values you can bank on

ANNUAL REPORT & FINANCIAL STATEMENTS 2020

Table of Contents

Our Vision, Mission and Values IV
Group Highlights V
Chairman's Statement VI
CEO's Review VIII

Board of Directors XII
Executive Management XIV
Governance Structure XVI
Corporate Social Responsibility Statement XVII

FINANCIAL STATEMENTS AND OTHER INFORMATION

Directors' Report 2
Remuneration Report 6
Governance Statement 10

Independent Auditor's Report 20

Statements of Profit or Loss 25
Statements of Comprehensive Income 26
Statements of Financial Position 27
Statements of Changes in Equity 28
Statements of Cash Flows 30
Notes to the Financial Statements 31

Capital Adequacy & Risk Disclosures Report 117
Five-Year Summaries 145

Our Presence 151

Our Vision, Mission and Values

OUR VISION

To be *the* community bank in Malta.

OUR MISSION

By making the banking experience simpler and more personal, inspired by a commitment to social, economic and environmental progress while providing all stakeholders with opportunities to grow.

OUR VALUES

Excellence

Get it right the first time

Authenticity

Always do the right things

Passion

Do what you love, care about the others

Inclusiveness

Build on differences and break the silos

Contemporary

Be relevant to today's world

Group Highlights

LOANS TO CUSTOMERS
2020
€1,689.0m
2019: €1,458.1m

TOTAL ASSETS
2020
€2,421.0m
2019: €2,168.9m

SHAREHOLDERS' EQUITY
2020
€206.2m
2019: €191.9m

PROFIT AFTER TAX
2020
€10.1m
2019: €19.6m

ROAE
2020
5.5%
2019: 12.7%

CAPITAL RATIO
2020
19.5%
2019: 16.2%

AVERAGE NUMBER OF EMPLOYEES
2020
447
2019: 396

EMPLOYEE NET PROMOTER SCORE (ENPS)
2020
48
2019: 23

BONDS LISTED ON THE MALTA STOCK EXCHANGE
[ISIN: MT0002501204]
2020
€55.0m
2019: N/A

Chairman's Statement

In my statement for last year written about this time, under *Looking Ahead,* I referred to how well the country had done in spite of the volatility of the globalised world underlining that "this may, however, change if there is a confluence of systemic risk factors such as the dislocations related to the evolution of the coronavirus pandemic……". With hindsight, what an understatement! Reading the newspapers of those days, the headline that Malta had nine cases in six days made a very serious impact on the reader. Little did we foresee how this virus would take centre stage and upend economic and social life as Governments across the globe made stopping the spread of the pandemic their most pressing priority. The immediate concern was to gain time to mobilise health resources and ensure that health systems are not overwhelmed, and to allay fears amongst the population. In this context the worries about the need to try and retain a semblance of continuity in the business world and in social and cultural life became of a secondary nature.

Generally, the impact of the pandemic on society in its broadest sense has been immense and we are not out of it yet, even if the appearance on the scene of effective vaccines may well now allow us to look forward to a quick return to "normality". But that word too has taken new meaning.

The pandemic brought upon APS Bank, and indeed on the whole business community, huge challenges – first and foremost being the safety of our employees and that of our customers. Dust was soon brushed off our Pandemic Recovery Plan and the Bank's management quickly embarked on a series of initiatives to ensure the smooth continuation of services to our customers at the level expected from our Bank, while at the same time keeping our staff and customers safe. The level of service we maintained throughout 2020 represents a terrific achievement by our management and staff who put in huge efforts to ensure this; certainly at a great personal cost, for which the Board is hugely grateful.

BANK PERFORMANCE

Other than learning to live and work with the pandemic, which is described below and in the CEO's review, a particularly significant event during 2020 was the Bank's successful issue of €55 million in subordinated debt to the public as part of phase 2 of its Capital Development Plan. This issue was made possible following the Bank's conversion to a public company in 2019. The bond is listed on the Malta Stock Exchange. We were very pleased with the tremendous support that the Bank received and are confident that this augurs well for future capital raising initiatives. This exercise also involved an update of the Bank's Memorandum & Articles, which gave us the opportunity to improve the Governance structures, in particular by including the option to appoint executive directors on the Board.

In his review the CEO gives a detailed analysis of the Bank's performance during 2020. In the circumstances, the performance for 2020 was an excellent achievement. All our income lines exceeded those of the previous year, which in itself had been an excellent one too, but our profitability was hit by an increase in costs and impairments. More specifically, costs increased as a result of the Bank's drive to enhance its services to customers, requiring an increase in investments in technology, but also as a direct result of the expenses necessitated by the pandemic to make the offices safer for employees and customers as well as to allow maximum flexibility for working from home. Impairment charge has also substantially increased from €1.1m to €5.4m. This increase reflects a forward-looking requirement of accounting standards, which by definition require an assessment of the future effect of the pandemic on businesses that have borrowed from the Bank. The Bank has provided substantial financial support to its customers, often in the context of the respective initiatives taken by Government and the Regulatory Authorities, to help them manage the effects of the pandemic. These facilities however, will cease or reduce at some stage or another and the outlook for certain industries, such as the hospitality, leisure, entertainment and accommodation, looks very challenging.

THE BOARD

Like in 2019, there were no changes to the Board this year. The Board's accountability is driven through routine evaluations. An external evaluation was undertaken in 2019, the conclusion of which was that the Board was operating effectively but with some recommendations to enhance its performance. We view effectiveness as that of providing constructive challenge to the management team, and in this regard recognize the need for a diverse and well-balanced Board with the right mix of competencies and experience. Regular communications with the Shareholders are maintained.

In alignment with the Bank's commitment to sustainability, we have set up an ESG Committee to follow both developments in the governance world as well as the Bank's long-held commitment in the areas. Only very recently, the second Malta Sustainability Forum was concluded very successfully. A substantial number of international experts in their respective fields participated in the Forum, which by force of circumstance was held virtually.

LOOKING AHEAD

A better 2021 depends on the successful implementation of the vaccination programmes and related efforts to control the pandemic, both in Malta and elsewhere, particularly in those European countries from which

A better 2021 depends on the successful implementation of the vaccination programmes and related efforts to control the pandemic, both in Malta and elsewhere

originate most tourists to Malta. For tourism remains the key sector driving large parts of the economy. We believe that the economic initiatives that Government will continue to take, and any new ones it may introduce, will only be successful in spurring sustainable growth, particularly in tourism and in foreign investment, if the health issue is addressed convincingly. Longer-term the economic outlook will also depend on the structural changes of the post-COVID world, such as new purchase patterns, extent of online work, and availability of low-cost travel.

The outcome of the MONEYVAL assessment remains like a Damocles sword on the Maltese investment horizon, especially the financial services sector. While Government and the relevant institutions have taken steps to improve matters, more remains to be done to the "tone at the top" in respect of governance if we really wish to restore the country's reputation. Not many people understand how profoundly the governance issue affects the financial services industry. The lack of correspondent banks willing to operate with Maltese banks is only the tip of the iceberg. Specialist insurance cover and international banking are others.

Our ability to successfully steer through 2020 was thanks to the fundamental strengths of the Bank and a deeply embedded risk culture complemented by a management team and a workforce fully committed, resilient and hard-working and for which I thank them profusely. This fills me with great confidence that the Bank will again rise to the occasion in the face of the very challenging times ahead. I also remain of the strongly held view that more regular quality dialogue with the supervisory authorities will enhance the level of the banking system in Malta. In the last year local regulators have been through a transformative process, but I believe life will be much simpler for them and the industry if dialogue becomes the rule rather than the exception.

Finally, I would like to thank my fellow Directors and the Shareholders for their unstinted support.

Frederick Mifsud Bonnici
11 March 2021

CEO's Review

PROLOGUE

2020 has been a year to *remember* ... and to *forget*.

It was a year that started strongly with most of our lines of business exceeding budget until the momentum came to a practical halt by March. The onset of COVID-19 brought about unprecedented challenges which we faced courageously, giving priority to the safety, well-being and livelihoods of our staff, of our customers, their families and the community at large. As this invisible virus took over our lives, causing much uncertainty and upheaval, we also worked relentlessly to support all our customers and business partners in every way possible. We will *remember* 2020 as the year in which we worked incredibly hard to produce good results yet again, making progress in the services and products we deliver to our customers, in the continued transformation of the Bank and the implementation of our strategic projects.

All this was happening against a backdrop of destruction of our broader society. The virus has devastated some sectors while others have boomed but the overall social and economic cost is proving overwhelming. The pandemic has so far cost millions of people their livelihoods, plunged the global economy into its sharpest downturn for a century and widened geopolitical cracks. Recent estimates suggest that banks the world over stand to lose €3 trillion in foregone revenue and €2.3 trillion set aside for potential loan defaults: that's €5.3 trillion bank income at risk of loss until 2024 during a period when the post-COVID economic recovery is expected to be running its course. Right now, the scenarios about how things will unfold in the months ahead are endless and this is not the place to analyse them any further. But it was certainly one of those years where you wish it had never happened, one to *forget*.

The year under review was the second of our 3-year Strategy launched in 2019 around the mission statement: "to make the banking experience simpler and more personal, inspired by a commitment to social, economic and environmental progress while providing all stakeholders with opportunities to grow". Captured in the all-encompassing slogan 'to be the community bank in Malta', 2020 was probably a test year in that respect. The grounded interest rate environment continued to present great difficulties for banks in a domestic market already overshadowed by reputational issues hanging on Malta's financial services industry. Disruptions arising from the COVID-19 then added new challenges, including pressures on operating costs already burdened by increased regulatory and technology requirements. Nevertheless, we delivered the best possible results in the circumstances and continued with our transformation journey. This Review is unlike any previous ones in that 2020 brought out the Bank's values to the fore, as our priorities changed, continuing with our operations relentlessly, maintaining over 90% of the branch network active, upscaling our digital presence, standing by our employees and customers, and their dependants, while navigating forward together.

PART ONE

By way of main highlights, Group Operating Income increased marginally by 0.1% to €56.7 million (Bank: by 5.7% to €55.9 million) and Pre-tax Profit decreased by 41.1%, from €26.8 million to €15.8 million (Bank: by 28.3%, from €21.6 million to €15.5 million). As expected, the main income constituents performed differently and felt the pressure of market conditions. Net Interest Income is up by 9.4% on 2019 while Fees and Commissions are down by 2.4%, reflecting largely the slowdown in new commercial lending activity and investment services. 2019 had also been an exceptional year with Group numbers buoyed by the Bank's equity investment in the APS Funds SICAV and other debt securities where significant gains, classified differently as trading or FVTPL, were recorded – which performance was not repeated in 2020.

