Part Four of the Capital Requirements Regulations (CRR), Large Exposures. The Bank's regulatory team monitors large exposures and the Bank's compliance with large exposures limits on an ongoing basis. These are reported to management on a monthly basis and to the supervisory authorities on a quarterly basis through the regulatory returns.

2.2.4 Allowances for expected credit losses

The following disclosure presents the gross carrying/nominal amount of financial instruments measured at amortised cost to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL, as well as the fair value of debt instruments measured at FVOCI and the associated allowance for ECL.

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.4 Allowances for expected credit losses (continued)

	Stage Classification	31 Dec 2022		31 Dec 2021	
		Gross carrying/ nominal amount €	Allowance for ECL €	Gross carrying/ nominal amount €	Allowance for ECL €
Financial assets at amortised cost					
Balances with Central Bank of Malta	Stage 1	77,932,490	(3,720)	71,525,922	(3,957)
Funds receivable from merchants	Stage 1	3,105,839	(7,663)	1,871,856	(73,934)
Funds receivable from merchants	POCI	121,050	(121,050)	147,672	(147,672)
Loans and advances to banks and financial institutions	Stage 1	50,513,567	(1,935)	43,918,815	(1,539)
Loans and advances to customers	Stage 1	6,906,400	(82,312)	4,840,292	(204,616)
Financial investments at amortised cost	Stage 1	4,869,805	(74,570)	11,188,513	(116,971)
Funds advanced under collateral arrangements	Stage 1	33,646,119	(18,180)	27,204,404	(13,545)
Other assets	Stage 1	2,915,564	(48,987)	464,379	-
Total carrying amount on-balance sheet		180,010,834	(358,417)	161,161,853	(562,234)
Financial assets at FVOCI					
	Stage Classification	Fair value €	Allowance for ECL €	Fair value €	Allowance for ECL €
Financial investments at FVOCI	Stage 1	12,806,310	-	14,788,780	-

The financial assets recorded in each stage have the following characteristics:

- Stage 1: unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised;
- Stage 2: a significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised;
- Stage 3: financial instrument in default or credit-impaired on which a lifetime ECL is recognised
- POCI: purchased or originated credit-impaired on which a lifetime ECL is recognised.

At the end of the current reporting and comparative periods, the Bank had no past due or impaired financial assets within these asset categories, except for merchants whose chargeback transactions exceed the value of collateral held by the Bank. Receivables from merchants that would have been terminated by the Bank are classified immediately as credit-impaired as the amount is automatically 'past due'. As at 31 December 2022, receivables amounting to €121,050 (2021: €147,672) were due from 149 terminated merchants (2021: 108) relating to chargeback transactions which were in excess of collateral held. These are considered to be credit-impaired and have accordingly been provided for in full.

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.4 Allowances for expected credit losses (continued)

As at 31 December 2022, the Bank also had funds receivable from merchants of €3,105,839 (2021: €1,871,856) from 261 active merchants (2021: 204) which the Bank expects to recover in full. Accordingly, these were classified as Stage 1 and an ECL allowance of €7,663 (2021: €73,934) was provided for.

Further to the above ECL allowances, the Bank typically provides for any potential future losses from chargebacks beyond receivables recognised on-balance sheet that fall under the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. As at 31 December 2022 and 2021 there were no such provisions.

The following tables provide a reconciliation by stage of the gross carrying/nominal amounts or fair value and the respective loss allowances of the Bank's financial instruments that are subject to the impairment requirements in terms of IFRS 9.

Financial assets at amortised cost

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		POCI			
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2021	161,014,181	(414,562)	-	-	147,672	(147,672)	161,161,853	(562,234)
Net movements	18,875,603	177,195	-	-	(6,048)	6,048	18,869,555	183,243
Assets written off	-	-	-	-	(20,574)	20,574	(20,574)	20,574
	18,875,603	177,195	-	-	(26,622)	26,622	18,848,981	203,817
At 31 December 2022	179,889,784	(237,367)	-	-	121,050	(121,050)	180,010,834	(358,417)

Financial assets at FVOCI

	Stage 1		Stage 2		POCI		Total	
	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2021	14,788,780	-	-	-	-	-	14,788,780	-
Net movements	(1,982,470)	-	-	-	-	-	(1,982,470)	-
At 31 December 2022	12,806,310	-	-	-	-	-	12,806,310	-

ECL charge	203,817
Assets written off	(20,574)
Total change in ECL for the period	183,243

2. Financial risk management (continued)

2.2 Credit risk (continued)

2.2.4 Allowances for expected credit losses (continued)

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		POCI			
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2020	140,622,759	(291,417)	4,000,000	(78,016)	57,220	(57,220)	144,679,979	(426,653)
Net movements	16,391,422	(45,129)	-	-	105,375	(105,375)	16,496,797	(150,504)
Transfers from Stage 2 to Stage 1	4,000,000	(78,016)	(4,000,000)	78,016	-	-	-	-
Assets written off	-	-	-	-	(14,923)	14,923	(14,923)	14,923
	20,391,422	(123,145)	(4,000,000)	78,016	90,452	(90,452)	16,481,874	(135,581)
At 31 December 2021	161,014,181	(414,562)	-	-	147,672	(147,672)	161,161,853	(562,234)

Financial assets at FVOCI

	Stage 1		Stage 2		POCI		Total	
	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	€	€	€	€	€	€	€	€
At 31 December 2020	10,705,000	(1,445)	-	-	-	-	10,705,000	(1,445)
Net movements	4,083,780	1,445	-	-	-	-	4,083,780	1,445
At 31 December 2021	14,788,780	-	-	-	-	-	14,788,780	-
ECL charge								(134,136)
Assets written off								(14,923)
Total change in ECL for the period								(149,059)

Balances within 'Transfers from Stage 2 to Stage 1' represent the impact of stage transfers on the gross carrying/nominal amount and associated allowance for ECL of the financial instruments, including those that were originated during the year. There is no re-measurement of ECL resulting from the stage transfer due to the short-term nature of the exposure.

During 2021, the Bank experienced transfer of financial assets between Stage 1 and Stage 2.

Considering the nature of the exposures of the Bank's financial assets and the insignificance of the resultant ECL, movements in ECL resulting from changes in risk parameters, such as changes in PDs and LGDs, are not significant and are accordingly not separately disclosed. These are included within 'Net movements' in the table above.

In addition, during the current and comparative years there were no instances where contractual terms of loans were modified, due to for example a customer's financial difficulties. As a result, as at 31 December 2022 and 2021 the Bank had no renegotiated or forbore loans and advances to customers.

2. Financial risk management (continued)

2.3 Market risk

The Bank is exposed 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, such as interest rates, foreign exchange rates and equity prices, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices. In the normal course of business, the Bank's market risk arises principally from its exposure to different currencies, primarily resulting from its acquiring business. In addition, following the receipt of preference shares in Visa Inc. in exchange for the Bank's membership interest in Visa Europe, the Bank is also moderately exposed to equity price risk.

(a) Interest rate risk

The following table sets out the Bank's interest-bearing financial instruments split between fixed-rate and variable-rate instruments.

	31 Dec 2022			31 Dec 2021		
	Total €	Fixed interest rate €	Variable interest rate €	Total €	Fixed interest rate €	Variable interest rate €
Financial assets						
Balances with Central Bank of Malta	77,928,770	-	77,928,770	71,521,965	-	71,521,965
Loans and advances to banks and financial institutions	39,052,902	-	39,052,902	42,608,475	-	42,608,475
Loans and advances to customers	6,824,088	6,824,088	-	4,635,676	4,635,676	-
Financial investments	17,601,545	17,601,545	-	25,860,322	25,860,322	-
Funds advanced under collateral arrangements	33,627,939	-	33,627,939	27,190,859	-	27,190,859
Total financial assets	175,035,244	24,425,633	150,609,611	171,817,297	30,495,998	141,321,299
Financial liabilities						
Amounts owed to customers	41,014,694	41,014,694	-	56,554,439	56,554,439	-
Lease liabilities	1,310,346	1,310,346	-	77,784	77,784	-
Total financial liabilities	42,325,040	42,325,040	-	56,632,223	56,632,223	-

The Bank's exposure to interest rate risk arising from its financial assets is not deemed to be significant given that the majority of these assets are either re-priced to current market rates frequently or are short-term in nature.

Meanwhile, the Bank's term deposits are contracted on the basis of fixed interest rates and thus are not subject to cashflow interest rate risk, and since they are measured at amortised cost, they also do not expose the Bank to fair value interest rate risk.

In the context of the Bank's acquiring operations, the Bank's exposure to interest rate risk is deemed by the directors to be insignificant. Accordingly, a sensitivity analysis disclosing how profit or loss and equity would have been affected by changes in interest rates that were reasonably possible at the end of the reporting period is not deemed necessary.

2. Financial risk management (continued)

2.3 Market risk (continued)

(b) Currency risk

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 hedges its open foreign exchange exposures by entering into spot or forward foreign exchange contracts with terms which match those of the hedged items.

Specifically for its USD exposures, the Bank enters into one-month foreign exchange forward contracts with Credorax Inc. at market rates to hedge its USD open position. The notional amounts of the outstanding foreign exchange forward contract as well as any unsettled spot transactions at the end of the reporting period are included within the tables below.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2022 and 2021. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

As at 31 December 2022	Total €	EUR €	USD €	GBP €	Other €
Financial assets					
Cash and balances with Central Bank of Malta	77,929,412	48,872,795	26,889,199	-	2,167,418
Funds receivable from merchants	3,098,176	1,198,865	383,640	753,205	762,466
Loans and advances to banks and financial institutions	50,511,632	291,435	20,986,560	14,795,233	14,438,404
Loans and advances to customers	6,824,088	6,824,088	-	-	-
Financial investments	19,941,006	17,601,545	2,339,461	-	-
Funds advanced under collateral arrangements	33,627,939	24,039,219	9,588,720	-	-
Other assets	2,866,577	964,734	1,901,843	-	-
Total financial assets	194,798,830	99,792,681	62,089,423	15,548,438	17,368,288
Financial liabilities					
Amounts owed to customers	43,184,845	42,511,147	164,254	509,444	-
Settlement processing obligations	118,459,673	47,658,007	41,575,977	14,042,242	15,183,447
Lease liabilities	1,310,346	1,310,346	-	-	-
Other liabilities	8,530,160	7,125,983	1,108,098	59,199	236,880
Total financial liabilities	171,485,024	98,605,483	42,848,329	14,610,885	15,420,327
Net on balance sheet financial position		1,187,198	19,241,094	937,553	1,947,961
Notional amounts of derivative instruments			(19,682,528)	-	-
Net open position			(441,434)	937,553	1,947,961

2. Financial risk management (continued)

2.3 Market risk (continued)

(b) Currency risk (continued)

As at 31 December 2021	Total €	EUR €	USD €	GBP €	Other €
Financial assets					
Cash and balances with Central Bank of Malta	71,522,603	40,980,896	25,781,388	4,760,319	-
Funds receivable from merchants	1,797,922	857,544	259,652	284,239	396,487
Loans and advances to banks and financial institutions	43,917,276	9,655,381	20,065,201	4,993,753	9,202,941
Loans and advances to customers	4,635,676	4,387,640	248,036	-	-
Financial investments	29,502,410	25,860,322	3,642,088	-	-
Funds advanced under collateral arrangements	27,190,859	18,179,852	9,011,007	-	-
Other assets	464,379	464,379	-	-	-
Total financial assets	179,031,125	100,386,014	59,007,372	10,038,311	9,599,428
Financial liabilities					
Amounts owed to customers	60,633,781	58,087,159	1,813,586	733,036	-
Settlement processing obligations	81,614,640	32,297,387	31,459,511	8,975,840	8,881,902
Lease liabilities	77,784	77,784	-	-	-
Other liabilities	9,253,227	5,901,700	3,208,519	40,855	102,153
Total financial liabilities	151,579,432	96,364,030	36,481,616	9,749,731	8,984,055
Net on balance sheet financial position		4,021,984	22,525,756	288,580	615,373
Notional amounts of derivative instruments			(23,856,977)	-	-
Net open position			(1,331,221)	288,580	615,373

Under the scenario that the EUR appreciates against the USD from 1.0666 to 1.2666 (2021: from 1.1326 to 1.3326), the impact recognised in profit or loss would amount to a pre-tax loss of €69,704 (2021: €199,793). Should the EUR depreciate against the USD to 1.0000 (2021: 1.0000), the impact recognised in profit or loss would amount to a pre-tax profit of €29,400 (2021: €176,520).

Under the scenario that the EUR appreciates against the GBP from 0.8869 to 1.000 (2021: 0.8403 to 1.000), the impact recognised in profit or loss would amount to a pre-tax profit of €106,009 (2021: €46,092). Should the EUR depreciate against the GBP to 0.7869 (2021: 0.7403), the impact recognised in profit or loss would amount to a pre-tax loss of €119,141 (2021: €38,983).

(c) Equity price risk

The Bank is exposed to market price risk arising from the uncertainty about the future market prices of the investment held by the Bank in the preference shares of Visa Inc. that are classified in the statement of financial position as financial assets at fair value through profit or loss. The preference shares are convertible into ordinary shares of Visa Inc., they have no maturity and represent a residual interest in the issuer's net assets.

2. Financial risk management (continued)

2.3 Market risk (continued)

(c) Equity price risk (continued)

In view of the absence of quoted market prices for such instruments, the fair value of the preference shares has been determined on the basis of an internal valuation model, which is dependent on a number of assumptions including the value of Visa Inc.'s ordinary shares, which have a quoted price. In this respect, a sensitivity analysis disclosing the potential impact of changes to the assumptions within the Bank's valuation model is provided within Note 2.6 – Fair value of financial assets and liabilities.

2.4 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.

The Bank is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally amounts owed to customers, settlement processing obligations, lease liabilities and other liabilities (refer to Notes 20, 21, 22 and 23). The Bank's settlement processing obligations are generally repayable within one month from the end of the reporting period, other than for funds withheld from merchants that serve as collateral to minimise losses ('merchant reserve'), which are generally repayable within 180 days from the end of the reporting period.