After an initial softening in the speed of residential property purchases, home finance activity in 2020 picked up boosted by the incentives announced in June by Government as part of its COVID-19 economic recovery package. On the other hand, after a strong start to the year for commercial lending despite the compressed interest rate conditions and tough competition, the Bank closed Q1 largely supporting its business base with moratoria and emergency financial support.

In Q2, in collaboration with the Malta Development Bank, we announced the launch of the APS Jet Pack, aimed at local businesses experiencing cash flow problems due to the pandemic. We are pleased to see APS being *the* community bank giving the same deserved attention to young people at the start of their life's journey while also being the principal banker for some of Malta's leading corporate names. While this strategy of diversification remains core to our business model, we acknowledge the challenges inflicted by the virus on even the most established of business enterprises, especially those exposed to tourism and related sectors such as hospitality, leisure, entertainment and accommodation. Another source of diversification is our book of international loan participations, which exposes the Bank to different geographies, industries and shorter maturities than our domestic corporate book. For the year under review we maintained a guarded appetite in this segment too as risk and volatility across borders were ravaged by the virus outbreak.

As expected, the Bank is taking a prudent view on credit quality and we have adjusted our estimated credit loss (ECL) provision

by an additional €3.8 million in connection with facilities mostly impacted by COVID-19 and considered to have suffered a significant increase in credit risk, despite not being past due or in default thanks to the moratoria. At the same time, 2020 saw the Bank persisting in recovery efforts and improvements in collateral positions with some notable progress also being made in spite of the circumstances.

The Group's ROAE decreased to 5.5% (2019: 12.7%) while Balance Sheet growth was again strong, with total assets increasing by 11.6% to €2.42 billion. At 19.50% (Bank: 18.49%), the Group Total Capital ratio, now comprising Tier 1 and 2 elements, is up on last year's Total and Tier 1 ratios of 16.16% and 15.28% for Group and Bank, respectively. This reinforcement of capital adequacy is part of the Bank's Capital Development Plan which in 2020 saw a hugely oversubscribed issue of Unsecured Subordinated Bonds 2025-2030 bringing in €55 million of Tier 2 capital and a first-time listing of capital instruments on the Malta Stock Exchange. Retained earnings were further supported by the pause on dividend distributions as directed by both European and Maltese supervisory authorities, in a bid to boost banks' capacity to absorb losses and support lending to households, SMEs and corporates during the pandemic.

Correspondingly, throughout the year the Bank operated its Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR) within prudent ranges and well above the minimum regulatory requirements. Similarly the Loan-to-Deposits Ratio (LDR) was also managed at comfortable levels supported by a healthy cash flow and a steady stream of retail deposits, with less reliance being placed on the online platform accessed under the Bank's authorisation approved under passporting rules by the Bafin, in Germany. Our funding diversification strategy remained directed by prevailing interest rate conditions, limiting funding growth where this could not be productively employed.

In terms of cost efficiency, 2020 saw both the Group and Bank Cost/Income ratios worsening on 2019, from 53.6% to 61.9% and from 57.0% to 62.3%, respectively. Although these ratios still compare well with the core domestic banking segment and are below the average EU ranges, they reflect the continued growth in the Bank's organisation and personnel, technology, risk and security infrastructure and network transformation, against a revenue base that performed below budget. Increases are also very evident in costs associated with regulation, namely supervisory, depositor compensation and resolution fees. 2020 also brought with it a significant rise in overheads incurred consequent to COVID-19, as the Bank is sparing no expense in ensuring the continuity of business operations throughout the outbreak: from investing in systems and equipment to facilitate remote working, to protecting the safety and welfare of employees and customers alike. At the same time, measures were taken to mitigate certain expenditure lines and improve efficiency in tune with the changing realities brought about by the pandemic.

More numbers and statistics can be found in the 'Financial Statements' section of the Annual Report. This Review is not meant to delve into performance indicators in more detail, however these numbers transmit a message that the Bank remained strong, resilient and profitable in a year of unprecedented disruption and unanticipated challenges, that came on top of a competitive environment with increasingly higher hurdles of regulatory changes and reputational remediation.

PART TWO

The SSM Supervisory Priorities for 2020 – 'continuing balance-sheet repair' and 'strengthening future resilience', together with their subsidiary priority areas – could not have been better projected for the year that was to unfold. And as Malta came under increased scrutiny from international regulatory and supervisory bodies after the publication of the MONEYVAL Report, remediation work went on at a strenuous pace to meet the deadlines and avoid potentially far-reaching consequences if Malta were to be grey listed. APS Bank, like other Maltese banks, is not immune to the challenges facing our industry resulting from these developments. The changing profile of Malta as a business jurisdiction in turn presented the opportunity for USD correspondent banks to close their appetite and scale back their services. There are also challenges from new technologies, increased regulation and closer supervisory oversight which cause customer behaviours to change and create new competitive pressures. One of the key responses to all this is the continuous investment in the governance framework and in our various lines of defence, at the same as remaining customer-centric in our business approach. In this regard regular training and interaction for both Board and Management featured prominently particularly in view of the Bank's increased systemic relevance and its classification as O-SII as from the start of 2020.

In September the structure of Board committees was revamped with the evolution of the Governance Committee into an ESG Committee and a Conduct Committee, permitting greater focus to these important aspects of organisational integrity. Another change was to the Remuneration Committee which took on the additional functions relating to nominations becoming the Nominations and Remuneration Committee. Changes to the memberships of both Board and Management committees were also made, strengthening the presence of Non-Executive Directors while bringing more diversity and expertise to the Management committees. And as already anticipated in the 2019 Review, a number of senior appointments were made in Q2 and Q3, completing both the C-Suite and remaining Head positions. We are exacting in our demands for expert and experienced staff, particularly at senior and professional levels, which in a competitive domestic labour market adds pressure on cost and accessibility to talent.

Our efforts at becoming a retail bank of first choice were again rewarded as deposit activity increased by 10.1% on the previous year (2019: by 16.9% over 2018) while assets under management and in the APS Funds SICAV also increased largely in line with budgets, despite the market turmoil which characterised Q2. It is the Bank's strategy to increase market share through strategic, selective business development operating a model which continues to be centred around three main product segments, namely Personal, Business and Investments. In the latter area, I am pleased to note the wider and more active mandate taken up by our wholly-owned subsidiary ReAPS Asset Management Limited as a result of a revision of its licence and the addition of the Global Equity Fund to the APS Funds SICAV stable. Late in the year we proudly announced the launch of the APS Occupational Pension Scheme and the APS Personal Pension Plan, both authorised by the MFSA and registered with the Commissioner for Revenue, making them especially tax efficient under current legislation. These products not only position the Bank nicely in the retirement planning space but will add more opportunities for the Group to increase its assets under management.

The Bank also maintained its place as a leading home loan institution in Malta, despite competition in this segment becoming increasingly stiff. About 62% of the total loan portfolio is directed to individual and family home financing, up on last year's 60% - which was to be expected given the slowdown in commercial business and pickup in residential financing. In August we launched a new home loan campaign, with a more competitive offering, revised terms and complemented with guaranteed levels of service that continue to make APS Bank a household name in this area. We are also proud to be a key provider of social banking services and November saw the launch of the Home Deposit Scheme following the signing of an MOU earlier in the year with the Ministry for Social Accommodation and the Housing Authority. The Scheme is aimed at assisting young adults who are eligible for a home loan but do not have the funds to pay the required 10% down payment. With this product the Bank is showing its community commitment by helping with that important first step for the purchase of a home. It also builds on other services already available and offered in conjunction with Government and other agencies, such as the Social Loan and the Home Equity Sharing Scheme. Work is also in progress on other projects related to affordable housing and we hope to be making announcements in 2021 in this regard.

We continued to be an active player in the sustainable community space with products and services aimed at segments ranging from students to families and households as well as different types of social cases. In December we signed an agreement with the European Investment Fund (EIF) to participate in the Energy Efficiency and Renewable Energy investment scheme, under which scheme and in the course of the coming months, the Bank will be offering new Eco Loan products that will allow our customers, both retail and commercial, to invest in technology or devices to manage and reduce their carbon footprint. These include, but are not limited to, purchases relating to solar and wind energy, certain agricultural projects, green energy improvements, electric/hybrid vehicles and more. We have also continued to promote with interest other eco-friendly and sustainable energy schemes, as well as financing of projects in education, healthcare and retirement facilities. August saw the launch, in conjunction with the Foundation for Church Schools, of a new product targeted at supporting schools with a financing package assisting schools with refurbishments or upgrades of facilities, such as gyms, technology and science laboratories, libraries, canteens, classrooms and playgrounds. The 'APS Church School Loan' offers multiple competitive features including an improved interest rate, repayment terms and fees, available for five years.

Perhaps the most impactful business initiative we took in 2020 was in response to the COVID-19 crisis: the APS Jet Pack. Presented as a survival kit for local businesses experiencing cash flow problems, the Jet Pack consists of loans that provide working capital assistance to cover a number of costs, such as salaries and rental, energy and water bills and acquisition of material and stock for business continuity. This product, which features subsidised interest rates, moratoria, extended repayment terms and no fees, benefits from the support of the MDB COVID-19 Guarantee Scheme launched by the Malta Development Bank and in turn covered by a Government guarantee issued by the Ministry of Finance.

PART THREE

In terms of channels and distribution, the Bank became a direct SEPA participant in March following closely on its membership in Target2 at the end of 2019. March also saw the launch of the VISA Debit contactless cards with a number of original design and security features that enable the delivery of a simpler, more contemporary and more personal banking experience. Further improvements were posted to our OMNI-Channel solution as roll-out of 'myAPS Business' approached, permitting business customers convenience and more versatility to carry out transactions seamlessly over internet and mobile banking. New MS Office 365 technology rolled out Bank-wide in Q2 also saw a scaling up in the communications and virtual meeting facilities throughout the organisation, including with customers. The year under review saw further transformation taking place across the branch and office infrastructure. A revamped branch at the Swatar, Birkirkara Head Office kicked off the year while brand new, larger premises in St Sebastian Street, Qormi replaced the previous, smaller office around the corner. Late in the year works were also close to completion at our new branch in St Paul's Bay, commanding a prominent position along Mosta Road. The branch network transformation – based on the original concepts of UK-based international firm I-AM - creates an innovative, contemporary feel and allows more digital interaction and space for meetings. Our vision for the branch network is that of 'living rooms' where our customers come to discuss their financial requirements and receive advice complemented by an advanced digital experience.