The Bank manages this risk by monitoring future cash flows together with changes in available liquidity on a regular basis. Except for prefunded merchants, the Bank only settles its liabilities in respect of settlement processing obligations after the cash is collected from the card schemes. The Bank manages in a very active manner the relationship between the funds held with other institutions (a significant portion of which is attributable to merchants) and its settlement processing obligations such that funds held with other institutions immediately available for use are always in excess of the Bank's settlement processing obligations. Senior management is updated on a regular basis on the cash flow position of the Bank.

Through its deposit taking activities, the Bank is also exposed to liquidity risk due to a possible significant deposit flight. However, the Bank considers this risk to be partially mitigated in a natural manner given that the majority of the amounts owed to customers pertain to term deposits with about 60.2% (2021: 68.5%) maturing in over one year from the end of the reporting period.

As part of its liquidity risk management framework, management monitors the Bank's "cash flow ladder" or "maturity gap analysis", that allows forecasting of liquidity needs on a monthly basis.

Due to the nature of the business and the composition of its balance sheet, the directors consider the Bank's liquidity risk as at the reporting date to be very limited.

The following tables analyse the carrying amounts of financial assets and liabilities as at the reporting date by their remaining period to maturity.

2. Financial risk management (continued)

2.4 Liquidity risk (continued)

As at 31 December 2022	Total €	Within 3 months €	Between 3 months and one year €	Between one year and 3 years €	More than 3 years €	No maturity date €
Financial assets						
Cash and balances with Central Bank of Malta	77,929,412	77,733,645	-	-	-	195,767
Funds receivable from merchants	3,098,176	3,098,176	-	-	-	-
Loans and advances to banks and financial institutions	50,511,632	50,511,632	-	-	-	-
Loans and advances to customers	6,824,088	1,364,664	2,253,885	3,205,539	-	-
Financial investments	19,941,006	688,759	1,721,896	2,066,275	13,124,615	2,339,461
Funds advanced under collateral arrangements	33,627,939	-	-	-	-	33,627,939
Other assets	2,866,577	21,436	2,845,141	-	-	-
Total financial assets	194,798,830	133,418,312	6,820,922	5,271,814	13,124,615	36,163,167
Financial liabilities						
Amounts owed to customers	43,184,845	2,840,471	15,650,700	17,973,762	6,719,912	-
Settlement processing obligations	118,459,673	101,135,064	9,824,795	-	-	7,499,814
Lease liabilities	1,310,346	106,587	109,188	497,705	596,866	-
Other liabilities	8,530,160	7,513,128	335,055	550,876	131,101	-
Total financial liabilities	171,485,024	111,595,250	25,919,738	19,022,343	7,447,879	7,499,814
Maturity gap		21,823,062	(19,098,816)	(13,750,529)	5,676,736	
Cumulative gap		21,823,062	2,724,246	(11,026,283)	(5,349,547)	

2. Financial risk management (continued)

2.4 Liquidity risk (continued)

As at 31 December 2021	Total €	Within 3 months €	Between 3 months and one year €	Between one year and 3 years €	More than 3 years €	No maturity date €
Financial assets						
Cash and balances with Central Bank of Malta	71,522,603	71,018,422	-	-	-	504,181
Funds receivable from merchants	1,797,922	1,797,922	-	-	-	-
Loans and advances to banks and financial institutions	43,917,276	43,917,276	-	-	-	-
Loans and advances to customers	4,635,676	2,672,928	1,798,502	164,246	-	-
Financial investments	29,502,410	742,159	1,608,012	4,576,647	18,933,504	3,642,088
Funds advanced under collateral arrangements	27,190,859	-	-	-	-	27,190,859
Other assets	464,379	114,720	349,659	-	-	-
Total financial assets	179,031,125	120,263,427	3,756,173	4,740,893	18,933,504	31,337,128
Financial liabilities						
Amounts owed to customers	60,633,781	5,338,517	16,563,067	17,925,410	20,806,787	-
Settlement processing obligations	81,614,640	63,577,488	10,345,517	-	-	7,691,635
Lease liabilities	77,784	2,444	75,340	-	-	-
Other liabilities	9,253,227	8,400,500	278,769	229,571	344,387	-
Total financial liabilities	151,579,432	77,318,949	27,262,693	18,154,981	21,151,174	7,691,635
Maturity gap		42,944,478	(23,506,520)	(13,414,088)	(2,217,670)	
Cumulative gap		42,944,478	19,437,958	6,023,870	3,806,200	

2. Financial risk management (continued)

2.4 Liquidity risk (continued)

Assets which are not immediately accessible and readily available as at 31 December 2022 consist of €195,723 (2021: €360,159) held with the Central Bank of Malta pledged in favour of the Depositor Compensation Scheme. Additionally, the Bank's Minimum Reserve Requirement as at 31 December 2022 stood at €44 (2021: €144,022). As at 31 December 2022, financial investments amounting to €2,339,461 (2021: €3,642,088) were also not readily available for sale, since they are illiquid. Also, funds advanced under collateral arrangements amounting to €33,627,939 (2021: €27,190,859) are considered to be encumbered. Financial investments with a fair value of €12,806,310 (2021: €14,788,780) are classified within the above table as maturing in more than 3 years. However, these represent investments in Malta Government Stock which are readily available for sale and could be disposed of earlier to meet any of the Bank's liquidity needs. In this respect, Malta Government Stock with a carrying amount of €8,364,310 (2021: €9,771,780) have been pledged against the provision of credit lines by the Central Bank of Malta. As at 31 December 2022 and 2021, no balances were outstanding against these credit lines.

Additionally, the contractual undiscounted cash outflows attributable to the Bank's financial liabilities analysed by remaining contractual maturities at reporting date are presented in the following table. The balances in the below table do not agree with the carrying amount as the table incorporates all cash flows, on an undiscounted basis, related to principal as well as those associated with all future interest payments.

	Total	Within 3	Between 3	Between one	More than 3	No maturity
	€	months	months and	year and 3	years	date
	€	€	one year	years	€	€
As at 31 December 2022						
Amounts owed to customers	44,217,143	2,855,737	15,985,755	18,524,638	6,851,013	-
Settlement processing obligations	118,459,673	101,135,064	9,824,796	-	-	7,499,814
Lease liabilities	1,493,962	140,872	140,872	588,553	623,665	-
Other liabilities	7,497,862	7,497,862	-	-	-	-
Total financial liabilities	171,668,640	111,629,535	25,951,423	19,113,191	7,474,678	7,499,814

	Total	Within 3	Between 3	Between one	More than 3	No maturity
	€	months	months and	year and 3	years	date
	€	€	one year	years	€	€
As at 31 December 2021						
Amounts owed to customers	61,510,931	5,362,941	16,841,836	18,154,981	21,151,173	-
Settlement processing obligations	81,614,640	63,577,488	10,345,517	-	-	7,691,635
Lease liabilities	85,152	4,888	80,264	-	-	-
Other liabilities	8,376,077	8,376,077	-	-	-	-
Total financial liabilities	151,586,800	77,321,394	27,267,617	18,154,981	21,151,173	7,691,635

2. Financial risk management (continued)

2.5 Capital risk management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on 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 a regular 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.

The Bank is subject to a minimum own funds requirement of 15.60%, calculated as the ratio of Regulatory Capital ('Own Funds') to Risk-weighted Assets (referred to as the 'Total Capital Ratio'), which is composed of the following:

- (a) a minimum own funds requirement of 8%, with at least three quarters (i.e. 6%) being composed of Tier 1 capital;
- (b) an additional own funds requirement ('P2R') of 4%, with at least three quarters being composed of Tier 1 capital;
- (c) combined buffer requirement of 2.60%; and
- (d) a Pillar 2 Guidance ('P2G') of 1% which is entirely made up of CET1 capital.

The Bank has internal monitoring processes in place to ensure that the minimum regulatory requirements in relation to own funds are met at all times.

The minimum capital requirements are calculated for credit, market and operational risks. During the year, the Bank utilised the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Basic Method for foreign exchange risk in order to calculate the Pillar 1 minimum capital requirements. For credit risk, under the standardised approach, risk weights are determined according to credit ratings provided by internationally recognised credit agencies such as Fitch or their equivalents and by using the applicable regulatory risk weights for unrated exposures. The Basic Indicator Approach requires that the Bank allocates capital for operational risk by taking 15% of the average gross income, while the Basic Method requires the Bank to allocate 8% of its overall net foreign exchange position to calculate the capital requirement for foreign exchange risk.

During the financial years ended 31 December 2022 and 31 December 2021, the Bank has met all external capital requirements at all times.

2. Financial risk management (continued)

2.5 Capital risk management (continued)

The following table shows the components of the Bank's capital base in accordance with the applicable requirements.

	2022 €	2021 €
Common Equity Tier 1 (CET1) Capital		
Share capital	23,000,000	23,000,000
Fair value reserve	(1,985,079)	(141,469)
Retained earnings		
Previous year's retained earnings	16,027,874	11,621,092
Profit for the year	8,268,914	4,406,782
Dividends	(5,000,000)	-
	<hr/>	<hr/>
CET1 capital before regulatory adjustments	40,311,709	38,886,405
Deductions:		
Intangible assets	(2,924,428)	(2,530,088)
	<hr/>	<hr/>
Total own funds	37,387,281	36,356,317

2.6 Fair value of financial assets and liabilities

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions.

The recurring fair value measurements are consequently determined according to the following hierarchy:

- *Level 1 – quoted market price:* financial instruments with quoted prices for identical instruments in active markets.
- *Level 2 – valuation technique using observable inputs:* financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- *Level 3 – valuation technique with significant unobservable inputs:* financial instruments valued using models where one or more significant inputs are unobservable.

Financial instruments measured at fair value

The best evidence of fair value is a quoted price in an actively traded market. The fair value of financial instruments that are quoted in active markets is based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell.

2. Financial risk management (continued)

2.6 Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

In the event that the market for a financial instrument is not active, a valuation technique is used. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products.

The financial assets categorised within Level 1 comprise the Bank's investment in two Malta Government Stocks (2021: two) which are listed on the Malta Stock Exchange. The fair value of the Malta Government Stocks is determined on the basis of the quoted bid price at the close of trading on the year-end date, which amounted to €12,806,310 (2021: €14,788,780). The market in respect of Malta Government Stocks is regarded as active since quoted prices are readily and regularly available and prices represent actual and regularly occurring market transactions on an arm's length basis.

The Bank's derivative instruments are categorised as Level 2 since the fair values are determined utilising valuation techniques, involving primarily the use of discounted cash flow techniques. The fair values referred to are determined by reference to market prices or rates (forward foreign exchange rates) quoted at the end of the reporting period. The valuation techniques used are supported by observable market prices or rates since these variables include only data from observable markets. The open derivatives at 31 December 2022 and 2021 were entered into on 31 December and the fair value of such derivatives was insignificant.

The Bank's financial asset categorised within Level 3 comprises the Bank's investment in Visa Inc. preference shares, which as at 31 December 2022 amounted to €2,339,461 (2021: €3,642,088) and are measured at FVPL. These preference shares are classified as Level 3 as the valuation is dependent upon a number of assumptions including the value of Visa Inc.'s quoted ordinary shares, a discount rate, a further discount for lack of marketability, and a conversion ratio, which as explained in Note 8 can be adjusted for potential losses from Visa Europe's interchange litigations. As at the reporting date, there were no identical transactions with regularly available market prices in respect of such preference shares.

Also as explained in Note 8, as a holder of a share of Preferred Stock, during 2022 the Bank received a number of shares of Series A Convertible Participating Preferred Stock, that was automatically convertible into 19,400 Class A Common Stock, which the Bank sold in November 2022.

2. Financial risk management (continued)

2.6 Fair value of financial assets and liabilities (continued)

Financial instruments measured at fair value (continued)

The table below provides a reconciliation of the fair value measurements in such Level 3 instruments.

	2022	2021
	€	€
At 1 January	3,642,088	2,995,056
Gains in fair value recognised in profit or loss	2,622,248	647,032
Disposal of assets (Note 8)	(3,924,875)	-
At 31 December	2,339,461	3,642,088

In order to determine the fair value of the Visa Inc. preference shares as at 31 December 2022 and 2021, the Bank considered a range of potential outcomes, including the likely value of the potential level of losses from Visa Europe interchange litigation under different scenarios, based on probability weightings.

It is reasonably possible that if Visa Europe interchange litigation progresses within the next financial year and more information becomes available about the likely value of the potential losses, changes in assumptions determining the fair value could require a material adjustment to the carrying amount of the Visa Inc. preference shares.

Changes to unobservable assumptions will change the overall fair value of the preference shares. In this respect, if the discount for the lack of marketability was assumed to shift by 500 basis points, it would result in the following effects on the fair value of the instruments:

	As at 31 December	
	2022	2021
	Increase/ (decrease)	Increase/ (decrease)
	€	€
Discount for the lack of marketability increases by 5%	(150,301)	(260,798)
Discount for the lack of marketability decreases by 5%	150,301	260,798

With respect to the outcome of litigation proceedings, as further notifications, claims and settlements evolve, the Bank will re-evaluate the likely litigation cost as part of the fair valuation process.

No transfers of financial instruments between different levels of the fair value hierarchy have occurred during the financial years ended 31 December 2022 and 2021.

2. Financial risk management (continued)

2.6 Fair value of financial assets and liabilities (continued)

Financial instruments not measured at fair value

Certain financial assets and liabilities are carried at amortised cost. The following table sets out the carrying amounts of these financial assets and liabilities:

	2022	2021
	€	€
Assets		
Cash and balances with Central Bank of Malta	77,929,412	71,522,603
Funds receivable from merchants	3,098,176	1,797,922
Loans and advances to banks and financial institutions	50,511,632	43,917,276
Loans and advances to customers	6,824,088	4,635,676
Debt and other fixed income instruments	4,795,235	11,071,542
Funds advanced under collateral arrangements	33,627,939	27,190,859
Other assets	2,866,577	464,379
	179,653,059	160,600,257
Liabilities		
Amounts owed to customers	43,184,845	60,633,781
Settlement processing obligations	118,459,673	81,614,640
Lease liabilities	1,310,346	77,784
Other liabilities	8,530,160	9,253,227
	171,485,024	151,579,432

The fair value of these financial assets and liabilities are not disclosed given that their carrying amounts are a reasonable approximation of their fair value because these either re-price to current market rates frequently, are short-term in nature or are otherwise immaterial.

3. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which may differ from actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

Estimates and judgements are continually evaluated taking into consideration 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, considering the materiality of the impact relating to the fair valuation of the Bank's interest in Visa Inc. measured at FVPL and the materiality of the potential impact arising from ECLs in respect of loans and advances to customers, the accounting estimates and judgements 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.

3. Critical accounting estimates and judgements (continued)

The directors believe that there are no other areas involving a higher degree of judgement that have a significant risk of resulting in a material adjustment and that may have a significant effect on the amounts recognised in the financial statements; and there are no key assumptions and key sources of estimation uncertainty relating to estimates that require directors' most difficult, subjective or complex judgments.

4. Cash and balances with Central Bank of Malta

	2022	2021
	€	€
Cash in hand	642	638
Balances with Central Bank of Malta	77,932,490	71,525,922
Allowances for expected credit losses	(3,720)	(3,957)
	77,929,412	71,522,603

Deposits with the Central Bank of Malta as at 31 December 2022 represent mandatory reserve deposits amounting to €44 (2021: €144,022), as required in terms of Article 32 of the Central Bank of Malta Act, Cap. 204 of the Laws of Malta. These are not available for use in the Bank's day-to-day operations. Balances with Central Bank of Malta also include €195,723 (2021: €360,159) pledged in favour of the Depositor Compensation Scheme.

The balances with the Central Bank of Malta are also held to fulfil any Liquidity Coverage Ratio ('LCR') requirement. During the year, the reserve holdings in excess of the minimum reserve requirements were subject to a deposit facility interest rate ranging from -0.50% to 2.00% (2021: -0.50%).

5. Funds receivable from merchants

	2022	2021
	€	€
Funds receivable from merchants	3,226,889	2,019,528
Allowances for expected credit losses	(128,713)	(221,606)
	3,098,176	1,797,922

The funds receivable from merchants as at 31 December 2022 and 2021 represent balances where the Bank agrees to transfer the amounts due to the merchants before receipt from the card schemes. In the event that the amounts are not received from the card schemes, the Bank has the right to claim the funds back from the merchants.

6. Loans and advances to banks and financial institutions

	2022	2021
	€	€
Repayable on call and at short notice	50,513,567	43,918,815
Allowances for expected credit losses	(1,935)	(1,539)
	50,511,632	43,917,276

Loans and advances to banks with a contractual maturity of three months or less are included in cash and cash equivalents in the statement of cash flows.

7. Loans and advances to customers

	2022	2021
	€	€
Term loans	6,906,400	4,840,292
Allowances for expected credit losses	(82,312)	(204,616)
	6,824,088	4,635,676

Loans and advances to customers consist of credit facilities granted to specific merchants with fixed maturity dates and are subject to fixed interest rates ranging between at 4.5% and 10%.

During the financial year ended 31 December 2022, there were no instances of non-performing exposures (2021: nil).

8. Financial investments

	2022	2021
	€	€
Financial assets mandatorily measured at FVPL		
Investment in Series C Visa Inc. preferred stock	2,339,461	3,642,088
Financial assets at FVOCI		
Debt and other fixed income instruments	12,806,310	14,788,780
Financial assets at amortised cost		
Debt and other fixed income instruments	4,869,805	11,188,513
Allowances for expected credit losses	(74,570)	(116,971)
	19,941,006	29,502,410

8. Financial investments (continued)

Financial assets mandatorily measured at FVPL

Financial assets mandatorily measured at FVPL as at 31 December 2022 and 2021 comprise preference shares of Visa Inc., which were received by the Bank in exchange for its membership interest in Visa Europe Limited, as part of a transaction in which Visa Europe Limited was acquired by Visa Inc.

The preference shares are convertible into Class A ordinary shares of Visa Inc. and represent a residual interest in the issuer's net assets. They have been issued to provide Visa Inc. with protection against all litigation risk associated with interchange fees linked to the activity of Visa Europe Limited, such that if litigation losses occur as a result of interchange fees linked to the activity of Visa Europe Limited prior to its acquisition by Visa Inc, these would be borne by the previous members of Visa Europe Limited.

In this respect, following the determination of any liability, Visa makes a "conversion adjustment" to the Class A Common Equivalent Number for the preference shares, which transfers the litigation risk described above from Visa Inc. to the holders of the preference shares. As a result, the holders of the preference shares, including the Bank, are exposed to litigation risk.

Accordingly, the preference shares are mandatorily measured at fair value as they have failed the SPPI test.

Effective 29 July 2022, Visa Inc. announced the release of approximately \$1.9 billion of Series C Convertible Participating Preferred Stock. The release effectively resulted in a partial conversion of the Preferred Series C Stock into Class A Common Stock (i.e. ordinary shares) of Visa Inc. as well as a downward "conversion adjustment" to the Class A Common Equivalent Number for the Series C Preferred Stock.

For the Bank, the release has resulted in the holding of 19,400 Class A Common Stock, which were sold in November 2022 with a downward conversion adjustment from 6.824 to 3.645 to Series C Preferred Stock, such that the Bank holds 53% of the preferred stock held prior to the release.

As noted previously, the conversion rate adjustment referred to above is dependent upon the uncertain outcome of litigation. Hence, the value of the preference shares depends on the level and success of any future litigation, which is not possible to assess with a degree of certainty. The estimation of these litigation costs has been factored into an internal valuation model for the preference shares, based on the professional judgement of the Bank's Senior Management. Thus, the estimation arrived at for the purposes of these financial statements remains the best available forecast. Accordingly, the reported amounts are sensitive to the assumptions, estimates and model used for the purposes of valuing the preference shares. In this respect, a sensitivity analysis has been performed as disclosed within Note 2.6.

As further notifications, claims and settlements evolve, the Bank will re-evaluate the likely litigation cost as part of the fair valuation process.

Financial assets at FVOCI

Debt instruments measured at FVOCI represent investments in Malta Government Stocks. Instruments with a carrying amount of €8.36 million (2021: €9.77 million) have been pledged against the provision of credit lines by the Central Bank of Malta. At 31 December 2022 and 2021, no balances were outstanding against these credit lines.

8. Financial investments (continued)

Financial assets at amortised cost

The debt and other fixed income instruments held at amortised cost as at 31 December 2022 and 2021 consist of a bond issued by a compartment cell within a securitisation vehicle which invests in consumer credit loan receivables originated by a third-party bank.

The Bank is the sole investor in the bond issued by the compartment cell, which entitles the Bank to the net returns generated by the underlying portfolio of consumer credit loans. More specifically, the return on the Bank's investment equates to the interest income generated by the underlying portfolio of loans, net of credit losses, management and administrative fees relating to the portfolio and compartment cell respectively. The bond also entitles the Bank to determine the date at which the payment of principal and interest is due, as well as the interest rate at which the distribution is made.

The lifetime of the instrument is split into two periods being a reinvestment period and an amortisation period. During the reinvestment period, which was subject to the discretion of the Bank and expired on 31 December 2021, the Bank determined a fixed distribution rate, with all residual income being reinvested automatically within the compartment cell to acquire new consumer credit loans.

Subsequent to the expiry of the reinvestment period, the underlying portfolio is being run-off with net proceeds fully distributed to the Bank in the form of principal and interest payments. During 2021, the Board of Directors decided to commence the amortisation period as from 1 January 2022. The instrument is currently being redeemed in line with the repayments of the underlying loans which have an expected weighted average residual maturity of 4 years (2021: 5 years).

The Bank assessed and concluded that in the light of IFRS 10 requirements, it has no control over the compartment cell and accordingly, does not consolidate it. In addition, the Bank concluded that the bond should be accounted for at amortised cost on the basis that it is held to collect contractual cashflows deriving from operations of the compartment cell, as well as on the basis that the cashflows from the bond, which in terms of IFRS 9 para B4.1.17 are dependent on the cashflow characteristics of the underlying assets, meet the SPPI criteria.

Following the commencement of the amortisation period, the gross carrying amount of the investment has been remeasured as a result of the early repayment rate of consumer credit loans, which resulted in a loss of €782,453 being recognised in profit or loss.

The directors have determined that in the context of the Bank's operations, its exposure to the compartment cell is considered insignificant. Accordingly, the directors have determined that disclosures in respect of changes in the risks associated with this investment are not warranted.

9. Funds advanced under collateral arrangements

	2022	2021
	€	€
Funds advanced under collateral arrangements	33,646,119	27,204,404
Allowances for expected credit losses	(18,180)	(13,545)
	33,627,939	27,190,859

Funds advanced under collateral arrangements represent amounts pledged in favour of card schemes that serve as collateral against the credit risk of the Bank.

10. Property and equipment

	Computer and electronic equipment €	Fixtures, fittings and office furniture €	Total €
Cost			
As at 1 January 2021	924,399	427,889	1,352,288
Additions	78,728	1,375	80,103
Disposals	(54,811)	(1,980)	(56,791)
As at 31 December 2021	948,316	427,284	1,375,600
Additions	149,517	2,893	152,410
Disposals	(19,551)	-	(19,551)
As at 31 December 2022	1,078,282	430,177	1,508,459
Accumulated depreciation			
As at 1 January 2021	736,676	372,736	1,109,412
Charge for the year	67,460	15,581	83,041
Depreciation released on disposals	(53,868)	(1,023)	(54,891)
As at 31 December 2021	750,268	387,294	1,137,562
Charge for the year	80,839	13,621	94,460
Depreciation released on disposals	(16,352)	-	(16,352)
As at 31 December 2022	814,755	400,915	1,215,670
Net Book Value			
As at 1 January 2021	187,723	55,153	242,876
As at 31 December 2021	198,048	39,990	238,038
As at 31 December 2022	263,527	29,262	292,789

11. Right-of-use assets

As at 31 December 2022 and 2021, the Bank was party to non-cancellable lease agreements of properties in respect of which the future minimum lease payments extend over a number of years. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

During 2022 the Bank extended its principal office lease for an additional period of 5 years and recognised the amount of the remeasurement of the lease liability as an adjustment to the existing right-of-use asset since the modification did not increase the scope of the lease by adding the right to use one or more underlying assets.

The Bank also has some other 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.

	2022	2021
	€	€
At 1 January	150,020	356,135
Re-measurement attributable to changes in variable lease payments	6,364	1,057
Re-measurement attributable to the extension of the lease term	1,248,698	-
Depreciation	(221,894)	(207,172)
At 31 December	1,183,188	150,020

The right-of-use assets at the end of the reporting period relate solely to the leased office space.

12. Intangible assets

	Computer software and licenses €
Cost	
As at 1 January 2021	7,626,181
Additions	845,708
Write offs	(1,380,083)
	7,091,806
As at 31 December 2021	7,091,806
Additions	1,799,647
Disposals	(13,652)
	8,877,801
 Accumulated amortisation	
As at 1 January 2021	3,442,308
Charge for the year	1,717,227
Depreciation released on write offs	(597,817)
	4,561,718
As at 31 December 2021	4,561,718
Charge for the year	1,391,655
	5,953,373
 Net Book Value	
As at 1 January 2021	4,183,873
As at 31 December 2021	2,530,088
	2,924,428

During 2022, additions to computer software amounting to €413,893 (2021: €117,995) relate to assets in the course of development. As at 31 December 2022, the total assets in the course of development amounted to €531,888 (2021: €117,995).

13. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 5% (2021: 5%), which is the effective rate of tax applicable to the fiscal unit of which the Bank forms part under the Consolidated Group (Income Tax) Rules as described in Note 1.13.

13. Deferred taxation (continued)

The net movement in the deferred tax assets/(liabilities) is as follows:

	2022	2021
	€	€
At beginning of year	(6,071)	(58,376)
<i>Recognised in profit or loss (Note 35)</i>		
Deferred taxes on temporary differences arising on depreciation of property and equipment	(4,178)	31,355
Deferred taxes on temporary differences arising on ECLs	(5,546)	753
Deferred taxes on unutilised tax losses assumed by the principal taxpayer	-	(1,343)
<i>Recognised in other comprehensive income</i>		
Fair value movements on financial instruments	97,032	20,196
Over-assumption of deferred taxes by the principal taxpayer in the prior period	-	1,344
At end of year	81,237	(6,071)

The balance at 31 December represents temporary differences attributable to:

	2022	2021
	€	€
Unrealised fair value losses on financial assets	104,478	7,446
Accelerated tax depreciation on fixed assets	(34,726)	(30,548)
Allowances for expected credit losses	11,485	17,031
	81,237	(6,071)

Whereas tax losses and notional interest deductions have no expiry date and may be carried forward indefinitely, capital allowances expire upon disposal of the related asset.

With effect from 2019, the Bank forms part of a Fiscal Unit for Maltese income tax purposes in terms of the Consolidated Group (Income Tax) Rules ('Consolidated Group tax rules'), with Credorax Inc., the parent company, and another wholly owned Malta resident subsidiary of Credorax Inc. These Rules allow a group of companies to elect to be treated as one single taxpayer and to compute their chargeable income or losses on a consolidated basis.

In terms of the agreement, Credorax Inc., the parent company, is considered as the 'principal taxpayer' of the fiscal unit and assumes the rights, duties and obligations under the Maltese Income Tax Act relative to the entities forming part of the fiscal unit.

On adoption of the Consolidated Group tax rules, the Maltese tax liabilities otherwise due on the taxable profits of the Bank can be set off against the 6/7ths tax refund otherwise due thereon to Credorax Inc, resulting in the principal taxpayer to immediately account for the tax due at the 5% effective tax rate. This saves the Consolidated Group the time lapse previously required between the payment of the standard corporate income tax rate of 35% at the level of the Bank, and the subsequent receipt of a shareholder refund at the level of Credorax Inc., following a distribution of dividends upon which such tax would have been charged and paid.

13. Deferred taxation (continued)

As part of this process, the Bank entered into a tax sharing and funding agreement with Credorax Inc. and the other entity that forms part of the Fiscal Unit, which provides for the allocation of income taxes to the fiscal unit members.

The allocation of tax within the Fiscal Unit is calculated as if each member entity was an individual entity for tax purposes, with taxes allocated by reference to the chargeable income/losses of each member entity and recognised fully in each member entity's own financial statements. Furthermore, while each entity within the Fiscal Unit is jointly and severally liable for the payment of the Fiscal Unit's tax liabilities, the principal taxpayer, has the legal obligation to remit these amounts.

In addition, under the terms of this agreement, the parent, as principal taxpayer, assumes the obligation to remit taxes to the Maltese Inland Revenue, and the member entities compensate Credorax Inc. for their share of tax payable assumed by the parent or conversely be compensated for their share of any tax receivable.

Importantly, the parent's obligation towards the Maltese Inland Revenue is independent of the member entities' actual settlement with the parent of their share of the Fiscal Unit's tax burden. Accordingly, Credorax Inc., as principal taxpayer, assumes the credit risk of the other member entities defaulting on settlement.

As a result, the Bank recognises current tax liabilities, deferred tax assets arising from unused tax losses and tax credits arising from this allocation process as a liability towards or asset receivable from the parent.

During 2022 and 2021 the Bank did not have any deferred tax assets arising from unused tax losses, which in line with the terms of the agreement the Bank would derecognise in order to recognise a receivable from the principal taxpayer. In 2021, however, there was an over-assumption of deferred tax assets by Credorax Inc. amounting to €1,344, which has been recognised as a payable by the Bank to Credorax Inc. and included within amounts owed to group undertakings (Note 23) in accordance with the terms of the common assignment agreement entered into between Credorax Inc. and all of its subsidiaries (Note 1.13 and 14).

14. Other assets

	2022	2021
	€	€
Amounts owed by group undertakings	1,950,830	-
Allowances for expected credit losses	(48,987)	-
	1,901,843	-
Prepayments made to group undertakings	12,600,000	8,300,917
Other prepayments and receivables	1,614,701	1,081,012
	16,116,544	9,381,929

Accrued income amounting to €289,728 as at 31 December 2021 has been reclassified from amounts owed to merchants (Note 21) to other prepayments and receivables to conform to current year presentation.

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

14. Other assets (continued)

Credorax Inc. and all of its subsidiaries are subject to a common assignment agreement in respect of the settlement of debts arising from services between entities in the normal course of business. The agreement allows for the assignment of debt amongst parties and entitles the assignees to set-off any assigned debt against receivables from the debtor counterparty in the normal course of business. It is intended to allow group undertakings to settle debts on a net basis and is deemed legally enforceable. Accordingly, amounts owed by/to group undertakings are reported in the statement of financial position on a net basis. Prepayments for services acquired from group companies are not subject to the assignment agreement. As a result, prepayments cannot be netted off with amounts owed to group undertakings.

As referred to in Note 1.13 and Note 13, the Bank forms part of a Fiscal Unit for Maltese income tax purposes, under which the parent, as principal taxpayer, assumes the obligation to remit taxes to the Maltese Inland Revenue. As a result, the Bank recognises current tax liabilities, deferred tax assets arising from unused tax losses and tax credits arising from this allocation process as an asset receivable from or a liability towards the parent.

In this respect, the Bank's current tax liability, which as at 31 December 2022 amounted to €293,254 (2021: €229,542), has been recognised as a liability towards the parent and set-off against amounts owed by group undertakings.

15. Share capital

	2022	2021
	€	€
Authorised Ordinary shares of €1 each		
200,000,000 Ordinary shares of €1 each	200,000,000	200,000,000
Issued and fully paid		
23,000,000 Ordinary shares of €1 each	23,000,000	23,000,000

16. Fair value reserve

The fair value reserve reflects the effects of the fair value measurement of financial instruments classified and measured at fair value through other comprehensive income, net of deferred taxes. Any gains or losses are not recognised in profit or loss until the asset has been sold.

17. Share-based compensation reserve

The share-based compensation reserve comprises the fair value of services provided by directors and selected employees of the Bank in exchange for the grant of share options (see Note 18) which amount is recognised as an expense in the Bank's profit or loss over the vesting period against a corresponding increase in shareholders' equity in accordance with the Bank's accounting policy.

Upon vesting of the share options granted, Credorax Inc. recharges to the Bank the grant date fair value of the share options. Accordingly, upon vesting, the recharge is recognised by the Bank as a liability to the parent. During 2022, vested share options recognised as a liability to the parent amounted to €461,326 (2021: €171,012).

17. Share-based compensation reserve (continued)

Unsettled balances are recognised in the statement of financial position as payables within amounts owed to group undertakings and are subject to the group's assignment agreement as explained further in Note 14.

18. Share-based employee compensation

During 2012, Credorax Inc., the Bank's parent, introduced a share-based employee compensation plan (the 'Plan') under which options to purchase ordinary shares of Credorax Inc. are granted to directors and selected employees of Group companies, including those of the Bank.

No consideration is payable on the grant of an option. Options may generally be exercised to the extent that they have vested. The options vest according to the relevant schedule generally within four years after the grant date and expire within ten years after the date of grant. The exercise price is determined by the Board of Directors of Credorax Inc. Outstanding options comprise options existing as at the end of the reporting period not cancelled or exercised by their respective beneficiaries (employees and directors). Options are cancelled when the entity that is granting the options cancels the grant of the equity instrument through a decision taken by the Board of Directors. Options are forfeited when the beneficiary terminates his employment with the Bank. Options that vested as of the termination date may be exercised but only within such period of time ending on the earlier of ninety (90) days following the termination date or the expiration date.

The weighted average grant date fair value of the share options granted to the Bank's officers and employees during the year amounted to USD14.32 (2021: USD7.73). The entity applied a binomial option pricing model to determine the grant date fair value of share options granted up to 31 December 2014 and a Black-Scholes pricing model for the grant date fair value of share options granted from 2015 onwards. Model inputs include the share price of Credorax Inc. at grant date, exercise price, expected volatility of 40.67% (2021: 45.19%) which is based on historical volatility of the share price, dividend yield of nil% (2021: nil%), contractual life of nine years (2021: ten years), and a risk free interest rate of 1.62% (2021: between 1.71% and 2.16%). A summary of the share options activity for the year ended 31 December is as follows:

	2022		2021	
	Number of share options	Weighted average exercise price USD	Number of share options	Weighted average exercise price USD
At 1 January	705,233	7.21	687,083	7.21
Granted	33,000	14.32	109,900	7.73
Forfeited	(52,906)	4.71	(91,150)	4.72
Exercised	(125)	7.56	(600)	11.01
At 31 December	685,202	8.15	705,233	7.21

During the financial year under review, 51,100 (2021: 51,438) options at a weighted exercise price of USD8.20 (2021: USD7.56) had vested. As at 31 December 2022, 584,433 (2021: 578,208) share options were exercisable at a weighted average price of USD7.91 (2021: USD7.57). 125 options were exercised during the financial year ended 31 December 2022 (2021: 600).

18. Share-based employee compensation (continued)

The weighted average remaining contractual life of options outstanding as at 31 December 2022 and 2021, analysed by exercise price were as follows:

	2022		2021	
	Options granted	Weighted average remaining contractual life	Options granted	Weighted average remaining contractual life
Option price				
USD2.60	52,933	1.49	52,933	1.06
USD3.80	30,250	0.21	74,250	1.01
USD6.40	47,000	0.36	47,000	1.36
USD7.56	295,775	7.07	300,150	8.14
USD9.00	91,500	1.25	68,200	2.07
USD11.01	136,900	2.98	160,200	3.88
USD15.00	30,844	9.06	-	-
USD15.47	-	-	2,500	9.91

The total expense recognised in the Bank's financial statements throughout the period in relation to share-based employee compensation amounted to €800,119 (2021: €478,806) and is included within employee compensation and benefits (refer to Note 32).

19. Derivative financial instruments

The Bank enters into derivatives primarily to manage its foreign exchange risk. The derivative financial instrument outstanding at 31 December 2022 related to the forward purchase of USD 21 million (2021: USD 26.5 million) against the Euro at a contractual rate of 1.0687 (2021: 1.1332). The foreign exchange forward contract matures within one month (2021: one month) from the end of the reporting period. The Bank entered into the derivative on the reporting date and the fair value of such derivative is insignificant.

20. Amounts owed to customers

	2022	2021
	€	€
Term deposits	41,014,694	56,554,439
Redeemable at notice	1,249,130	3,129,206
Repayable on demand	921,021	950,136
	43,184,845	60,633,781

Amounts owed to customers are classified as liabilities at amortised cost. Term deposits held as at the reporting date are subject to fixed rates of interest ranging from 0.20% to 3.00% (2021: 0.15% to 1.42%), while deposits redeemable at notice are not subject to any interest (2021: interest rate of 0.25%).

21. Settlement processing obligations

	2022	2021
	€	€
Amounts owed to merchants	118,459,673	81,614,640

Amounts owed to merchants relate to funds already received from card schemes in the process of settlement to merchants.

Accrued income amounting to €289,728 as at 31 December 2021 has been reclassified from amounts owed to merchants to other prepayments and receivables (Note 14) to conform to current year presentation.

Commissions payable to partners amounting to €846,764 as at 31 December 2021 have been reclassified from other settlement processing obligations to accruals and other payables (Note 23) to conform to current year presentation.

22. Lease liabilities

Lease liabilities relate to the lease of office premises by the Bank. During 2022 the Bank extended its office lease for an additional period of 5 years. The extension has been accounted for as a lease modification in accordance with IFRS 16.

The movement in lease liabilities is analysed below:

	2022	2021
	€	€
Lease liabilities		
At 1 January	77,784	292,041
Re-measurement attributable to changes in variable lease payments	6,364	1,057
Re-measurement attributable to the extension of the lease term	1,248,698	-
Interest expense on lease liability	64,115	18,974
Repayment of lease liability	(86,615)	(234,288)
At 31 December	1,310,346	77,784

Expenses relating to short term and low value leases amounted to €21,769 (2021: €16,433)

23. Other liabilities

	2022	2021
	€	€
Amounts owed to group undertakings (Note 41)	-	2,450,640
Indirect taxation	176,487	123,692
Accruals and other payables	8,353,673	6,678,895
	8,530,160	9,253,227

As referred to in Note 14, Credorax Inc. and all of its subsidiaries are subject to a common assignment agreement. As such, amounts owed by/to group undertakings are reported in the statement of financial position on a net basis.

Commissions payable to partners amounting to €846,764 as at 31 December 2021 have been reclassified from other settlement processing obligations (Note 21) to accruals and other payables to conform to current year presentation.

24. Interest and similar income

	2022	2021
	€	€
On loans and advances to banks	1,334,039	133,230
On loans and advances to customers	94,193	358,821
On debt and other fixed income instruments	375,977	447,494
On other assets	21,280	383
	1,825,489	939,928

25. Interest expense

	2022	2021
	€	€
On loans and advances to banks	175,710	236,028
On amounts owed to customers	557,883	641,639
On collateral arrangements	76,632	110,218
On lease liability	64,115	18,974
	874,340	1,006,859

26. Fee and commission income

	2022	2021
	€	€
Acquiring revenue	206,927,221	147,155,176
Other fees	6,391,959	4,463,441
	213,319,180	151,618,617

27. Fee and commission expense

	2022	2021
	€	€
Transaction and other processing fees	75,985,330	51,483,053
Fees paid to card schemes	59,920,656	47,370,901
Sales commissions	14,395,377	7,354,237
Other fee and commission expenses	1,860,440	1,304,536
	152,161,803	107,512,727

Wire fees amounting to €932,546 in 2021 have been reclassified from fees paid to card schemes to other fee and commission expenses to conform to current year presentation.

Other fee and commission expenses for the current reporting period include wire fees amounting to €122,365 charged by a related entity.

28. Other income

Other income in 2021 related to proceeds which the Bank had received as a final settlement to a claim for damages that the Bank had with one of its disconnected merchants.

29. Net trading income

	2022	2021
	€	€
Net fair value losses on derivative financial instruments	(1,863,649)	(2,373,409)
Net income from foreign exchange activities	12,613,902	13,857,968
Other foreign exchange differences	1,658,044	1,359,280
	12,408,297	12,843,839

30. Net income from financial instruments mandatorily measured at FVPL

	2022	2021
	€	€
Changes in fair value	2,634,075	647,032
Dividend income	46,505	25,249
	2,680,580	672,281

31. Gain on disposal of financial instruments measured at FVOCI

During 2021, the Bank sold an investment in Malta Government Stock, on which it has recognised a gain of €190,841. This gain was reclassified from the Bank's other comprehensive income to profit or loss upon sale of investment.

32. Employee compensation and benefits

	2022	2021
	€	€
Wages and salaries	9,074,533	7,297,941
Social security costs	257,588	134,342
Employees' share-based compensation	800,119	478,806
	10,132,240	7,911,089

Average number of persons employed by the Bank during the year were as follows:

	2022	2021
Managerial	53	35
Supervisory and clerical	91	91
Others	4	4
	148	130

The Bank contributes towards the State defined contribution pension plan in accordance with local legislation and also contributes toward a defined contribution employee pension plan in exchange for services rendered by employees. The Bank has no commitment beyond the payment of fixed contributions which are recognised as an expense in the income statement when they fall due.

33. General and administration expenses

	2022	2021
	€	€
Services from group undertakings:		
Technical support	39,846,579	30,957,716
Management	4,000,000	4,000,000
Sales and marketing	5,396,227	3,669,984
Travelling and accommodation	554,968	320,911
Legal and professional fees	1,052,908	1,369,421
Auditor's remuneration	155,000	140,000
Short-term and low-value lease expenses	21,769	16,433
Consultancy fees	1,245,503	544,785
Write-off of intangible assets	-	779,197
Other expenses	3,913,098	2,543,401
	56,186,052	44,341,848

The total cash payments for leases, including short-term and low-value leases, in 2022 was €108,384 (2021: €250,721). The depreciation expense on right-of-use assets and the interest expense attributable to lease liabilities are disclosed within Notes 11 and 25 respectively.