2020 also saw the new Central Document Repository and Archiving Building in Marsa coming fully into operation, including the Digitisation project which is now in full swing. Expansion and transformation projects also continued at the Swatar Head Office to accommodate not only the larger teams but also more contemporary workplace requirements, including designs that enhance the wellbeing of staff through use of light and space, chill-out areas and gym facilities. We are proud to see the design, construction and finishing work at all branches and facilities were overseen by the Bank's Support Department assisted by our consultant architects and engineers: complex projects requiring meticulous planning, hard work, professionalism, dedication and coordination.

Last year I referred to the Bank's equity participation in a new limited liability company for the purpose of carrying out the business of life insurance, formed in equal parts with Atlas Insurance PCC Limited, GasanMamo Insurance Limited and MaltaPost plc. The process for regulatory authorisation by the MFSA continued throughout the year as the organisation, systems and procedures were put in place. I am pleased to note that on 1 February 2021 IVALIFE Insurance Limited received its authorisation to write long-term business in relation to risks situated in Malta for Class I (Life and Annuity) and Class III (Linked long-term) under the Insurance Business Act. With our esteemed partners we see an opportunity for this venture to grow into a strong player that will create value to the market and benefit the community at large.

PART FOUR

During the year under review we continued to spare no expense investing in an engaged and motivated workforce. New staff were recruited to strengthen various functions and positions, to support the growth in business activity and bring in specialist skills. As in past Reviews, I reiterate that we do not look at the higher payroll as an increase in overheads but as one of the choicest investments we can make. Our slogan 'Being the employer of choice' is the statement underscoring the belief that all our plans and ambitions depend on our ability to attract and retain the best talent and skills, while offering a well-defined vision, common culture and the best employment conditions. 2020 saw the further strengthening of our management team through outside recruitment and internal promotions while in December we signed a new Collective Agreement for the period 2020 – 2022, bringing new and enhanced benefits for all employees. These include an Occupational Pension Scheme, higher salary bands and increases, a new and improved profit-sharing scheme that better rewards and incentivises achievement, not forgetting home loan schemes, generous study grants as well as family-friendly and wellbeing measures. The Bank also makes available very generous programmes to promote the wholesome development of the staff, including coaching, training and education opportunities, family-friendly work arrangements, schemes assisting with home and content financing

> Being a leading community bank is no longer just about developing our product range, technology platforms, market reach and governance standards but about being a pillar of support for Maltese businesses and families

and other rewards & incentives structures. We also continued with our Peakon Staff Surveys which serve to give a 360° view of many aspects of staff engagement, allowing us to use the large bandwidth of feedback coming anonymously from all staff to make the necessary changes ranging from work practices to personal and family welfare.

The measures announced by the Malta Health Authorities to mitigate the spread of the pandemic meant that the usually full calendar of social events for staff and customers had to be adapted or even cancelled. Only one physical townhall was held, the others were moved virtual although none of the awards for academic achievements and long service were overlooked: showing recognition and appreciation to our staff remains core to our ethos. Staff and Management meetings also went largely virtual although we worked hard to maintain their quality, nonetheless. It was a quiet year for the normally busy Social Activities Committee and Sports Committee; instead we used technology to its utmost, reaching out to both staff and customers through various means, such as a messaging service, the launch of the 'COVID-19 Digest' and the 'APS Times'. Our CSR programme for 2020, planned to see the Bank actively supporting various events in the arts, culture and community spaces, was also significantly scaled down. More about that in the separate Corporate Social Responsibility Report on pages XVII to XXI.

EPILOGUE

Unlike the 2008 financial crisis, we are experiencing a catastrophe of the real economy not of banks, which are stronger and more resilient today; yet, they are a good barometer of the weather ahead. While an effective vaccine may signal the start of a rebound in terms of human health, a return to business normality is still a long way off. As governments and banks continue to extend their assistance and loan moratoria into 2021, the coming months are critical to assess the scale of what is at risk of loss and how robust the economic recovery will be.

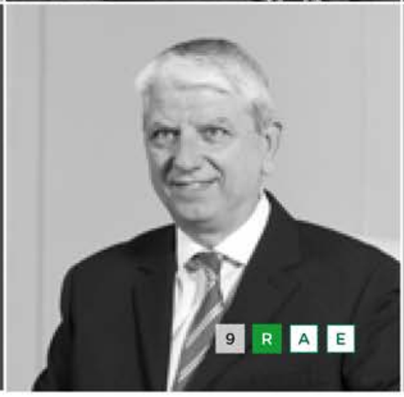
What's evidently clear is that all this poses on us added challenges and responsibilities as we become increasingly important in the Maltese system. Our strategy of being a leading community bank is no longer just about developing our product range, technology platforms, market reach and governance standards but about being a pillar of support for Maltese businesses and families. Our 3-year rolling Business Plan 2021-2023 provides the roadmap to deliver all that in the right balance of prudence dictated by current circumstances and optimism of brighter times ahead.

2021 should also see us advancing with our plans for Phase 3 of our Capital Development Plan, targeted for 2022. Here too, our campaign to raise what would be the largest-ever round of capital for APS Bank will demonstrate our long-term commitment to the Maltese economy in what are ultimately crisis conditions. And it will also confirm our trust in a business model that underpins a strategy which is always true to our values.

Sincerely,
Marcel Cassar

LEGEND

- A Audit Committee
- R Risk Committee
- C Conduct Committee
- E ESG Committee
- N Nominations & Remuneration Committee
- B Board Credit Committee
- T Technology & Innovation Committee
- Chair



Board of Directors

1. FREDERICK MIFSUD BONNICI

Chairman & Non-Executive Director

Date of First Appointment: 27 July 2017

Skills & Experience: Mr. Mifsud Bonnici was appointed as Director and Chairman of the Board in July 2017. He is a Fellow of the Institute of Chartered Accountants in England & Wales and of the Malta Institute of Accountants. Mr. Mifsud Bonnici spent his professional career with PricewaterhouseCoopers, holding a number of positions and acting as a member of the firm's Management Board. Between 2014 and 2017 he served as a Non-Executive Director and Chair of the Audit Committee of MeDirect Bank plc, and between 2012 and 2016 of Malita Investments plc. He served as Non-Executive Chairman of Bank of Valletta plc and Mapfre MSV Life between 2012 and 2013, and as Deputy Chairman and subsequently Chairman of the Malta Stock Exchange between 1991 and 1999. He has also served as senior lecturer in Auditing at the University of Malta for 30 years.

Significant External Appointments:

- Non-Executive Chairman – Blevins Franks Trustees Limited.

2. VICTOR E. AGIUS

Non-Executive Director

Date of First Appointment: 15 October 2018

Skills & Experience: Mr. Agius joined the Bank after a diverse career in international investment, banking and development project finance. This included 23 years at the World Bank Group in Washington DC, over three years at the European Bank for Reconstruction and Development in London and 17 years with the Council of Europe Development Bank in Paris. His work comprised extensive field mission leadership responsibilities to over sixty countries in Africa, East Asia, Middle East & North Africa, Europe and in Former Soviet Republics. Mr. Agius graduated with a BA Hons. (Economics) from the Royal University of Malta, holds a Masters in Business Administration (MBA) from Manchester Business School and completed Senior Finance and Banking Executive programmes at the Wharton School of Finance and at the Stanford Graduate School of Business.

Significant External Appointments: Nil

3. JOSEPH C. ATTARD

Non-Executive Director

Date of First Appointment: 26 July 2018

Skills & Experience: Dr. Ing. Attard has over 25 years of local and international experience in the Information and Communication Technology (ICT) sector. He was elected as Director of the Bank in July 2018. Between 2015 and 2020 he was the Chief Technical Officer of GO plc. Between 2007 and 2015 he was the Chief Technology Officer of Emirates International Telecommunications LLC. Dr. Ing. Attard holds a Bachelor's degree in Electrical Engineering (Hons) from the University of Malta, a Masters of Sciences (M.Sc) in Operational Telecommunications from the

University of Coventry (UK) and a Doctor of Philosophy (Ph.D.) in Telecommunications Engineering from University College London (UK). He has regularly lectured at University College London on ICT topics.
Significant External Appointments: Nil

4. FRANCO AZZOPARDI

Non-Executive Director

Date of First Appointment: 30 September 2008
Skills & Experience: Mr. Azzopardi was elected on the Board of Directors in September 2008. He is a professional director and a registered fellow member of the UK Institute of Directors. He serves on the boards of directors, and on audit and risk committees of both listed and private companies in various sectors including banking, insurance, software and logistics. Prior to 2007, he spent 27 years working in public practice, including with Deloitte Haskins and Sells and in an accounting and auditing firm he co-founded in 1990. He holds an M.Sc. degree in Finance from the University of Leicester (UK) and is an Honorary Fellow member of the Malta Institute of Accountants, having also served as President between 2015 and 2017.
Significant External Appointments:

- Chairman and CEO - Express Trailers Limited;
- Non-Executive Director, Audit Committee; Member of Risk Committee, Member of Investments Committee - Atlas Insurance PCC Limited;
- Non-Executive Director - RS2 Software plc;
- Non-Executive Director - Grand Harbour Marina plc.

5. LARAGH CASSAR

Non-Executive Director

Date of First Appointment: 28 April 2016
Skills & Experience: Dr. Cassar was appointed to the Board in April 2016. Throughout her career, Dr. Cassar has gained vast experience in many areas of practice including banking, investment services, asset management, capital markets and corporate law restructuring. Having joined Camilleri Preziosi as an associate in 2003, she was subsequently a partner of this firm between 2009 and 2015. She then founded the firm 'Camilleri Cassar Advocates'. Dr. Cassar obtained a degree in law from the University of Malta in 2002 and a Master of Law in Banking and Finance from the University of London in 2003.
Significant External Appointments:

- Partner - Camilleri Cassar Advocates;
- Non-Executive Director – Hili Properties plc;
- Non-Executive Director / Company Secretary – Medserv plc.

6. ALFRED DEMARCO

Non-Executive Director

Date of First Appointment: 28 April 2016
Skills & Experience: Mr. DeMarco was appointed to the Board in April 2016. He is an associate of the London Institute of Banking and Finance (ACIB) and holds a degree in economics from the University of London. He is a central banker by profession with more than 40 years' experience at the Central Bank of Malta (CBM). He progressed through senior executive positions at the bank including that of Deputy General Manager and Director of the Economics and External Relations Division. Mr. DeMarco was a member of the European Central Bank (ECB)'s Monetary Policy Committee, representing the CBM, from 2004 to 2015. He was appointed Deputy Governor in April 2010, a position he held until end-March 2015.
Significant External Appointments:

- Member - Kunsill Finanzjarju Djoċeżan.

7. VICTOR GUSMAN

Non-Executive Director

Date of First Appointment: 27 April 2012
Skills & Experience: Mr. Gusman was elected to the Board in April 2012. During the 35 years he was at the helm of the Lemco Group, Mr. Gusman led the administration team of a workforce of over 650 with manufacturing bases in Italy and Poland and a sales force operating in 34 countries. He gained experience in servicing international companies with custom-made products to accommodate their own brands and was central in dealing with governments for their specialised requirements in their hardware and manufacturing sectors, negotiating with unions in Italy and Poland.
Significant External Appointments:

- Administrative Secretary - Diocese of Gozo;
- Executive Director – GDH Company Limited.

8. MICHAEL PACE ROSS

Non-Executive Director

Date of First Appointment: 23 November 2015
Skills & Experience: Mr. Pace Ross was elected to the Board in November 2015. He served as Director General of the National Statistics Office for 6 years, sitting on national and European committees, including the European Statistical Advisory Committee prior to his current appointment as Administrative Secretary of the Archdiocese of Malta. He is a Council member of the Malta Employers Association (MEA). Mr. Pace Ross holds a BA (Honours) degree in Economics and Management and an MBA from the University of Malta. He is also an associate of the London College of Music. He was invested as Knight in a papal equestrian order by Cardinal Edwin O'Brien in 2019.
Significant External Appointments:

- Administrative Secretary - Archdiocese of Malta;
- Non-Executive Director - Amalgamated Investments SICAV plc;
- Company Secretary - AROM Holdings Limited.

9. MARTIN SCICLUNA

Non-Executive Director

Date of First Appointment: 5 November 2013
Skills & Experience: Mr. Scicluna was elected to the Board in November 2013. Mr Scicluna is also Non-Executive Director of ReAPS Asset Management Limited. Since 2012 Mr. Scicluna has directorships in asset management and insurance companies licensed in Malta. He held a number of managerial positions in Mid-Med Bank between 1976 and 1996, following which he joined Midland Bank which later became HSBC Bank Malta plc. He also served on several boards for HSBC Malta subsidiaries and on its Audit Committee. Mr. Scicluna is an Associate of the Chartered Institute of Bankers, holds a Diploma in Financial Studies and was elected a Fellow of the Institute of Financial Services in 1999.
Significant External Appointments:

- Non-Executive Director – ReAPS Asset Management Limited;
- Non-Executive Director – Merck Capital Asset Management Limited;
- Non-Executive Director – Accredited Insurance (Europe) Limited;
- Non-Executive Director – Zarattini International Limited.

10. GRAZIELLA BRAY

Company Secretary

Appointment: 1 July 2018
Skills & Experience: Dr. Bray graduated as Doctor of Laws from the University of Malta in 2004 and joined the Bank in 2006. Over the years, she has performed duties in various areas of law, regulation and compliance, including providing support to the Board and various committees and to the APS Funds SICAV plc. She is also the Company Secretary of ReAPS Asset Management Limited. Dr. Bray lectures in Company Law, Regulation and Corporate Governance at the University of Malta and the Malta Stock Exchange Institute.
Significant External Appointments:

- Company Secretary – ReAPS Asset Management Limited.

LEGEND

- A Audit Committee
- R Risk Committee
- C Conduct Committee
- E ESG Committee
- N Nominations & Remuneration Committee
- B Board Credit Committee
- T Technology & Innovation Committee
- EX Executive Committee
- CE Compliance Committee
- AL Assets-Liabilities Committee
- MC Management Credit Committee
- Chair
- Non-Voting

Executive Management

1. CHIEF EXECUTIVE OFFICER – MARCEL CASSAR

Marcel Cassar joined the Bank as CEO in January 2016. His career started in 1987 with Price Waterhouse Malta, followed by MIBA/MFSC, now the MFSA (1991-1996). He was General Manager at Lombard Bank Malta plc (1996-2004) and First EVP and CFO at FIMBank plc (2004-2015). He also served on the board of the Malta Bankers' Association, including as Deputy Chairman (2017-2018) and Chairman (2018-2020), leading to a seat on the board of the European Banking Federation. Mr. Cassar is a CPA, a Fellow of the Malta Institute of Accountants, holds an MBA from the University of Wales and Manchester Business School (1995) and has lectured and supervised in the M.A. Financial Services course at the University of Malta.

2. CHIEF RISK OFFICER – GIOVANNI BARTOLOTTA

Giovanni Bartolotta joined the Bank as Chief Risk Officer in September 2018. Prior to joining the Bank, he spent 10 years in London working for major global investment banks, including Kleinwort Benson, JP Morgan Chase & Co. and Bear Stearns International. He then moved to Malta where he spent fourteen years at FIMBank plc, as Executive Vice President and Global Head of Risk. Mr. Bartolotta holds a B.A. in Economics from Bocconi S.D.A., University of Milan.

3. CHIEF PEOPLE OFFICER – RAYMOND BONNICI

Raymond Bonnici joined the Bank as Head of Human Capital in 2016 and was appointed to his present role in June 2020. He started his career working in aviation, including for KLM, Swissair and Sabena. Following this period, he worked at Premier Capital plc and was a key element in setting up the group's Human Resources function. He also worked at Hilton Hotels International, as Director of Human Resources for Malta. Mr. Bonnici holds a B.A. in Youth and Community Studies from the University of Malta.

4. CHIEF BANKING OFFICER – ANTHONY BUTTIGIEG

Anthony Buttigieg joined the Bank as Head of Banking in May 2016 and was appointed to his current position in June 2019. His experience in the banking sector spans 42 years. He started his career with Mid-Med Bank, which later became HSBC Bank (Malta) plc, where he held a number of Senior and Managerial roles. Mr. Buttigieg is a qualified banker and an associate of the Chartered Institute of Bankers.

5. CHIEF TECHNOLOGY OFFICER – JONATHAN CARUANA

Jonathan Caruana joined the Bank in 1999 and served in various departments before being promoted to Information Systems Manager in 2008 and Head of Information Technology in 2015. He was then appointed Chief Technology Officer in November 2016. Mr. Caruana holds a B.Sc. (Hons) in Computing from the University of Greenwich and an M.Sc. in Software Engineering from the University of Hertfordshire.

6. CHIEF STRATEGY OFFICER – HERVÉ DELPECH

Hervé Delpech first joined the Bank as Head of Strategy in 2017 and was appointed to his present role in April 2019. Prior to joining the Bank, he held senior roles in strategy, branding and marketing communications with Barclays Bank, Credit Mutuel Group, Aviva, Wedgwood, Al Suwaidi Group and Swarovski, amongst others. He holds a M.Sc. in General Management from the London Business School.

7. CHIEF OPERATING OFFICER – NOORUL-AIN KHAN

Noorul-ain Khan joined the Bank in November 2020. She is a qualified Chartered Accountant, currently registered with the South African Institute of Chartered Accountancy. She has significant financial services experience, gained with large multinational corporates including Barclays, Nedbank, FirstRand and Investec Private Banking, backed up with manufacturing industry experience with BMW SA and Basileus.

Noorul-Ain was Chief Operating Officer between 16 November 2020 and 28 February 2021.

8. CHIEF INVESTMENTS OFFICER – NOEL MCCARTHY

Noel McCarthy joined the Bank in 2000 and served in a number of successively senior positions over the years, latest being that of Chief Financial Officer since 2016. He was appointed to his present role in June 2020. Mr. McCarthy is a CPA and a fellow member of the Malta Institute of Accountants. He also holds a M.A. in Financial Services from the University of Malta. He also serves as a Director of ReAPS Asset Management Limited and as Alternate Director of IVALIFE Insurance Limited.

9. CHIEF FINANCIAL OFFICER – RONALD MIZZI

Ronald Mizzi joined the Bank as Chief Financial Officer in September 2020. He was previously Group Chief Financial Officer at FIMBank plc, having spent his earlier career with parallel engagements with PricewaterhouseCoopers in Malta, the Channel Islands and New York. Mr. Mizzi is a CPA and holds a Practicing Certificate in Auditing, both issued by the Accountancy Board in Malta. He is a Fellow of the Malta Institute of Accountants and holds an B.A. (Hons) in Accountancy from the University of Malta.

Heads of Departments

Wilhelm Attard
Operations MC

Kenneth Azzopardi
Human Capital

James Baldacchino
Marketing

Cynthia Borg
Financial Crime Compliance & MLRO C CE

Edward Calleja
Risk R B MC

Elaine Calleja
Career Development

Alexander Camilleri
Support

Gilbert Caruana
Finance AL

Daniel Cassar
Digital Innovation T

Liana Debattista
Strategy and Proposition AL

Marvin Farrugia
Asset-Liability Management AL MC

Mario Gauci
Commercial B MC

Kenneth Genovese
Investment Distribution AL

Gordon Gilford
Electronic Channels T

Dione Stephan Gravino
IT Infrastructure & Operations

Nives Grixti
Legal E C B CE MC

Angele de Mesquita
Business Transformation T

Simon Micallef
Customer Profiling CE

Aaron Mifsud
Retail AL MC

Rodney Naudi
Operational and Security Governance T

Josef Portelli
Investment Management AL

Ronald Psaila
Business Solutions

Richard Scerri
Internal Audit

Dorianne Tabone
Regulatory Compliance C CE

Governance Structure

The Bank's backbone is supported by a strong governance structure that continued to ameliorate in 2020 thereby maintaining trust with shareholders and employees and attaining further satisfaction among customers and a wider range of stakeholders.

BOARD OF DIRECTORS
The Board sets the Group's strategy and objectives, and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Group.

BOARD COMMITTEES

AUDIT COMMITTEE
Assists the Board in fulfilling its supervisory and monitoring responsibilities, in relation to the Group according to detailed terms of reference that reflect the requirements of the Listing Rules as well as current good corporate governance best practices.

RISK COMMITTEE
Recommends the Bank's risk profile and proposes its risk appetite statement for approval by the Board, whilst periodically reviewing the Bank's risk management framework.