33. General and administration expenses (continued)

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

	2022	2021
	€	€
Annual statutory audit	155,000	140,000
Tax advisory services	2,850	18,100
Other non-assurance services	60,000	80,000
	217,850	238,100
	217,850	238,100

34. Changes in expected credit losses and other impairment allowances

	2022	2021
	€	€
Amounts written off during the year	(20,574)	(14,923)
Changes in expected credit losses:		
Receivables from merchants		
Reversal attributable to amounts written off	20,574	14,923
Other receivables from merchants	72,319	(133,980)
Investments in debt securities - amortised cost	42,401	(64,958)
Investments in debt securities - FVOCI	-	1,445
Loans and advances to banks	(159)	(5,250)
Loans and advances to customers	122,304	(35,987)
Funds advanced under collateral arrangements	(4,635)	(5,325)
Other	(48,987)	94,996
	183,243	(149,059)
	183,243	(149,059)

35. Tax expense

	2022	2021
	€	€
Current tax	(293,254)	(229,542)
Deferred tax (Note 13)	(9,724)	30,765
	(302,978)	(198,777)

The tax recognised in profit or loss differs from the theoretical amount that would arise using the basic tax rate as follows:

	2022	2021
	€	€
Profit before tax	8,571,892	4,605,559
Tax at the applicable rate of 5%	(428,595)	(230,278)
Tax effect of:		
Non-taxable income	131,704	32,352
Expenses not deductible for tax purposes	(3,075)	(2,841)
Other	(3,012)	1,990
	(302,978)	(198,777)

36. Cash and cash equivalents

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

	2022	2021
	€	€
Cash and balances with Central Bank of Malta (Note 4)	77,933,132	71,526,560
Loans and advances to banks and financial institutions (Note 6)	50,513,567	43,918,815
Cash and cash equivalents	128,446,699	115,445,375
Adjustments for:		
Expected credit loss allowances	(5,655)	(5,496)
Cash and cash equivalents (net of credit allowances)	128,441,044	115,439,879

37. Commitments

Commitments relating to the acquisition of new software licenses and operating expenditure, which are not material to disclose individually, are as follows:

	2022	2021
	€	€
Not later than 1 year	538,267	733,589
Later than 1 year and not later than 5 years	134,230	180,689
	672,497	914,278

38. Contingencies

As at 31 December 2022 and 2021, the Bank had no legal proceedings outstanding against it arising in its normal course of business.

39. Dividend distribution

During the year, the Bank declared and paid an interim dividend of €5 million from the Bank's profits available for distribution, to the Bank's shareholder. The directors do not recommend the payment of a final dividend.

40. Related parties

40.1 Related party relationships

Related parties of the Bank include the ultimate parent, all entities controlled by the ultimate parent ('group undertakings'), 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 Credorax Bank Limited, being the Directors.

40. Related party transactions (continued)

40.2 Related party balances and transactions

The following are the main transactions carried out with related parties:

	2022	2021
	€	€
<i>Services rendered by group undertakings:</i>		
Technical support	39,846,579	30,957,716
Sales and marketing	5,396,227	3,669,984
Management	4,000,000	4,000,000
Wire fee expense	122,365	4,715
	49,365,171	38,632,415
 <i>Other purchases from group undertakings:</i>		
Additions to computer software	1,437,800	669,691
 <i>Directors' emoluments (including non-executive directors):</i>		
Salaries and other emoluments	79,000	79,000

None of the directors received any emoluments in the form of share options.

During 2022, the Bank procured services from group companies in the amount of €49,365,171 (2021: €38,632,415) of which €8,300,917 were prepaid during 2021. Additionally, the Bank paid an amount of €12,600,000 in prepaid services for 2023 (Note 14). The remaining balances of €41,064,254 (2021: €36,928,617) were offset against the receivables due by the ultimate parent, Credorax Inc., in accordance with the terms of the common assignment agreement entered into between Credorax Inc. and all of its subsidiaries (refer to Note 14).

During 2022, the Bank also advanced a total of €56,999,773 (2021: €35,772,755) to finance the operations of various group entities and received funds amounting to €6,533,844 (2021: €2,416,016) on behalf of other group companies. In addition, a total amount of €1,695,092 (2021: €629,036) was paid by group entities on behalf of Credorax Bank.

The Bank has recorded foreign exchange losses of €1,863,649 (2021: €2,373,409) (Note 29) on the forward contracts entered into with Credorax Inc. which was offset against the receivables due by the ultimate parent.

Further to the above, during 2022, the Bank acquired software from related entities amounting to €1,437,800 (2021: €669,691). These were also offset against the advances by the Bank referred to above.

Also, as part of the Bank's change in tax status described in Note 13, a current tax liability of the Bank amounting to €293,254 (2021: €229,542) (Note 35) has been assumed by the parent company, Credorax Inc., under the tax funding agreement. This balance was added to the payables due to the ultimate parent, Credorax Inc., in accordance with the terms of the common assignment agreement referred to above.

Unrealised foreign exchange gains on the intercompany balance amounted to €750,916 (2021: €444,439).

40. Related party transactions (continued)

40.2 Related party balances and transactions (continued)

As referred to in Note 17, during 2022 vested share options recognised as a liability to the parent amounted to €461,326 (2021: €171,012).

Balances with related parties as at the end of the reporting period are disclosed in Notes 14 and 23 to the financial statements.

41. Statutory information

Credorax Bank Limited is a limited liability company incorporated in Malta, with its registered address at 80, Palazzo Homedes, Strait Street, Valletta, VLT 1436, Malta.

The Bank's principal activity is the provision of integrated acquiring and payment processing services to merchants within the EU and two other EEC States and is also a principal level member with Visa (Europe) and MasterCard. During the financial year under review, the Bank continued operating as 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 immediate and ultimate parent company of Credorax Bank Limited is Credorax Inc., a company registered in the British Virgin Islands, with its registered address at Commerce House, Wickhams Cay 1, PO Box 3140, Road Town, Tortola.

Five year summary

Statement of financial position

	2022	2021	2020	2019	2018
	€	€	€	€	€
ASSETS					
Cash and balances with Central Bank of Malta	77,929,412	71,522,603	64,798,955	52,801,444	43,294,531
Funds receivable from merchants	3,098,176	1,797,922	4,051,803	5,333,687	2,832,251
Loans and advances to banks and financial institutions	50,511,632	43,917,276	33,004,409	19,383,728	43,272,815
Loans and advances to customers	6,824,088	4,635,676	8,477,219	2,039,267	1,086,798
Financial investments	19,941,006	29,502,410	23,803,896	5,389,689	2,672,053
Funds advanced under collateral arrangements	33,627,939	27,190,859	19,139,601	13,847,694	6,452,100
Property, plant and equipment	292,789	238,038	242,876	198,968	234,973
Right-of-use assets	1,183,188	150,020	356,135	514,483	-
Intangible assets	2,924,428	2,530,088	4,183,873	4,294,763	2,841,604
Deferred taxation	81,237	-	-	-	-
Other assets	16,116,544	9,381,929	5,427,121	2,925,054	7,927,137
Total assets	212,530,439	190,866,821	163,485,888	106,728,777	110,614,262
EQUITY AND LIABILITIES					
Equity					
Share capital	23,000,000	23,000,000	23,000,000	23,000,000	23,000,000
Fair value reserve	(1,985,079)	(141,469)	242,265	-	-
Share based compensation reserve	733,706	394,913	87,119	146,983	537,515
Retained earnings	19,296,788	16,027,874	11,621,092	10,932,928	10,699,810
Total equity	41,045,415	39,281,318	34,950,476	34,079,911	34,237,325
Liabilities					
Amounts owed to customers	43,184,845	60,633,781	60,862,158	10,639,696	5,193,145
Settlement processing obligations	118,459,673	81,614,640	62,672,609	58,696,443	64,771,701
Current taxation	-	-	-	-	2,785,029
Deferred taxation	-	6,071	58,376	241,112	464,238
Lease liabilities	1,310,346	77,784	292,041	452,276	-
Other liabilities	8,530,160	9,253,227	4,650,228	2,619,339	3,162,824
Total liabilities	171,485,024	151,585,503	128,535,412	72,648,866	76,376,937
Total equity and liabilities	212,530,439	190,866,821	163,485,888	106,728,777	110,614,262

Statement of comprehensive income

	2022	2021	2020	2019	2018
	€	€	€	€	€
Interest and similar income	1,825,489	939,928	780,529	845,374	386,868
Interest expense	(874,340)	(1,006,859)	(687,854)	(99,032)	(27,580)
Net interest income/(expense)	951,149	(66,931)	92,675	746,342	359,288
Fee and commission income	213,319,180	151,618,617	104,990,717	88,653,599	88,808,591
Fee and commission expense	(152,161,803)	(107,512,727)	(71,838,610)	(64,411,453)	(67,899,851)
Net fee and commission income	61,157,377	44,105,890	33,152,107	24,242,146	20,908,740
Other income	-	1,269,075	-	-	-
Remeasurement of financial assets measured at amortised cost	(782,453)	-	-	-	-
Net trading income	12,408,297	12,843,839	13,543,801	10,189,005	8,452,897
Net income from financial instruments mandatorily measured at FVPL	2,680,580	672,281	5,137,131	2,771,647	563,812
Gain on disposal of financial instruments measured at FVOCI	-	190,841	-	-	-
Operating income	76,414,950	59,014,995	51,925,714	37,949,140	30,284,737
Employee compensation and benefits	(10,132,240)	(7,911,089)	(6,723,127)	(6,231,390)	(6,187,757)
General and administration expenses	(56,186,052)	(44,341,848)	(42,817,580)	(17,676,547)	(7,584,836)
Reversal of provision for future chargebacks	-	-	-	500,000	920,352
Changes in expected credit losses and other impairment allowances	183,243	(149,059)	(246,095)	11,638	(1,258,171)
Depreciation and amortisation expense	(1,708,009)	(2,007,440)	(1,881,432)	(1,052,959)	(738,884)
Profit before income tax	8,571,892	4,605,559	257,480	13,499,882	15,435,441
Tax (expense)/credit	(302,978)	(198,777)	430,684	(266,764)	(4,813,865)
Profit for the year	8,268,914	4,406,782	688,164	13,233,118	10,621,576
Other comprehensive income:					
Net changes in fair value arising during the year, before tax	(1,940,642)	(594,771)	255,016	-	-
Reclassification to profit or loss upon sale of investment	-	190,841	-	-	-
Income tax relating to components of other comprehensive income	97,032	20,196	(12,751)	-	-
Other comprehensive income for the year, net of tax	(1,843,610)	(383,734)	242,265	-	-
Total comprehensive income for the year	6,425,304	4,023,048	930,429	13,233,118	10,621,576

Statement of cash flows

	2022	2021	2020	2019	2018
	€	€	€	€	€
Cash flows from operating activities					
Net cash generated from operations	8,756,611	23,373,920	39,129,096	(13,021,102)	35,727,896
Tax paid	-	-	-	(2,778,734)	(788)
Net cash generated from operating activities	8,756,611	23,373,920	39,129,096	(15,799,836)	35,727,108
Cash flows from investing activities					
Dividends received	46,505	24,625	61,541	52,970	32,020
Purchase of debt instruments	-	(15,953,770)	(20,462,700)	-	(126,771)
Proceeds from sale or maturity of debt instruments	5,875,000	10,677,178	136,649	-	86,670
Proceeds from sale of equity instruments	3,923,321	-	7,338,004	-	(7,450,259)
Proceeds from maturity of fixed term placement	-	-	-	7,721,657	-
Purchase of equipment	(152,410)	(80,103)	(129,520)	(53,624)	(78,036)
Proceeds from disposal of equipment	600	4,970	-	3,960	-
Purchase of intangible assets	(361,847)	(176,017)	(228,483)	(86,232)	(962,163)
Cash consideration received from Visa Inc.	-	-	-	1,435,624	-
Net cash used in investing activities	9,331,169	(5,503,117)	(13,284,509)	9,074,355	(8,498,539)
Cash flows from financing activities					
Payment of lease liabilities	(86,615)	(234,288)	(226,395)	(245,757)	-
Dividends paid	(5,000,000)	-	-	-	-
Net cash from financing activities	(5,086,615)	(234,288)	(226,395)	(245,757)	-
Net movement in cash and cash equivalents	13,001,165	17,636,515	25,618,192	(6,971,238)	27,228,569
Cash and cash equivalents at beginning of the year	115,439,879	97,803,364	72,185,172	79,156,410	51,927,841
Cash and cash equivalents at end of the year	128,441,044	115,439,879	97,803,364	72,185,172	79,156,410

CREDORAX BANK LIMITED

Pillar 3 Disclosures
31 December 2022

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1. Introduction

1.1 Description of business activities

The principal activity of Credorax Bank Limited (“Credorax” or “the Bank”), now trading as Finaro, comprises of the provision of integrated card acquiring and payment processing services to corporate entities in Europe. As part of its card acquiring services, the Bank performs the acceptance, processing, and settlement of payment transactions for its clients which typically comprise of online e-commerce companies (more commonly referred to as ‘merchants’). The Bank’s integrated platform enables the direct connectivity of merchants to the Visa and MasterCard networks, and provides robust data security mechanisms and tailored data analytics solutions.

Credorax Bank is a licenced credit institution in Malta, supervised directly by the Malta Financial Services Authority (“MFSA”), under the indirect oversight of the European Central Bank (“ECB”). The primary driver of obtaining a banking license was to further strengthen the Bank’s core offering of payment services products, including through the addition of business deposit accounts and financing products.

1.2 Overview of the Pillar 3 disclosure framework

This document presents the Pillar 3 disclosures of Credorax Bank Limited as at 31 December 2022.

As a ‘less significant institution’ based in the European Union, Credorax abides by the prudential requirements emanating from the Capital Requirements Directive and Regulation (“CRR/CRD IV framework”), which transposes global standards on bank capital and liquidity (Basel III framework) into EU law, including the recent amendments to this framework as published in CRR II and CRD V. This framework is based on a ‘three-pillars’ concept:

- Pillar 1: Minimum capital requirements;
- Pillar 2: Supervisory review; and
- Pillar 3: Market disclosures.

Under Pillar 1, minimum capital requirements are calculated on the basis of standard components of three categories of risk that an institution faces: credit risk, market risk and operational risk. These capital requirements need to be covered by sufficient own funds. Credorax uses the standardised approach for credit, the Basic Method Approach for foreign exchange risk (the main component of market risk), and the Basic Indicator Approach for operational risk to determine its minimum regulatory capital requirements.

Under Pillar 2, the supervisor reviews the viability of Credorax and its ability to meet prudential requirements. This Supervisory Review and Evaluation Process (“SREP”) comprises of four components:

- Business Model Assessment (“BMA”);
- Internal governance and institution-wide control assessment;
- Internal Capital Adequacy Assessment Process (“ICAAP”); and
- Internal Liquidity Adequacy Assessment Process (ILAAP).