CONDUCT COMMITTEE
Acts as first point of reference on Board governance policies and procedures, codes of conduct and conflicts of interest.

ESG COMMITTEE
Considers the material environmental, social & governance issues relevant to the Bank's business activities and promotes initiatives to raise ESG performance.

NOMINATIONS & REMUNERATION COMMITTEE
Regularly reviews the structure and composition, including skills, knowledge, leadership, experience and diversity, of the Board, also ensuring succession strategies are in place.

BOARD CREDIT COMMITTEE
Receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy procedures.

TECHNOLOGY & INNOVATION COMMITTEE
Reviews, monitors and prioritises technology projects and ensures that the technology roadmap is aligned with the strategic goals of the Bank and with an eye on innovation.

MANAGEMENT COMMITTEES

COMPLIANCE COMMITTEE
Reviews compliance risk and acts as a decision point for business acceptance, on-boarding and dismissal of customers.

ASSETS-LIABILITIES COMMITTEE
Responsible for the asset liability management strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy.

EXECUTIVE COMMITTEE
Implements the Bank's strategy and Business Plan, by focusing on the four Ps - Performance, Products, Projects and People.

MANAGEMENT CREDIT COMMITTEE
Reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board.

WEEKLY MANAGEMENT MEETING
Brings together the senior levels of management, in a weekly forum where all members share updates about their respective areas of responsibility, work plans as well as matters or items of significant interest.

CONSOLIDATED PROJECT BOARD
Consideration, approval and monitoring of projects implemented within the Bank.

For more information on the functioning of the Board and Committees see pages 10 to 19.

Corporate Social Responsibility Statement

Let's celebrate Culture!

In line with its Vision to be *The* Community Bank, APS Bank had the opportunity in 2020 to demonstrate its commitment to the communities it serves: employees, customers, business partners and the Maltese community at large, like never before.

Last year the pandemic created an unprecedented situation where every individual was impacted in some way or another; be it directly, through a family member or a friend being tested positive and through the fear for a child or even indirectly, through a growing feeling of insecurity and powerlessness.

In these unprecedent times, the Bank held onto its *"raison d'etre"* that is of CARING. Caring about the World, caring about its Communities.

This is particularly true in the domain of Arts and Culture, where the Bank took different initiatives including but not limited to the following:

In partnership with *Magna Żmien* and Arts Council Malta, APS Bank supported the exhibition of previously unseen works by Maltese photographer Guido Stilon (1932–1975). The exhibition, curated by Letta Shtohryn with artistic direction of Andrew Alamango, was held at the Malta Postal Museum and captured Maltese life in the 1950s and 1960s including street photography, scenes of urban, industrial and agricultural labour and outdoor portraiture of friends and family.

The "annus horribilis 2020" also saw the launch of the first-ever virtual APS Mdina Cathedral Contemporary Art Biennale under the artistic direction of Prof. Giuseppe Schembri Bonaci and curated by Dr. Nikki Petroni. The Biennale's inaugural night on 13 March, and consequently the entire exhibition, were cancelled at the last minute because of the pandemic.

"Regaining a Paradise Lost. The Role of the Arts" was the theme of the exhibition, which was depicted through the eyes of 29 different artists. Besides art pieces from local talent, the exhibition displayed works from artists from across the globe, including Australia, Austria, Germany, Greece, Israel, Italy, Japan, Macedonia, Malaysia, Romania, Russia, Serbia, and the United Kingdom.

Culture is about emotion, culture is about life. The pandemic has hurt Malta and silenced its community of artists. The ones who bring joy, the ones who bring energy and make life more meaningful have been forced to keep quiet, with no public to enjoy their creation. The population stayed away from the cinemas, theatres, museums, exhibitions.

Over the years, APS has brought to the public performances and exhibitions in contemporary art, music, theatre, poetry, painting, photography and many others. 2020 was no exception. In July, APS Bank launched the first ever APS Summer Festival.

Under the artistic direction of Sigmund Mifsud, Executive Chairman of the Malta Philharmonic Orchestra, the Festival saw a fantastic cross-section of local talent, such as weekend performances by Red Electrick, Nadine Axisa, Studio 18, Alex Bezzina and Dominic Galea, the Comedy Knights and Ray Calleja, accompanied by session bands, musicians from the Malta Philharmonic Orchestra. Space was also created for emerging young talent such as new singers as well as elements from the Malta Youth Orchestra. On other evenings, the Festival also hosted outdoor cinema nights, with drama, classics, musicals as well as a celebration of films shot in Malta.

The APS Summer Festival brought communities back together, and celebrated a time in the year so close to the heart and lifestyle of Maltese people.

As a major contributor to Maltese heritage, APS Bank also supported the publication of *"A hundred experiences of a bird photographer in Malta"* by Aron Tanti in collaboration with Birdlife Malta. Another contribution had the Bank partnering with the Malta Historical Society for the improvement of their website.

A fruitful and exciting collaboration project was also kicked off with Fondazzjoni Patrimonju Malti.

During the year, the Bank participated in several restoration projects, one of which is the Statue of Our Lady of Mount Carmel. The statue is the first processional statue of Our Lady of Mount Carmel in the Maltese Islands and appears to have been brought over from Rome in 1657.

The restoration of the Balzan parish church façade entrusted to Architect Mark Azzopardi has been partially supported by the Bank's contribution. In Mgarr, an entire area at the parish centre was renovated with the objective to provide the community of this building with a space for recreation, team building and a new bar for future events the oratory will hold. Kenneth Cauchi, a Campanologist, Conservator and Restorer of bronzes, has been entrusted with the restoration of the bells of the Paola parish church that is housing 2 sets of bells in its south west belfry. Several other parish churches have been helped for urgent work needed to guarantee the integrity of their premises against the damages of time.

At the peak of the pandemic, when so many families were suffering from the challenging economic situation with difficulties to fulfil their basic needs and experiencing emotional distress, the Bank contributed to the national effort by financially supporting associations and NGOs such as the Malta Community Chest Fund Foundation and the Richmond Foundation amongst others.

APS Bank also supported the installation of solar panels at one of the YMCA residences in Msida (Dar Niki Cassar). *'The Homeless Energy Project'* has the objective to help reduce the residence's annual energy bills by 42%. YMCA Valletta provides residential shelter and emergency admission to homeless individuals, families and children. This project brought together two strong commitments of the Bank, being sustainability on one side and support to a community of people who need it the most on the other.

On the occasion of World Bicycle Day 2020, APS Bank and Nextbike Malta Limited launched an offer to make sustainable travel affordable. 1500 free "30 minute rides" were being offered to new customers on a first-come, first-served basis. The initiative is in line with the World Health Organization's aims, for which bicycles are seen as an affordable, reliable and sustainable means of travel that foster environmental stewardship and good health, contributing to the reduction of the risk of heart disease, stroke, certain cancers, and diabetes.

In September, the Bank launched a monthly newsletter aimed at keeping close contact with its customers by keeping them informed of the Bank's ongoing projects, updates, events and much more.

The APS Digest evolved from the experience of the COVID-19 Digest through which the Bank kept in touch with its customers weekly during the Spring wave of the pandemic. Each issue features information about the latest campaigns and promotes Bank events such as the APS talks. It also includes a section dedicated to the Bank's retail, commercial and investment customers as well as a selection of curated articles from external sources to help provide inspiration and guidance to businesses. The Bank also collaborates with its leadership team to prepare articles on different topics which are of interest to the audience. Besides articles, there is also a section dedicated to customer feedback, encouraging contact both ways.

Later in the year, the Bank developed a financial literacy course for Year 7 students (ages 11 to 12), with the pilot sessions being held at St. Margaret's College, Cospicua. The scope of this course is to introduce students to the basic principles of financial literacy, which help them build healthy money habits from an early age.

The course is built on five components, identified as the fundamentals of financial literacy. These are where money comes from and how it is used, how to budget effectively, the role of banks, how to be financially independent and the importance of this independence.

The sessions were delivered virtually by a well-experienced tutor. The course content was created to bring together the theory with interactive activities, such as videos, group work and quizzes, in order to ensure student engagement at all times.

Despite the difficult situation, the Bank continued to organise the APS Talks, switching to a digital format to address safety requirements. With a strong focus towards Sustainability, participants could learn and participate in discussions with experts in their field around topics such as: *"Deciphering food labels", "Ocean plastic pollution: a lost battle?", "Making the planet a better place with the SDGs – Sustainable Development Goals"*, *"Circular economy for everybody: the concept without the jargon"*, *"Beyond GDP - a framework to gauge Malta's success through quality of life"*.

APS Bank is also committed to contribute to the development of a sustainable economy, in particular through the financing of projects with a similar aim. The Bank's desk calendar 2021, released at the end of the year, concluded the Bank's exploration of the three pillars of sustainability. Where for the past two years it focused on the environment and the communities, the latest issue highlights how corporations can contribute to the sustainability agenda by putting purpose at the heart of their decisions and actions. *"Businesses with a sense of purpose"* showcases some of the Bank's customers' projects whose common objective is that of positively impacting our planet and our lives.

Over the years APS Bank has created landmark initiatives in terms of its Corporate Social Responsibility programme, acknowledged and appreciated by its communities. Going forward, the Bank will continue to champion Culture, Education, Sustainability and support the most vulnerable of the society.