As opposed to Pillar 1 standards, the Pillar 2 framework involves a more ‘principle-based’ approach that requires supervisory judgement in order to assess institution specific risks and establish additional capitalisation and liquidity-buffers against such risks. Pillar 2 capital and liquidity requirements are therefore proportionate to the risk profile of the Bank, reflecting its vulnerability to risks under adverse business conditions.

The Pillar 3 disclosure framework seeks to promote market discipline through regulatory disclosure requirements. Pursuant to Part Eight of the CRR, Credorax is required to publicly disclose information regarding, amongst others, its risk profile, risk management processes, capital adequacy and other key metrics.

The Bank produces the Pillar 3 Disclosures on an annual basis, concurrently with the publication of its Annual Report. Pillar 3 Disclosures are reviewed and approved by the Board of Directors of the Bank but are not subject to external audit review, except where a disclosure is equivalent to that made in the Annual Report.

1.3 Revised Pillar 3 disclosure framework

Article 434a of the CRR mandates the EBA to develop draft implementing technical standards (“ITS”) specifying uniform disclosure formats, and associated instructions in accordance with which the disclosures required under Titles II and III of Part Eight of the CRR shall be made.

In this regard, the Pillar 3 disclosure framework previously in force was disseminated across a range of different regulatory products, including both ITS and Regulatory Technical Standards (“RTS”), contained limited scope in terms of disclosures, and had limited support towards proportionality between institutions.

As a result, following publication of the revised CRR, the EBA aimed to revise and consolidate the Pillar 3 disclosure framework, and as such bundle the previously scattered instructions in an ‘all-inclusive Implementing Technical Standard’. The objective of the new disclosure formats is to facilitate the comparability of information with international non-EU banks and maintain consistency of disclosure formats with international standards on disclosures (revised BCBS Pillar 3 standards).

Consequently, the EBA published ITS 2021/637 with regard to public disclosures by institutions in March 2021. In accordance with the requirements of CRR II, the new all-inclusive ITS introduced definitions of ‘small and less complex institutions’ and ‘large institutions’ to support enhanced proportionality of market disclosures (including with respect to both the quantity and frequency of disclosure). In fact, as a ‘small and non-complex institution’, not all ITS template disclosures are relevant to Credorax.

In accordance with Article 433b of CRR II relating to disclosures by small and non-complex institutions, the table on the following page sets out the Bank’s Pillar 3 disclosures, linked to the respective provisions of Part Eight of the CRR. It also references the relevant (fixed format) disclosure templates applicable to Credorax as per the new ITS.

CRR II Article	Subject	Section	ITS Annexes (EBA disclosure templates)
Article 435(1)(a), (e) and (f)	Risk management objectives and policies	Section 2	EU OVA (<i>Free format text</i>)
Article 438(d)	Own funds requirements and risk-weighted exposure amounts	Section 3	EU OV1
Article 447	Remuneration policy	Section 4	EU REMA EU REM1 EU REM2 EU REM3 EU REM4 EU REM5
Article 450(1)(a) to (d), (h), (i), (j)	Key metrics	Section 5	EU KM1

2. Risk management objectives and policies

2.1 Overall governance

Credorax faces a range of business, financial, operational and information technology related risks. Accordingly, the Bank adopts a robust risk management approach to understand what its risks are, how much risk is acceptable and how to manage and respond to its risks. Such approach aims to create value for shareholders while meeting regulatory requirements and ensuring that stakeholders are protected without compromising integrity, ethical behaviour and transparency.

The corporate governance framework adopted by the Bank determines the allocation of authority by which business activities are carried out by the Board and senior management, including how they:

- i. set the Bank's strategy and objectives;
- ii. select and oversee personnel (particularly members of senior management);
- iii. protect the interests of customers, meet shareholder obligations, and take into account the interests of other recognised stakeholders;
- iv. align corporate culture, corporate activities and behaviour with the expectation that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- v. establish internal control functions.

In line with the EBA Guidelines on Internal Governance of September 2017, the Bank has adopted a 'three lines of defence' model, which reflects the segregation between operations (first line management), the risk management and compliance functions (second line), and the independent internal audit function (third line). The first line management is constituted by the functions that own and manage risks, namely the Bank's management, represented mainly through the Executive Committee members and the functions reporting to them.

The second line risk and compliance functions provide guidance on, and independently evaluate, identify and assess the Bank's risks. The third line internal audit function provides independent assurance on the effectiveness of internal controls by performing audits. To ensure independence from management, second- and third-line functions have direct reporting lines to the Board and its sub-committees.

2.2 Risk appetite

The Bank addresses its main risks into the risk appetite statement which defines the level of risk that the Bank is prepared to accept while pursuing its business strategy. The Risk appetite statement reflects the Bank's risk policies which govern the business activities of the Bank. It also serves as a means of communication directed towards setting the 'tone at the top' about the relationship between risk and return and strengthens the risk management culture throughout the Bank.

The risk appetite statement sets out the limits and tolerance levels for the most significant risks to which the Bank is exposed to, mainly metrics measuring capital, liquidity, profitability and asset quality.

With respect to risk monitoring, the Bank adopts a 'traffic light approach' in setting internal triggers and thresholds with a view to define the Bank's desired business-as-usual levels (green), early warning thresholds (amber) and the level at which the Recovery Plan is activated (red).

As part of its annual ICAAP and ILAAP process or whenever there is a significant change to the Bank's operating environment, the Bank assesses whether the trigger levels of certain key risk appetite metrics should be recalibrated. The periodic recalibration of trigger levels ensures that thresholds are set at meaningful levels that enable the Bank to identify any deterioration in business performance in a timely manner whilst reflecting realistic business-as-usual expectations.

2.3 Strategies and processes to manage risks

2.3.1 Credit risk

Credit risk may be defined as the risk that Credorax will incur losses as a result of a counterparty failing to fulfil its contractual obligations towards the Bank. Credit exposures arise principally through the Bank's participation in processing and settlement of payment transactions.

In relation to the Bank's card acquiring business, credit risk exposures arise principally from chargebacks raised by a cardholder that the Bank is unable to recover from merchants. From an accounting perspective, such credit risk exposures may be viewed as 'negative balances' which arise in those instances where chargebacks incurred by the Bank exceed collateral held in the form of fixed and rolling reserves, giving rise to a net receivable from the particular merchant(s). In such case, the Bank would be obliged to accept and honour the chargeback or refund and perform the settlement back to the card schemes (hence resulting in outflows to merchants in excess of collateral). Such outflows to merchants would be regarded as financial losses from the Bank's perspective (if unrecoverable from the merchant).

Credit risk constitutes the Bank's largest risk in view of its acquiring activities and therefore the Bank is fully aware of the connotations of such risk and places great importance on its effective management.

All new merchants are reviewed by the risk function to ensure that the credit risk they represent is within the Risk Appetite agreed by the Board of Directors. The onboarding of merchants is based on the Bank's internal assessment which serves as an effective mitigant to credit risk arising from chargebacks. In examining a merchant's creditworthiness, the Net Expected Exposure ('NEE'), business age, partner reliability, as well as the industry sector in which the merchant operates are considered.

As part of the risk assessment, Credit Risk Analysts approve, reject, or amend the processing terms, namely fixed and rolling reserve, funding delay, frequency of settlement, and any other merchant processing terms suggested by the sales team on behalf of the partner or merchant. Any matters not considered to fall within the parameters of normal business practices are escalated to the VP of Risk Operations who will in turn decide whether further escalation is required to the Chief Underwriting Officer or the Underwriting Committee.

Subsequent to on-boarding, in order to manage its credit risk exposures arising from its payment processing operations, the Bank compiles and updates due diligence reports in respect of its merchants and IPSPs and establishes appropriate transaction volumes and value limits. The Bank monitors its merchants' adherence to limits in relation to chargebacks on a daily basis to prevent any collection losses that are inherent in the Bank's payment processes. The Bank has also set limits of authority and has segregation of duties in place so as to maintain impartiality and independence during the underwriting and on-boarding process and to control ongoing merchant compliance.

Therefore, all merchants onboarded are subject to ongoing monitoring (through Daily Merchant Deposit Monitoring and Periodic Re-Assessment of Merchant Exposures and Scoring). Following any review which is undertaken and where the analyst assesses a deterioration in processing behaviour or reduction in credit score, the Bank has various options available such as stopping funding (in order to build a reserve), stop Transactions which prevents the client from accepting new transactions or disconnection, as a last resort used when revised terms to secure the Bank's position are not agreed upon.

If in any given month the chargeback ratio or NEE is in excess of the applicable thresholds, a report explaining the cause of the breach and the action plan to lower the exposure to an acceptable level is provided by the Chief Underwriting Officer to the Risk Oversight Committee.

The Bank is also exposed to credit risk with respect to prefinancing or prefunding of settlements to merchants. These represent instances, where through special arrangements the Bank agrees to issue settlements of credit card transactions occurring as part of the card acquiring business before the

corresponding funds are received from the card networks. Prefunded merchant balances are typically settled within a maximum of 3 to 4 days, upon remittance of payment inflows by the card networks.

To date, the Bank has never incurred any financial losses from its prefunding of merchant balances, particularly given that card schemes have, to date, never failed to settle their obligations to the Bank. In this regard, given their reputation and robust financial standing, the likelihood of a card network such as Visa and MasterCard failing to settle their obligations to the Bank is deemed highly remote. In the event that the amounts are not received from the card schemes, the Bank has the right to claim the money back from the merchants. As a result, the Bank further seeks to mitigate its risk through rigorous on-boarding and ongoing credit risk monitoring procedures on merchants to whom the Bank offers prefunding of settlements. This provides added assurance that such merchants are of sufficient creditworthiness and hold sufficient liquidity to refund the respective amounts back to Credorax in the unlikely event that these are not received from the relevant card scheme.

Accordingly, the Board considers its risk exposure arising from prefunding of settlements to merchants to be adequately managed.

As part of its daily operations, Credorax also holds balances with the central bank, banks and other financial institutions, the majority of which are typically immediately withdrawable. Such balances are managed and monitored by the Bank's Treasury Function on a daily basis, taking into consideration credit concentration risk and regulatory large exposure limits. These funds are typically placed with pre-approved counterparties, the creditworthiness of which (including external credit ratings where available) is monitored on an ongoing basis.

Additionally, the Bank extends loans and advances to merchants seeking financing, typically for working capital purposes, and may also acquire positions in investment securities. Credit risk mitigation practices are in place in respect of loan assets and investments in the form of robust origination/acquisition processes and detailed periodic credit reviews.

Credit risk also arises from amounts owed by group undertakings (within "other assets"), which are typically unsecured, interest free and have no fixed date of repayment. Management evaluates such related party relationships and credit arrangements and forms a view on the risk of expected losses from non-performance or default.

2.3.2 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 rates, foreign currencies and equity 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 and foreign exchange rates. In the normal course of business, the Bank's market risk arises principally from its exposure to different currencies, primarily resulting from its acquiring business. In addition, following the receipt of preference shares in Visa Inc. in exchange for the Bank's membership interest in Visa Europe, the Bank is also moderately exposed to equity price risk.

(a) Foreign exchange risk

Foreign exchange risk is defined as the sensitivity of the values of the Bank's financial assets and liabilities to changes in the level or in the volatility of currency exchange rates. Whilst the Bank's functional currency is the euro, the Bank also processes payment transactions in various different currencies, in respect of which the Bank holds funds attributable to merchants and has obligations to merchants in multiple currencies, exposing the Bank to the effects of fluctuations in the prevailing foreign currency exchange rates on its net open position in certain currencies.

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 hedges its open foreign exchange exposures by entering into spot or forward foreign exchange contracts with terms which match those of the hedged items, with reputable counterparties in order to minimise the financial impact of foreign exchange fluctuations.

In addition, specifically, for its USD exposures, the Bank enters into one-month foreign exchange forward contracts with Credorax Inc. at market rates to hedge its USD open position.

(b) Interest rate risk

In the context of the Bank's acquiring operations, the fact that the Bank operates a fee-based business model inherently limits its exposure to interest rate risk. In fact, the majority of the Bank's financial assets are of a short-term nature and re-price to current market rates.

With respect to the rest of the Bank's assets and liabilities, interest rate risk could arise from adverse movements in market interest rates.

The Bank's exposure to interest rate risk arising from its financial assets is not deemed to be significant given that the majority of these assets are either re-priced to current market rates frequently or are short-term in nature. Meanwhile, the Bank's amounts owed to customers are contracted on the basis of fixed interest rates and thus are not subject to cashflow interest rate risk, and since they are measured at amortised cost, they also do not expose the Bank to fair value interest rate risk.

Notwithstanding, Credorax has quantified the impact of interest rate movements to earnings and market value of financial instruments, and their effect on the Economic Value of Equity ("EVE") for each significant currency, in accordance with the guidelines on the management of interest rate risk arising from non-trading book activities (EBA-GL 2018/02).

Based on the results of this risk quantification approach, the Bank's maximum exposure to interest rate risk is considered minimal, which is consistent with the nature of the Bank's business and the overall structure of its balance sheet.

(c) Equity price risk

The Bank is exposed to market price risk arising from the uncertainty about the future market prices of the investment held by the Bank in the preference shares of Visa Inc. that are classified in the statement of financial position as financial assets at fair value through profit or loss. The preference shares are convertible into ordinary shares of Visa Inc., they have no maturity and represent a residual interest in the issuer's net assets.

In view of the absence of quoted market prices for such instruments, the fair value of the preference shares has been determined on the basis of an internal valuation model, which is dependent on a number of assumptions including the value of Visa Inc.'s ordinary shares, which have a quoted price. In this respect, a sensitivity analysis disclosing the potential impact of changes to the assumptions within the Bank's valuation model is presented in the Annual Report, but the Directors do not deem this risk to be significant.

2.3.3 Operational risk

Credorax recognises that it may be exposed to certain operational risks in achieving its business objectives. The Board defines operational risk as the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, 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 for the development and implementation of policies and procedures to ensure that operational risks are managed effectively. The Bank mitigates

the possibility of impact risk events through the implementation of an internal control framework that this designed to manage the risks effectively and efficiently as well as through a Business Continuity Plan ('BCP'). Risk mitigation is 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 operational risks that are most material to the Bank are presented below:

(a) Financial crime risk

Money laundering risk

Credorax is subject to laws aimed at preventing money laundering, corruption and the financing of terrorism. The Bank's payment services business may be susceptible to money laundering risk through various mechanisms, e.g. illegal online gambling, fraudulent sales of goods or services, illicit sales of prescription medications or controlled substances, piracy of software, movies, music, and other copyrighted or trademarked goods (in particular, digital goods), prohibited sales of alcoholic beverages or tobacco products, or facilitation other illegal activity.