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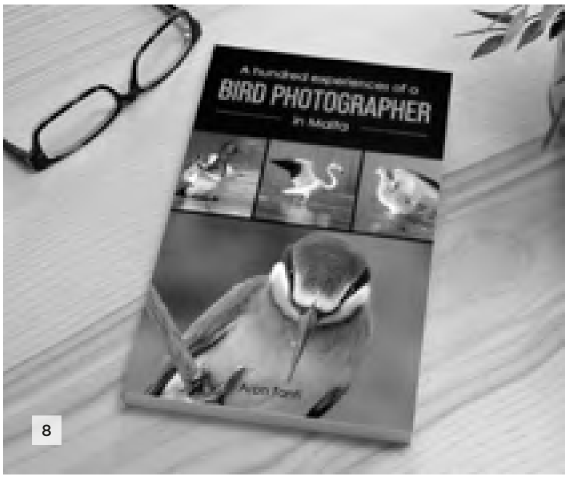
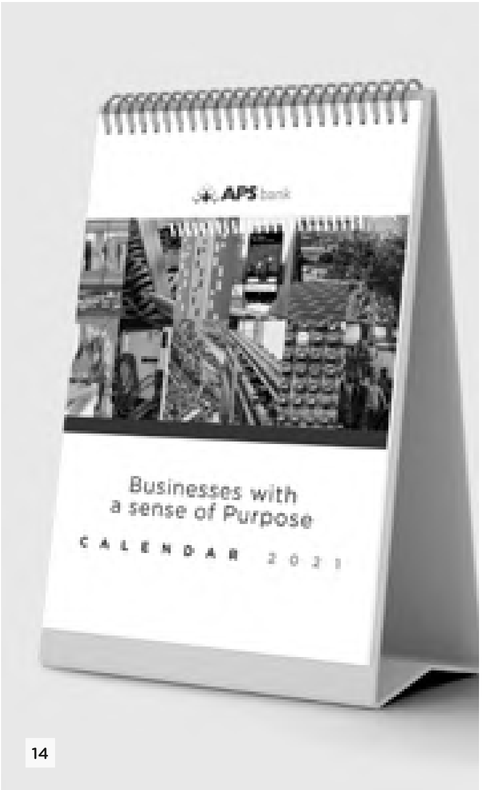
2020 CORPORATE SOCIAL RESPONSIBILITY HIGHLIGHTS

1. The 'APS Summer Festival' held live performances over the weekends, including shows by Red Electrick.
2. 'Malta in Transition', an exhibition of unseen works by Maltese photographer Guido Stilon.
3. Letta Shtohryn (on the left), curator of 'Malta in Transition', explaining the items on display during a private event for APS Bank customers.

4/5. The 'APS Mdina Cathedral Contemporary Art Biennale' displayed the work of 29 artists, both local and foreign. (4) Official poster of the event with 'Forgive Us, For We Have Misunderstood' by Darren Tanti, and (5) 'Woman with a Faldetta' by Toni Pace.



6. Restoration of the main altar background and titular painting of the Conversion of St Paul at St Paul's Church in Birkirkara.
7. St Louis of the French, canvas painting by an unknown artist, from the 18th Century. This painting is situated at the Archbishop's Curia Sacristy to the Chapel of the Virgin of Manresa.
8. 'A hundred experiences of a bird photographer in Malta', a publication by Aron Tanti in collaboration with Birdlife Malta.
9. On World Bicycle Day 2020, APS Bank and Nextbike Malta Limited collaborated to offer free 30 minute rides.
10. 'The Homeless Energy Project', inauguration event following the installation of solar panel at the YMCA residences in Msida (Dar Niki Cassar).



11/12/13. The 'APS talks' series continued throughout the year, with sessions being held live at the start of the year, then shifted to virtual sessions due to the pandemic. (11) 'Beyond GDP – A framework to gauge Malta's success through quality of life' delivered by Daniel Darmanin, Maria Giulia Pace, Walance Buttigieg Scicluna and JP Fabri, (12) Prof. Charles Briffa, presented 'Lessons from the life of Bro Louis Camilleri F.S.C.- A Lasallian spirit' and (13) Dr Yanika Borg hosted the first virtual APS talk on 'Ocean plastic pollution: A lost battle?'

14/15. The Bank's 2021 Calendar, 'Businesses with a sense of purpose', showcasing images from local businesses and how they are embracing sustainable practices. (14) The calendar itself, (15) The photo for March, 'Blending design and function', one of the main features at Trident Park.

Financial Statements and Other Information

Directors' Report

CONSTITUTION AND PRINCIPAL ACTIVITIES

APS Bank Group (the 'Group') comprises APS Bank plc (the 'Bank'), its subsidiaries ReAPS Asset Management Limited ('ReAPS'), the APS Diversified Bond Fund and the APS Global Equity Fund. The Group also has a significant investment in its associates IVALIFE Insurance Limited ('IVALIFE'), the APS Regular Income Ethical Fund and the APS Income Fund.

The Bank is a public limited company. It is licensed by the Malta Financial Services Authority (the 'MFSA') to carry out the business of banking and investment services in terms of the Banking Act (Cap. 371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta). The Bank is also enrolled in the Tied Insurance Intermediaries List in terms of the Insurance Intermediaries Act (Cap. 487 of the Laws of Malta). ReAPS is a wholly owned subsidiary of the Bank incorporated in October 2016 as a private limited liability company. The company is a UCITS fund management company and is licenced by the MFSA to perform investment management services under the Investment Services Act.

APS Funds SICAV plc was incorporated in January 2008 and is licensed by the MFSA as a collective investment scheme under the Investment Services Act. The company operates under the Retail UCITS Scheme and has established four sub-funds: the APS Income Fund and the APS Regular Income Ethical Fund, both being associates of the Group; and the APS Diversified Bond Fund and the APS Global Equity Fund both being subsidiaries of the Group.

IVALIFE was incorporated in December 2019 as a private limited liability company and is licenced by MFSA to undertake insurance business activities in terms of the Insurance Business Act (Cap. 403 of the Laws of Malta).

SHARE CAPITAL STRUCTURE AND MAJOR SHAREHOLDERS

The Bank's authorised and issued share capital are disclosed in Note 34 to the financial statements.

All of the ordinary shares in the Bank rank *pari passu* in all respects, including in terms of voting rights, participation in dividends and other distributions of profits of the Bank or otherwise.

The Articles of Association specify that a shareholding of ten per cent (10%) of the Bank's shares having voting rights shall constitute a 'qualifying shareholding', and that a shareholder of the Bank that holds, or shareholders who among them hold (in the aggregate), a qualifying shareholding, shall be entitled to appoint one Director in respect of each qualifying shareholding held, in every case subject to regulatory approval.

The Articles of Association also provide that the largest single shareholder of the Bank (holding at least twenty-five per cent (25%) of the ordinary issued share capital of the Bank) shall be entitled to appoint the Chairman of the Board from amongst the Directors appointed or elected to the Board.

Shareholders holding 5% or more of the share capital as at 31 December 2020 are included in the table below.

On the basis of the entitlement to appoint Directors attaching to a 'qualifying shareholding' as well as the entitlement of the largest single shareholder of the Bank to appoint the Chairman of the Board (in each case as set out in the Articles of Association and described above), AROM Holdings Limited is currently able to appoint seven (7) Directors (of the maximum nine (9) Board members that can be appointed), including the Chairman of the Board.

There are no arrangements currently known to the Bank the operation of which may at a subsequent date result in a change of control in the Bank.

	No. of shares held	% holding
AROM Holdings Limited *(wholly owned by the Archdiocese of Malta)*	198,367,765	79.7%
Diocese of Gozo	44,831,775	18.0%

DIRECTORS

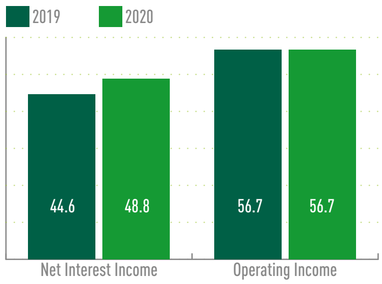
The Directors who served during the financial year and continue to serve at the date of approval of the Directors' Report were:
Frederick Mifsud Bonnici (Chairman)
Victor E. Agius
Joseph C. Attard
Franco Azzopardi
Laragh Cassar
Alfred DeMarco
Victor Gusman
Michael Pace Ross
Martin Scicluna

OPERATING PERFORMANCE

For the year ended 31 December 2020, APS Group plc registered €10.1 million profit after tax yielding a return on average equity of 5.5%. Considering the unprecedented economic scenario experienced during the financial year under review, this performance reaffirms the Group's strength and resilience in the face of numerous challenges presented by the COVID-19 pandemic. During the different phases of the COVID disruption, the Bank remained at the forefront in supporting the local economy, through the making available of lending facilities to the retail and commercial clients; the accessibility of the Branch network notwithstanding the significant operational challenges brought about by health and safety measures put in place; as well as the unwavering commitment to the Group's staff through proactive measures to safeguard its wellbeing.

Net interest income for the year under review was of €48.9 million, increasing by 9.4% or €4.2 million, mainly driven by the continued growth in the Bank's lending book. Interest receivable on loans and advances amounted to €56.5 million, increasing by €5.8 million compared to prior year. This was counterbalanced by the contraction in interest receivable on debt securities used for liquidity purposes which stood at €5.8 million, a decrease of €1.5 million to last year. This was largely the result of replacement of matured bonds which yield a lower rate of return compared to new instruments, compounded by the pandemic-related financial market volatility.

GROUP REVENUE (€ MILLION)



Other operating income totalled €7.9 million, dropping by 34.4% from the €12.0 million reported in 2019. This was mainly a result of the performance of the APS Diversified Bond Fund, which during 2020 recorded net gains on financial instruments of €0.5 million as opposed to the €3.5 million for 2019. Fee and commission income and other operating income remained constant to the preceding year.

Operating expenses for the year increased by 15.8% to €35.2 million. One key pillar is the investment in human capital, which continues to support the Group's growth trajectory. Furthermore, the Group also continued its works on various projects aimed to offer a customised and augmented service to our customers and thus improving the overall customer experience. Additional regulatory projects are also underway along with other works targeted to strengthen and optimise the Group's physical infrastructure including the Branch Network. For the year under review, the cost-to-income ratio increased by 8.4% to 61.9%, on the back of slower revenue growth due to average lower business volumes recorded during the second and third quarter of the year. The Group has placed cost optimisation as one of the pillars for its sustainable growth and continuously aims to achieve efficient operating levels without forgoing the quality and the values the Group strives for.

Impairments against expected credit losses for the year amounted to a net charge of €5.5 million, increasing by €4.5 million when compared to the preceding year. This is attributable to two factors: the general growth in the lending portfolio as well as the classification of a higher level of Stage 2 assets reflecting the increase in credit risk out of the uncertainty arising from the current economic environment. Notwithstanding the turmoil the Group's risk appetite has yielded its expected results as no new loans of significance were transferred to Stage 3/Default status. The Group continues with its vigilant approach to risk management, ensuring adequate quality of its obligors and collaterals, whilst increasing monitoring of credits which have faced the biggest impact during the ongoing crisis.

ReAPS, as the Investment Manager of APS Funds SICAV plc, registered a profit before tax of €0.3 million for the year under review compared to € 0.2 million of 2019. For the year ended 31 December 2020, the sub-funds' performance has been negatively affected by the COVID-19 pandemic which in turn negatively impacted the fair valuation of the portfolios and thus Investment Manager Fees. Nevertheless, the total assets managed by APS Funds SICAV plc stood at € 180.8 million, increasing by 5.8% over 2019.