In this regard, the Bank has established an Anti-Money Laundering ("AML") policy designed to ensure its compliance with the Prevention of Money Laundering Act and the Prevention of Money Laundering and Funding of Terrorism Regulations ("PMLFTR"). This policy is followed by staff during the CDD measures performed at merchant onboarding stage, as well as, ongoing monitoring. Subsequently, the Bank's Money Laundering Reporting Officer ("MLRO") is responsible to ensure that the internal AML policies and procedures are in line with AML regulatory requirements and adhered to by all staff. The MLRO is also responsible for reporting any detected suspicious transactions to supervisory authorities and also for periodic reporting to management on AML risks and the AML Compliance Program.

External fraud risk (including cyber risk)

Credorax and its IT systems may be vulnerable to physical and electronic breaches, computer viruses and other attacks by cyber-criminals or internet fraudsters, which could lead to, amongst other things, a leakage of merchants' data, damage related to incursions, destruction of documents, inability or delays in processing transactions or unauthorised transactions.

In order to mitigate this risk, the Bank has fraud detection and prevention strategies, including robust security controls at several levels. These security controls form a multi-layer protection framework around the Bank's systems that allow early detection and prevention of any security breaches should they arise.

Internal fraud

The Bank deems that internal fraud may occur due to one or more of the following events: (i) misappropriation of the Bank's assets; (ii) unlawful obtaining or disclosing of the Bank's commercially sensitive data; (iii) unlawful obtaining or disclosing of the merchants' commercially sensitive data; and (iv) facilitation of fraudulent merchant applications.

Credorax has controls in place to mitigate the risk of internal fraud, with emphasis on the existence of the 'four-eyes principle' in all of the Bank's critical processes. No internal fraud cases have been reported within Credorax since its inception.

(b) Card scheme penalties

Credorax is exposed to the risk of incurring card scheme penalties imposed by card networks arising in relation to its card acquiring business. Both Visa and MasterCard maintain a set of rulebooks containing various rules to which acquirers are expected to abide by. Any breach of these rules will make Credorax liable to the assessment of fines imposed by the schemes in line with their respective guidelines. Certain fines are recuperated from the merchant who is responsible for causing the circumstances leading to

the penalty, based on Credorax's contractual agreements with the merchants. On the other hand, Credorax may also be subject to other penalties which are assessed based on the acquirer's performance and are therefore difficult to pass on to specific merchants. These penalties would therefore be absorbed by Credorax.

In this regard, the Bank's Risk and Underwriting team takes ownership of the ongoing merchant monitoring, including merchant performance vis-à-vis card scheme fraud and chargeback programmes. The team have controls in place both at onboarding stage and also for ongoing monitoring, e.g., analysis of merchant trends, to ensure that the Bank is protected from potential merchant non-compliance fines as well as potential chargebacks that can lead to financial risk.

(c) Compliance risk

Compliance risk is the current or prospective risk to earnings and capital or reputational damage arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards. Rather than as a result of negligence, the Bank expects an event of non-compliance to arise as a result of the incorrect application of regulatory requirements in a manner that differs from what is intended by regulatory bodies or supervisory authorities due to ambiguities related to their interpretation, application and practice.

To mitigate compliance risk, the VP of Compliance ensures that the Bank consistently adheres to all applicable legal and regulatory requirements. This is achieved through the regular review of regulatory compliance developments, monitoring compliance to different regulatory requirements, reporting to the Board of Directors and Managing Director about significant issues impacting the Bank's compliance status, and advising accordingly in order to safeguard the Bank from regulatory breaches which might impair the Bank's reputation or result in fines.

(d) Legal risk

The Bank considers the risk of entering into contractual agreements with its merchants with terms that are either inadequate, unfair or unenforceable, which could lead to litigation with such merchants. To mitigate this risk, the Bank has controls in place to ensure that contractual agreements with merchants include all the relevant clauses in terms of applicable laws and regulations and at the same time ascertaining that agreements are standardised as much as possible. To date, the Bank has very limited history of litigation with merchants.

(e) System and business disruption risk

The Bank may be exposed to the risk of severe disruptions to its critical activities caused by factors beyond its control, including, IT-related system outages, man-made events and other incidents which can result in significant disruptions to operations and ultimately lead to financial losses.

The Bank principally seeks to mitigate the impact of any such business disruptions through the implementation of its Business Continuity & Disaster Recovery Plan, which identifies the Bank's critical processes, establishes the Recovery Time Objectives, in case of a disruption, and sets out a detailed set of actions that would be implemented by the Bank in the event of service outages and disruptions in order to continue its critical business operations with minimal interruption.

(f) Information technology and security risk

The Bank is aware that the confidentiality and integrity of data is also vitally important. The confidentiality and integrity of data, particularly customer sensitive data may be adversely impacted in the event of unauthorised user access. Consequently, the Bank has established an Information Security Policy with the aim of protecting its information and information systems against unauthorised access or modification. Through the implementation of identity and access management controls, the Bank seeks to effectively manage all users (i.e. its staff members) and their access to the Bank's internal IT

systems and platforms. Activities on the Bank's core internal systems are therefore controlled through access privileges and all such operations carried out are logged.

(g) Reputation risk

Reputation risk is defined as the risk that negative public opinion regarding the Bank and/or Credorax Group's business practices or internal controls, whether true or not, may cause a decline in the merchant base, costly litigation or revenue reductions. Negative public opinion can result from the Bank's actual or alleged conduct in any number of activities, including corporate governance, and actions taken by government or regulators in response to those activities which may have a material adverse effect on the business. For instance, reputational damage may arise as a result if severe business and service disruptions (e.g. due to IT system failure or other events), due to which merchants are no longer being serviced as desired, potentially resulting in the loss of customers. The Bank deems that reputational risk is indirectly mitigated through the internal controls in place relating to other risks (e.g. compliance risk and business disruption risk) which may be the cause of indirect reputational damage if unmitigated.

2.3.4 Liquidity risk

Liquidity risk may be defined as the risk that Credorax is unable to meet its financial obligations associated with its financial liabilities in a timely manner.

The Bank is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally amounts owed to customers, settlement processing obligations, lease liabilities and other liabilities. The Bank's settlement processing obligations are generally repayable within one month from the end of the reporting period, other than for funds withheld from merchants that serve as collateral to minimise losses ('merchant reserve'), which are generally repayable within 180 days from the end of the reporting period.

Credorax has periodic liquidity monitoring procedures in place designed to identify and rectify any liquidity-related matters arising from the Bank's daily operations in a timely manner, including through the monitoring of interbank deposit balances, daily settlements to merchants (including prefunding volumes) and incoming remittances from card networks. The Bank also periodically monitors regulatory liquidity metrics, predominantly the Liquidity Coverage Ratio ("LCR"), to ensure a sufficient buffer of high-quality liquid assets is held to meet expected net cash outflows over a 30-day time period.

Additionally, Credorax performs periodic liquidity adequacy assessments as part of its ILAAP process, taking into consideration the most plausible sources of liquidity stress in the context of the Bank's business model and balance sheet structure, thereby assessing its resilience to liquidity shocks.

On the basis of the above, the Board deems that liquidity risk is limited given Credorax's business model and structural measures in place. The Board deems that the liquidity risk management systems put in place are adequate in the context of the Bank's profile and strategy.

2.4 Declaration approved by the management body on the adequacy of the risk management arrangements

The Board of Directors deems the risk management framework adopted by Credorax to be adequate and hence, gives assurance to the stakeholders that the risk management systems adopted by the Bank are appropriate in relation to its risk profile and strategy.

2.5 Concise risk statement

As explained in Section 1.1, the Bank's core business line is that of card acquiring and payment processing. On this basis, it performs a risk identification process which is driven by the Bank's current and forward-looking business model and strategy with particular focus on the risks arising from this identified core business line. However, the Bank also takes into consideration the fact that it seeks to supplement its card acquiring business with a number of ancillary services, including prefunding of payment transactions, the granting of corporate loans and deposit services. Based on this model and strategy, the Bank reflects internal limits and tolerance levels for all material risks within its Risk Appetite Statement.

In determining the most appropriate risk appetite metrics to adopt, the Bank ensures that metrics addresses ratios that are typically monitored for regulatory purposes, covering both capital and liquidity dimensions, as well as other ratios addressing the profitability and asset quality of the Bank.

Capital

The Bank's capital adequacy ratio was at 21.03% which is well above the Bank's overall capital requirement of 14.60%. The Bank's leverage ratio stood at 17.74%, which is also above the minimum regulatory requirement of 3%.

Liquidity

The minimum regulatory threshold of both the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) stands at 100%. As at 31 December 2022, the Bank reported an LCR of 2,171% and a NSFR of 114.27%. Both ratios are above the minimum regulatory requirements.

Profitability

During the year ended 31 December 2022, the Bank increased processing volumes by €3.1 billion over prior year to €12 billion (2021: €8.9 billion) and generated revenues of €215 million (2021: €153 million). The Bank's operating income has increased by €18 million to €77.2 million (2021: €59 million). Other operating expenses increased by €14.2 million and amounted to €68.6 million (2021: €54.4 million). Against this setting, the Bank registered a profit after tax of €8.3 million (2021: €4.4 million).

The Board of Directors (the "Board") 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.

	2022	2021	YOY
	€'000	€'000	
Processing values	12,002,576	8,864,640	35%
Revenues	215,145	152,559	41%
Operating profits	77,197	59,015	31%
EBITDA	10,280	6,613	55%
Shareholders' equity	41,045	39,281	4%
Total assets	212,530	190,867	11%
CET 1 capital ratio	21.03%	24.57%	-14%

In addition to the above KPIs, the table on Key Metrics (EU MK1) on the following pages provides a summary of the Bank's key regulatory ratios which the Board deems are integral to the understanding of its overall risk profile. The Board of Directors does not monitor any specific non-financial KPIs.

With respect to intra-group transactions, the Bank regularly enters into transactions with related parties during the conduct of its business, transactions which are conducted on terms equivalent to those that prevail in arm's length transactions. The most significant related party transactions influencing both the profit and loss account and balance sheet of the Bank include, amongst others:

- (a) services rendered by group undertakings, including technical and support services, payment gateway services, sales & marketing services management services, and wire services. The total amount of these services was €49 million for 2022 (2021: €39 million);
- (b) the acquisition of internally generated software which during 2022 amounted to €1.4 million (2021: €0.7 million);
- (c) the issuance of advances to group undertakings as part of the Group's intra-group financing structure. Any amount so advanced in excess of the amounts due to related parties as settlement for their invoiced services creates an exposure. As at end of December 2022 amounts owed by group undertakings amounted to €2 million (2021: amounts owed to group undertakings amounted to €2.4 million);
- (d) the provision of deposit account services to group undertakings. As at end of December 2022 amounts owed by group undertakings amounted to €0.9 million (2021: €1 million);
- (e) the payment of Directors' salaries and emoluments which for both 2022 and 2021 amounted to €79 thousand.

In this context, during 2022, the Bank has also implemented a Policy on related party transactions to govern the Bank's operations and its dealings with its related parties.

3. Own funds requirements and risk-weighted exposure amounts

In accordance with Article 438d of CRR II, Table EU OV1 provides an overview of the total Risk-weighted Assets (“RWA”), and the Pillar 1 capital requirement for credit risk, operational risk and foreign exchange risk.

No capital is allocated for market risk as the Bank does not operate a trading book. Moreover, the Bank does not allocate Pillar 1 capital in relation to settlement risk, commodities risk, position risk, securitisation exposures and credit valuation adjustment risk, given that these fall outside the scope of its business activities as payment service provider.

Template EU OV1 – Overview of total risk exposure amounts

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		31-Dec-22	30-Sep-22	31-Dec-22
1	Credit risk (excluding CCR)	63,156,351	54,921,403	5,052,508
2	Of which the standardised approach	63,156,351	54,921,403	5,052,508
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which slotting approach	-	-	-
EU 4a	Of which equities under the simple risk-weighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	1,107,819	1,263,849	88,626
7	Of which the standardised approach	-	-	-
8	Of which internal model method (IMM)	-	-	-
EU 8a	Of which exposures to a CCP	-	-	-
EU 8b	Of which credit valuation adjustment - CVA	-	-	-
9	Of which other CCR	1,107,819	1,263,849	88,626
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)	2,885,513	5,309,883	230,841
21	Of which the standardised approach	2,885,513	5,309,883	230,841
22	Of which IMA	-	-	-
EU 22a	Large exposures	-	-	-
23	Operational risk	110,616,060	88,319,849	8,849,285
EU 23a	Of which basic indicator approach	110,616,060	88,319,849	8,849,285
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	177,765,743	149,814,984	14,221,259

4. Remuneration Policy

The achievement of the Bank's objectives is dependent on the quality and commitment of its employees. Accordingly, the Bank offers remuneration packages, aimed at attracting, retaining and motivating employees with the requisite knowledge and experience. Remuneration packages reflect the extent of decision-making and risk management responsibilities assigned to respective individuals.

Taking into consideration the size of the Bank, the non-complex operations and the straightforward remuneration structure, the Board of Directors does not deem necessary to delegate part of its role to a Remuneration Committee, although this position is reviewed on an annual basis. Consequently, the Board of Directors performs the functions of the Remuneration Committee for the Bank.

The Board therefore determines the remuneration policy, which is applicable to the Bank's employees as well as Material Risk Takers ("MRTs"), that is, staff whose professional activities have a material impact on the Bank's risk profile, and which are identified on the basis of quantitative and qualitative criteria set out in Commission Delegated Regulation 604/2014.

Currently, the Bank's MRTs are deemed to be represented by members of the Executive Committee, which includes all the respective function Heads and the Managing Director, staff who are responsible for the internal control functions, including the VP of Compliance & MLRO, Enterprise Risk Manager and Head of Internal Audit, and other identified staff members heading key business units namely the VP of Treasury, VP of Legal Regulatory Affairs and VP of Risk Operations.

The Board of Directors sets out remuneration packages offered to senior management (particularly Executive Committee members) with the aim to 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.