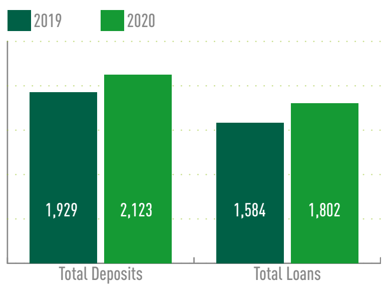
The Associated Investments in the APS Regular Income Ethical Fund and the APS Income Fund generated a share of loss of €0.3 million compared to a share of profits of €1.6 million in the comparative year. This is mainly the result of lower gains and losses on financial instruments.

IVALIFE obtained its authorisation to start writing long-term life-insurance business in early 2021. During the financial year ended 2020 the company created the appropriate business, human and technological infrastructure needed whilst working with the Regulator to obtain the required licensing. The Group is recognising its 25% share of loss of €0.2 million (2019: Nil).

FINANCIAL POSITION

The Group's total assets as at 31 December 2020 expanded by a further €252 million, or 11.6% reaching €2.4 billion. The main drivers for this were the loans and advances to customers and the syndicated loan book which at year-end stood at €1.8 billion, an increase of 13.8%. Overall, this increase was primarily steered by the households' sector being attributed to over 60% of the growth. Concurrently, debt securities stood at €316 million, up by 32.7%, or €77.8 million. The planned reduction in balances held at the Central Bank of Malta counterbalanced these increases, with a reduction of €54.1 million less than the preceding year to a year-end balance of € 108.3 million.

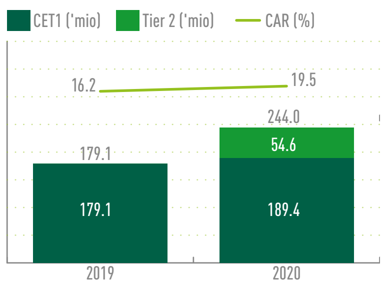
GROUP LOANS & DEPOSITS (€ MILLION)



Liabilities grew by 12.0%, up to a balance of €2.2 billion. This was a result of increases seen in both customer deposits and also the new subordinated bond which was issued during the last quarter of the year. Amounts owed to customers contributed to 81.8% of the total increase, with overnight deposits being the main contributor thereof. The subordinated bond issue took place in November 2020, with the offer being fully subscribed at its face value of €55.0 million. The bonds were issued for a 10 year term at 3.25%, marking the second phase of the Group's three-year capital development plan which is being executed to further strengthen the capital foundation, hence allowing the Group to respond to new business opportunities and be well positioned for future growth.

At 31 December 2020 the Group's equity stood at €206 million, an increase of €14.3 million compared to prior year. The Group's CET1 ratio stood at 15.1% (2019: 16.2%) and the Capital Adequacy Ratio at 19.5% (2019: 16.2%) – both ratios well above the regulatory minima including buffers.

GROUP CAPITAL



DIVIDEND

The Directors are recommending that a gross dividend of €1.48 per ordinary share (net dividend of €0.96 per ordinary share) is paid to ordinary shareholders. This dividend is subject to approval by Shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total gross dividend to be paid is € 3,692,307 (total net dividend of €2,400,000). Shareholders are being given the option to receive the dividend in cash or new Ordinary Shares.

PRINCIPAL RISKS AND UNCERTAINTIES

The successful management of risk is essential to enable the Group to achieve its objectives. The ultimate responsibility for risk management rests with the Group's Directors, who assess and review the Group's risk appetite and formulate policies for identifying and managing such risks. The principal risks and uncertainties facing the Group are included below:

(a) Market and competition

The Group operates in a competitive environment and faces competition from various other entities. Technological developments also have the ability to create new forms of fast evolving competition. An effective, coherent and consistent strategy to respond to competitors and changing markets enables the Group to sustain its increase in market share and its profitability. The Group continues to focus on service quality and performance in managing this risk.

(b) Legislative pressures

The Group is subject to numerous laws and regulations covering a wide range of matters. Failure to comply could have financial or reputational implications and could materially affect the Group's ability to operate. The Group has embedded operating policies and procedures to ensure compliance with existing legislation.

(c) Talent and skills

Failure to engage and develop the Group's existing employees or attract and retain talented employees could hamper the Group's ability to deliver in the future. Regular reviews are undertaken of the Group's resource requirements. Accordingly, employee arrangements and initiatives are in place to gauge employee effectiveness to achieve this objective.

(d) Brand and reputation risk

Damage to the Group's reputation could ultimately impede the Group's ability to execute its corporate strategy. To mitigate this risk, the Group strives continually to build its reputation through a commitment to sustainability, transparency, effective communication and best practices. The Group works to develop and maintain its brand value.

(e) Economic and market environment

The Group is susceptible to changing market conditions in the broader economy within which it operates. A significant economic decline could impact on the Group's ability to continue to attract and retain customers. Demand for the Group's products can be adversely affected by weakness in the wider economy which are beyond the Group's control. This risk is evaluated as part of the Group's strategy process covering the key areas of investment and development and updated regularly throughout the year. The Group continues to make significant investment in innovation. The Group regularly reviews its pricing structure to ensure that its products are appropriately placed within the markets in which it operates.

(f) Technology and business interruption

The Group relies on information technology in all aspects of the business. In addition, the service that the Group offers to its customers are reliant on a complex technical infrastructure. A failure in operation of the Group's key systems or infrastructure could cause a failure of service to its customers, thus negatively impacting its brand, and increased costs. The Group makes significant investment in technology infrastructure to enable it to continue to support the growth of its business and has a robust selection and monitoring process of third-party providers. The Group also invests in technology infrastructure which enables it to reduce cyber risk. The Group also organises regular business continuity exercises to ensure ongoing readiness of key systems and sites.

(g) Supply chain

The Group relies on a number of third parties and outsourced suppliers to support its supply chain. A significant failure within the supply chain could adversely affect the Group's ability to deliver products and services to its customers. A robust supplier selection process is in place with appropriate ongoing management and monitoring of key suppliers.

(h) Customer service

The Group's revenues are at risk if it does not continue to provide the level of service expected by its customers. The Group's commitment to customers is embedded in its values. Customer-facing employees undertake intensive training programmes to ensure that they are aware of, and abide by, the levels of service that are required by the Group's customers.

(i) Financial risk management

Note 44 to the financial statements provides details in connection with the Group's financial risk management objectives and policies and the financial risks to which it is exposed.

(j) Significant judgements and estimates

Note 2.3 to the financial statements provides details in connection with the inherent uncertainties that surround the preparation of the financial statements and which require significant estimates and judgements.

(k) Contingent liabilities

Note 39 to the financial statements provides details in connection with the Group's contingent liabilities.

EVENTS AFTER THE BALANCE SHEET DATE

In January 2021, the Group made an additional capital investment of €1.5 million in IVALIFE Insurance Limited, and in February 2021 the Malta Financial Services Authority gave its authorisation to IVALIFE Insurance Limited to write long-term business in relation to risks situated in Malta.

OUTLOOK

As the pandemic continued to develop in the recent months, with a third wave of infections hitting Europe in the last quarter of FY2020 and new restrictions measures being introduced, economic uncertainty resumed. This caused further weakness in the Maltese economy, contributing to a significant contraction of Malta's GDP for 2020. As COVID-19 vaccines start being rolled out at the beginning of 2021, a recovery is expected to kick in in the second half of the year, with restrictions to mobility being gradually lifted and support measures from policy-makers and regulators (like loan moratoria and salary subsidies) tapering off.

As business conditions return to normality, it will become apparent that the expected recovery will be uneven, with certain sectors of the economy bearing the brunt of the pandemic shock more than others. This might lead to a deterioration in the asset quality of banks, driven by corporate defaults which were temporarily cushioned by the relief measures first introduced in April of 2020. However, the domestic banking system entered this economic phase from a position of strength, with solid capital ratios and prudent liquidity positions, which will allow banks to withstand and manage the expected defaults comfortably.

As 'the Community Bank' in Malta, APS keeps on providing its support to all its customers especially during these trying times. Being attentive to the change in consumer behaviours pointing to an increase delivery of services through online channels as well as the market around us, would enable the Group to perform better and ensure the right steps are taken, especially in such unpredictable times. As all of this unfolds, the Group will continue to focus on implementing its business strategy – which was refreshed at the end of 2020, with a particular focus to the upcoming economic consequences of the 2020 pandemic shock-enabling it to achieve its goal to be the bank of choice for the Maltese community.

GOING CONCERN

The financial statements are prepared on a going concern basis. The Group prepared financial plans for the next three years addressing the Group's operating performance, risks, capital and liquidity, which have been also stressed in light of the ongoing COVID-19 pandemic.

As required by Listing Rule 5.62, the Directors having considered the financial performance and position of the Group and its future outlook deem that the Group is able to continue operating as a going concern for the foreseeable future.

STATEMENT OF RESPONSIBILITY

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

The Companies' Act, requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Bank at end of each financial year and of its profit or loss for that financial year in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union ('EU'). The Directors also ensure that the financial statements of the Group are prepared in accordance with Article 4 of the Regulation on the application of IFRS as adopted by the EU.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time, the financial position of the Bank and which enable them to ensure that the financial statements comply with the Companies Act and the Banking Act. The Directors are also responsible for ensuring that:

- Appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgments and estimates.
- The financial statements are prepared on a going concern basis.
- Account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

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

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

DISCLOSURE IN TERMS OF THE SIXTH SCHEDULE TO THE COMPANIES' ACT

During the financial year ended 31 December 2020, no shares in the Bank were:

- Purchased by it or acquired by it by forfeiture or surrender or otherwise;
- Acquired by another person in circumstances where the acquisition was the Bank's nominee, or by another with the Bank's financial assistance, the Bank itself having a beneficial interest; or
- Pledged or made subject to other privileges, to a hypothec or to any other charge in favour of the Bank.

STANDARD LICENCE CONDITIONS

In accordance with Standard Licence Condition 7.28 of the Investment Services Guidelines issued by the MFSA, licence holders are required to disclose any regulatory breaches of the Standard Licence Conditions in their annual report. During the year under review, there were no such regulatory breaches nor were any regulatory sanctions imposed on the Group by the MFSA.

AUDITORS

Deloitte Audit Limited have signified their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be put to the Annual General Meeting.