On the other hand, the remuneration of the Bank's Board members is determined by the Board of Credorax Inc. (the "Parent company").

Other key features of the Bank's Remuneration Policy are:

- i. **Fixed remuneration:** all the Bank's employees receive mainly fixed remuneration (with the exception of Bank's Sales Operations team members as explained in point (ii) below) comprising the base salary and fixed pay allowances. During 2022, the Bank has launched a new occupational pension scheme ("the Scheme") for its employees in Malta which is set up in accordance with the Retirement Pensions Act of 2015. Under the Scheme, the Bank makes fixed annual contributions that do not exceed EUR 2,000 per annum for each employee.

Fixed remuneration is established according to the employee's role, including job complexity, and local market conditions. It is influenced by the level of education, the degree of seniority and organisational responsibility, the level of expertise and skills required, the constraints and job experience and the relevant business sector and region. Employee's fixed remuneration may be increased following periodic performance reviews and subsequently to an employee's promotion to a more senior role.

- ii. **Variable remuneration:** as previously explained, the Bank's employees receive mainly fixed remuneration. The Bank currently only offers variable pay in the following instances:
 - a. **Remuneration to Sales Team:** the role of the Bank's Sales Operations team is to introduce new merchants and partners to the Bank in relation to the acquiring activities. Sales Operations team members are entitled to cash-based variable pay which does not however exceed 100% of their fixed remuneration. The variable element of their compensation is dependent on the

achievement of pre-set targets in terms of the processing volumes and profitability (which includes any chargebacks and losses) of their merchant portfolio.

What should be noted is that members of the Sales Operations team are not considered as MRTs, given that they have no approval authority during the onboarding stage. More specifically, subsequent to initial contact with a new prospective client by the Sales Operations team, the credit risk assessment at onboarding stage is conducted by the Bank's Risk & Fraud Team. Subsequently, a decision to onboard or reject the customer is taken in accordance with the escalation process set out in the Bank's Credit Risk Policy for acquiring activities during a meeting of the Underwriting Committee where members of the Sales Operations team are not present). Once successfully onboarded, the merchants and partners introduced by a Sales Operations team member will be included in the latter's portfolio, and performance as aforementioned is monitored and rewarded when targets are met and exceeded. In this way, variable compensation paid in cash is intended to reward the accomplishment of targets and merchant quality, which are set in line with the Bank's goals and direction.

- b. **Share option scheme:** During 2012, Credorax Inc., the Bank's parent company, introduced a share-based employee compensation plan under which options to purchase ordinary shares of Credorax Inc. are granted to directors and selected employees of Group companies, including those of Credorax Bank. The award of share-based compensation is determined by the Board of Directors of Credorax Inc, on the basis of the performance of the directors and selected employees as determined on a case-by-case basis.

Share-based compensation is a form of non-cash based variable compensation, and thus, no consideration is payable to a director or employee on the grant of an option. Options may generally be exercised to the extent that they have vested. The options vest according to the relevant schedule generally within four years after the grant date and expire within ten years after the date of grant. The exercise price is determined by the Board of Directors of Credorax Inc, on the basis of the fair value of shares at grant date.

Options are cancelled when Credorax Inc, cancels the grant of the equity instrument through a decision taken by the Board of Directors. Options are forfeited when the beneficiary (the director or employee) leaves the Bank.

In any case, variable compensation through share-based compensation does not exceed 100% of fixed remuneration and is structured in a manner that incentivizes staff to pursue the goals and interests of the Bank, enabling them to share in its success while promoting sound risk management.

Where a staff member benefits from variable remuneration, the characteristics of the variable remuneration, as well as the process and criteria that will be used to assess the impact of their activities on the risk profile of the Bank and the variable remuneration are transparent to the staff member. In particular the appraisal process with regard to the individual's performance would be properly documented and transparent to the staff member concerned.

- iii. **Remuneration to Board members:** three of the Bank's non-executive Directors are compensated by means of fixed directors' emoluments and not eligible to receive variable performance incentives. The only variable component of remuneration non-executive Directors are eligible to comprises of the share-based compensation plan as explained in Section (ii)(b) above whereby share options are granted to directors in exchange for their services at the discretion of the Board of the parent company.
- iv. **Severance pay:** the Bank's policy is to award severance pays only in those cases it is required by law.

Template EU REM1 - Remuneration awarded for the financial year

		a	b	c	d	
		MB Supervisory function	MB Management function	Other senior management	Other identified staff	
1	Fixed remuneration	Number of identified staff	8	0	7	6
2		Total fixed remuneration	79,000	-	1,012,948	545,338
3		Of which: cash-based	79,000	-	1,012,948	545,338
4		(Not applicable in the EU)				
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	-	-	-	-
6		(Not applicable in the EU)				
7		Of which: other forms	-	-	-	-
8	(Not applicable in the EU)					
9	Variable remuneration	Number of identified staff	8	0	7	6
10		Total variable remuneration	-	-	199,079	131,343
11		Of which: cash-based	-	-	37,317	8,000
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	-	-	161,762	123,343
EU-14b		Of which: deferred	-	-	87,428	67,851
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)	79,000	-	1,212,027	676,681	

Notes to the table above:

- None of the employees individually earn over €500,000 and the variable component does not exceed 100% of the fixed component of the total remuneration for each individual.
- The supervisory function of the Management Body was composed of 8 members as at 31 December 2022. Only 3 of the members are remunerated by the Bank – the remaining 5 members serve also as employees of group entities and/or directors on the Board of Credorax Inc. (the “Parent company”) and are remunerated as such by latter.

Template EU REM3 - Deferred remuneration

		a	b	c	d	e	f	EU - g	EU - h
	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
1	MB Supervisory function	-	-	-	-	-	-	-	-
2	Cash-based	-	-	-	-	-	-	-	-
3	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
4	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
5	Other instruments	-	-	-	-	-	-	-	-
6	Other forms	-	-	-	-	-	-	-	-
7	MB Management function	-	-	-	-	-	-	-	-
8	Cash-based	-	-	-	-	-	-	-	-
9	Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
10	Share-linked instruments or equivalent non-cash instruments	-	-	-	-	-	-	-	-
11	Other instruments	-	-	-	-	-	-	-	-
12	Other forms	-	-	-	-	-	-	-	-

Template EU REM3 - Deferred remuneration (continued)

	a	b	c	d	e	f	EU - g	EU - h
Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of adjustment during the financial year due to ex post implicit adjustments	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year	Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods
13 Other senior management	161,762	74,334	87,428	-	-	-	-	-
14 Cash-based	-	-	-	-	-	-	-	-
15 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
16 Share-linked instruments or equivalent non-cash instruments	161,762	74,334	87,428	-	-	-	-	-
17 Other instruments	-	-	-	-	-	-	-	-
18 Other forms	-	-	-	-	-	-	-	-
19 Other identified staff	123,343	55,492	67,851	-	-	-	-	-
20 Cash-based	-	-	-	-	-	-	-	-
21 Shares or equivalent ownership interests	-	-	-	-	-	-	-	-
22 Share-linked instruments or equivalent non-cash instruments	123,343	55,492	67,851	-	-	-	-	-
23 Other instruments	-	-	-	-	-	-	-	-
24 Other forms	-	-	-	-	-	-	-	-
25 Total amount	-	-	-	-	-	-	-	-

Template EU REM5 - Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	a	b	c	d	e	f	g	h	i	j	
	Management body remuneration			Business areas							
	MB Supervisory function	MB Management function	Total MB	Investment banking	Retail banking	Asset management	Corporate functions	Independent internal control functions	All other	Total	
1	Total number of identified staff	8	-	8	-	-	-	7	6	-	21
2	Of which: members of the MB	8	-	8	-	-	-	-	-	-	8
3	Of which: other senior management	-	-	-	-	-	-	7	-	-	7
4	Of which: other identified staff	-	-	-	-	-	-	-	6	-	6
5	Total remuneration of identified staff	79,000	-	79,000	-	-	-	1,212,027	676,681	-	2,046,709
6	Of which: variable remuneration	-	-	-	-	-	-	199,079	131,343	-	330,422
7	Of which: fixed remuneration	79,000	-	79,000	-	-	-	1,012,948	545,338	-	1,716,286

The Bank has omitted the following non-applicable disclosures in relation to its remuneration policy:

	Non-applicable disclosure	Reason for omission
1	Template EU REM2	The Bank does not grant guaranteed variable remuneration awards or severance pay
2	Template EU REM4	The Bank does not reward any of its employees, senior management and Board of Directors €1 million or more

5. Key Metrics

Credorax has established a Risk Appetite Statement which defines the level of risk it is willing to accept in the pursuit of its business objectives. Through a system of early warning indicators and risk limits, the risk appetite defines the level of risk at which appropriate actions are needed to reduce risk to an acceptable level.

From an ongoing monitoring perspective, various first line functions acting as specific risk owners are responsible for the ongoing monitoring of the metrics formulated in the risk appetite. Subsequently, the Enterprise Risk Manager, who is entrusted with the overall risk oversight, shares the responsibility for the ongoing monitoring of the Bank's risk appetite metrics together with the Chief Underwriting Officer and VP Finance & Regulatory Reporting. More specifically, second line management monitor certain key metrics on a monthly basis. The Enterprise Risk Manager subsequently reports performance against risk appetite metrics to the Risk Oversight Committee on a quarterly basis.

In setting its risk appetite, the Bank incorporates relevant regulatory ratios in the area of capital adequacy, leverage, liquidity and funding, thereby ensuring that all key regulatory indicators are consistently maintained above minimum regulatory requirements.

In accordance with Article 447 of CRR II, Table EU KM1 provides an overview of the Bank's key regulatory ratios, including capital adequacy, leverage, liquidity adequacy and funding.

Template EU KM1 - Key metrics template

		a	b	c	d	e
		31-Dec-22	30-Sep-22	30-Jun-22	31-Mar-22	31-Dec-21
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	37,387,278	35,505,039	35,830,902	36,167,432	36,356,313
2	Tier 1 capital	37,387,278	35,505,039	35,830,902	36,167,432	36,356,313
3	Total capital	37,387,278	35,505,039	35,830,902	36,167,432	36,356,313
	Risk-weighted exposure amounts					
4	Total risk exposure amount	177,765,744	147,287,286	162,400,709	155,639,415	147,999,515
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	21.03%	24.11%	22.06%	23.24%	24.57%
6	Tier 1 ratio (%)	21.03%	24.11%	22.06%	23.24%	24.57%
7	Total capital ratio (%)	21.03%	24.11%	22.06%	23.24%	24.57%
	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 (%)	4.00%	4.00%	4.00%	4.00%	4.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	4.00%	4.00%	4.00%	4.00%	4.00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	4.00%	4.00%	4.00%	4.00%	4.00%
EU 7d	Total SREP own funds requirements (%)	12.00%	12.00%	12.00%	12.00%	12.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%

EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0%	0%	0%	0%	0%
9	Institution specific countercyclical capital buffer (%)	0.10%	0.01%	0.00%	0.00%	0.02%
EU 9a	Systemic risk buffer (%)	0%	0.00%	0.00%	0.00%	0.00%
10	Global Systemically Important Institution buffer (%)	0%	0.00%	0.00%	0.00%	0.00%
EU 10a	Other Systemically Important Institution buffer (%)	0%	0.00%	0.00%	0.00%	0.00%
11	Combined buffer requirement (%)	2.60%	2.51%	2.50%	2.50%	2.52%
EU 11a	Overall capital requirements (%)	14.60%	14.50%	14.50%	14.50%	14.52%
12	CET1 available after meeting the total SREP own funds requirements (%)	16.53%	19.61%	17.56%	18.74%	20.07%
Leverage ratio						
13	Total exposure measure	210,713,828	205,237,186	236,259,887	213,622,654	189,357,260
14	Leverage ratio (%)	17.74%	17.30%	15.17%	16.93%	19.20%
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%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	3.00%	3.00%	3.00%	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%	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	15,885,284	47,098,989	41,300,691	36,337,845	40,511,316
EU 16a	Cash outflows - Total weighted value	2,926,425	2,116,237	2,037,612	3,143,098	1,467,925
EU 16b	Cash inflows - Total weighted value	9,894,428	13,815,450	15,398,675	16,902,489	8,834,271
16	Total net cash outflows (adjusted value)	731,606	529,059	509,403	785,774	366,981
17	Liquidity coverage ratio (%)	2171.29%	8902.40%	8107.66%	4624.46%	11039.07%
Net Stable Funding Ratio						
18	Total available stable funding	73,389,837	77,582,432	76,266,814	84,716,562	89,051,739
19	Total required stable funding	64,222,825	51,569,780	47,943,871	56,384,684	57,804,583
20	NSFR ratio (%)	114.27%	150.44%	159.08%	150.25%	154.06%

The Bank is subject to a Minimum Requirement for Own Funds and Eligible Liabilities (“MREL”) which is equivalent to the Bank’s Default Loss-absorption Amount (“LAA”), on the understanding that the Bank would be wound up through normal insolvency proceedings in case of a failing-or-likely-to-fail determination.

In the case of MREL expressed in terms of Total Risk Exposure Amount (“TREA”) or MREL-TREA, the LAA consists of the summation of the minimum supervisory Pillar 1 requirement and the supervisory Pillar 2 requirement (“P2R”), which is equivalent to the Total SREP Capital Ratio (“TSCR”). In the case of the Bank, the MREL-TREA is currently set at 12% and is composed of the following two components:

- i. a minimum own funds requirement (Pillar 1) of 8% in accordance with the requirements of Article 92 of the CRR; and
- ii. an additional own funds requirement (“P2R”) of 4%.

Therefore, the default LAA is equivalent to the Bank’s minimum capital requirements, which is currently set at 12% of the Bank’s TREA. This also needs to be met in parallel with the 3% of the Bank’s leverage ratio exposure amount in terms of the non-risk based dimension of the MREL (MREL-LRE).

The table below sets out the Bank’s own funds and eligible liabilities ratio and its components:

		a	b
		31-Dec-22	30-Sep-22
1	Own funds and eligible liabilities	37,387,278	35,505,039
2	Total risk exposure amount (TREA)	177,765,744	147,287,286
3	MREL ratio	21.03%	24.11%
4	Minimum MREL-TREA requirements	12%	12%
5	Excess own funds and eligible liabilities	16,055,389	14,173,150