The Directors' Report was authorised for issue by the Board of Directors and was signed on its behalf by:

Frederick Mifsud Bonnici
Chairman

Franco Azzopardi
Director

11 March 2021

Remuneration Report

REMUNERATION POLICY

The Remuneration Policy of APS Bank aims to exercise a competent and independent judgement on its remuneration practices and its incentives created for managing risk, capital and liquidity and ensure that they are in line with applicable legislation, directives, regulations and guidelines.

The approval of the Group's Remuneration Policy is the responsibility of the Board of Directors and covers all categories of staff including Senior Management (Chief Executive Officer and Chief Officers, and Heads of Department), risk takers and staff engaged in control functions. The application of the principles of Directive 2013/36/EU and the EBA Guidelines on sound remuneration policies take into account the nature and scale of the Group and the complexity of its activities.

In 2020 the Bank signed a Collective Agreement with the Malta Union of Bank Employees for the years 2020 - 2022, covering all staff excluding Senior Management. References in this Report to types and modes of remuneration apply to all staff, but where these refer to staff covered by the Collective Agreement it shall be construed accordingly.

The Remuneration Policy is reviewed internally on a regular basis and is updated when required. An updated Remuneration Policy was approved by the Committee on the 20 April 2020, following the annual internal audit review of 2019.

FIXED REMUNERATION

The base salary provides a predictable base level of income reflecting each staff member's level of responsibility, capabilities, skills and experience. Base salaries are reviewed annually, and increases are granted in line with performance and when a staff member assumes increased responsibilities or significantly deepens knowledge and expertise. Base salaries may also be reviewed when there is a material change in the remuneration levels of comparable roles in the respective market. Base salaries are set for a number of different levels within approved salary ranges.

VARIABLE REMUNERATION

Staff members may have a variable component to their remuneration in addition to their fixed remuneration. The relation between fixed and variable remuneration shall not exceed twenty-five (25) per cent of the fixed component for each individual. The variable portion is clearly connected to the work and performance of the staff member, the performance of his/her business unit and the overall performance of the Bank and its subsidiaries. The goals are based on factors that support the Group's long-term strategy and business objectives.

Staff in Control Functions are adequately compensated in accordance with their own objectives and not directly tied to the results of any business unit. They are judged on their success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems.

Bonuses related to individual performance are based on both quantitative and qualitative targets. Qualitative criteria consider (i) adherence to the applicable regulatory framework, (ii) treating customers fairly and (iii) the on-going provision of a high-quality service to customers. Performance bonus promotes teamwork and encourages all staff members to perform to the best of their abilities, for their mutual benefit and the long-term sustainable success of the Group.

The Group ensures that bonuses are fair, transparent, easy to understand and based on the Bank's Business Plan and Annual Budgets. Any variable remuneration, be it monetary or non-monetary, outside the parameters of the Policy is referred to the Remuneration Committee for approval.

Variable remuneration does not include "clawback" provisions. APS Group does not offer buy out contracts, supplementary pension or other pension benefits and share options. Schemes relating to early termination are established within the Collective Agreement. There is no remuneration that is subject to deferral.

LINK BETWEEN PAY AND PERFORMANCE

The variable portion of remuneration is linked to the level of profit earned by the Bank during the relative financial period. The calculation of the bonus attributed to the staff in the clerical, non-clerical and managerial grades is determined in the Collective Agreement and is based on the profit achieved by the Bank. The bonus is distributed to employees in proportion to the performance achieved by the individual and in accordance with their respective levels.

Annual bonus entitlements are also applicable to members of the Senior Management as highlighted in the Remuneration Statement. The Bank does not pay variable remuneration in equity, equity-linked or other eligible instruments to any category of staff.

The application of the proportionality principle, according to circular published by the Malta Financial Services Authority (MFSA) in 2015, prescribes that the provisions of CRR relating to variable pay in instruments and deferral rule are to be fully applied if an individual staff member is remunerated with a variable pay of more than €100,000, or for lower values where variable pay is more than 100% of the fixed pay of the individual concerned. No staff member fall in this category.

PERFORMANCE MANAGEMENT SYSTEM

Key Performance Indicators (KPIs), by which employees' performance is measured, provide corporate departmental, unit and team/individual targets aligned with the strategic objectives and business plan of the Group. Performance management also takes into consideration leadership competencies required by the individual positions as well as the Group's corporate values.

Performance targets are reviewed periodically to ensure that these are aligned to specific strategic and operational objectives set out by the Board of Directors, covering not only business generation, but also other areas of importance such as compliance with prevalent regulation and internal policies and procedures, on boarding and customer due diligence, non-performing borrowing, quality of service and others.

employees who, individually or as part of a Committee take, approve or veto decisions on new products, material processes or material systems.

IDENTIFIED STAFF

Additional disclosures on the governance process related to remuneration have been made in the Remuneration Statement in this report. The target population defined as Identified Staff for the purposes of this disclosure represents 12.75% of total number of employees in the Group. Identified staff is determined in line with recommended EBA Regulatory Technical Standards[1] and includes:

- All Directors;
- Senior Management responsible for material business units/business lines or internal control and corporate functions; and
- Other employees who are members of Committees with collective authority to commit to risk exposures per transaction beyond 0.5% of CET1 Capital, and

For the purposes of remuneration, Identified Staff have been split into business areas according to EBA guidelines[2].

The table below shows total fixed and variable remuneration for Identified Staff during the financial year 2020 broken down by business area, Senior Management and members of staff whose actions have a material impact on the risk profile of the institution. All fixed and variable remuneration were paid in cash. All Identified Staff are individually remunerated less than €1 million per annum.

	Supervisory Function	Executive Management Function	Portfolio Management and Wealth Management	Retail Banking	Asset Liability Management	Corporate Functions	Independent Control Functions
Supervisory & Management functions	13	9					
Number of identified staff			6	13	5	13	11
of which in Senior Management positions			5	3	1	11	8
Total fixed remuneration (€)*	246,750	959,665	356,332	600,200	208,080	787,217	739,701
Total variable remuneration (€)		147,100	32,007	64,442	10,485	61,129	59,885

*Total fixed remuneration comprises benefits, specifically car allowances.

NOTES TO THE TABLE:

- as defined in EBA guidelines EBA/GL/2014/8. None of the employees individually earn over €500,000. There are no amounts of deferred remuneration and no deferred remuneration was awarded during the financial year.
- the above figures are for the Group, that is including the Bank's subsidiaries.
- variable remuneration for identified staff includes performance related bonuses and other discretionary benefits.
- the Executive Management function (Chief Executive Officer and Chief Officers) was composed of 9 members on 31 December 2020, with one member in the headcount appointed in November 2020.

1 EBA Final Draft Regulatory Technical Standards EBA/RTS/2015/09 dated 16 July 2015
2 EBA Guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2020

1. Terms of Reference and Membership of the Nominations & Remuneration Committee

The Nominations & Remuneration Committee (the "Committee") has a two-pronged function: (i) ensuring that the Directors and Senior Management of the Bank have the appropriate mix of skills, qualifications and experience necessary to fulfil their supervisory and management responsibilities; (ii) overseeing the development and implementation of the remuneration and related policies of the Group and to exercise a competent and independent judgement on its remuneration practices.

Up to end September 2020, the Committee was entitled "Remuneration Committee". In October 2020, the Committee was reconstituted as the "Nominations & Remuneration Committee". The Committee is composed of the following: Frederick Mifsud Bonnici (Chairman), Victor Gusman and Laragh Cassar, all of whom are Non-Executive Directors. None of the Directors participate in the discussion regarding their own nomination, remuneration or performance. The Chief People Officer acts as Secretary to the Committee.

Further detail on the Terms of Reference of the Nominations and Remuneration Committee is found in the "Statement of Compliance with the Code of Principles of Good Corporate Governance" under Principle 4, on page 12.

2. Meetings

The Committee held two (2) meetings during the year under review. One of the Directors was excused from the first meeting.

3. Nominations

Until end September 2020 matters relating to nominations fell under the remit of the Governance & Conduct Committee, which had the power to convene itself into a Nominations Committee. The Governance & Conduct Committee was composed of Frederick Mifsud Bonnici (Chairman), Laragh Cassar, Victor Gusman and Michael Pace Ross as voting members, and Marcel Cassar, Nives Grixti and Hervé Delpech as non-voting members. The Committee met twice in 2020.

During the said meetings, the Committee reviewed the results derived from the Board Annual Evaluation exercise, considered the letter of resignation from the nine Directors offering themselves for re-election at the 2020 Annual General Meeting and ensured that the Bank held an updated list of potential candidates for the Nominations Pool. Even though no new Board appointments took place in 2020, detailed discussions took place regarding plans for succession of Non-Executive Directors taking into consideration skills, knowledge, and diversity, whilst also considering areas of competence required over the medium to long-term to support the Bank's strategic objectives.

The Memorandum and Articles of Association, as amended, specifically refers to the 'nominations' element forming part of the Nominations & Remuneration Committee, highlighting that the Committee shall communicate with and engage in active discussion with Qualifying Shareholders, as defined in the said Articles, on the needs and requirements of the Board from time to time with a view to ensuring, as far as practicably possible, that nominations made by Qualifying Shareholders will address the requirements of the Board with respect to collective knowledge, skills and experience on the Board.

4. Remuneration Statement

4.1. Remuneration Policy – Senior Management

The Board of Directors ("Board") determines the framework of the overall remuneration policy for Executives based on recommendations from the Nominations and Remuneration Committee. The Committee, on the recommendations of the Chief Executive Officer, then establishes the individual remuneration arrangements of the Group's Senior Management, namely the Executives and Heads of Departments. The Remuneration Policy applies consistently to all employees within the Group. Its objective is to align employees' remuneration with the Group's performance, business strategy and business models, risk appetite framework, values and long-term goals. The overriding principle of the Remuneration Policy is that individual performance is evaluated according to both quantitative/financial and qualitative/behavioural measures.

The Committee considers that the current remuneration packages for Executives are based upon the appropriate market equivalents, and are adequate for the responsibilities involved to enable the Group to attract, retain and motivate executives having the appropriate skills and qualities, in order to ensure the proper management of the organisation.

For the purposes of this Remuneration Statement, references to "Executives" shall mean the Chief Executive Officer ("CEO") and the eight members of the Executive Committee. Executives are in full employment with the Bank on definite and indefinite contracts. They enjoy health insurance arrangements and death in service benefits as all Bank employees. Executives are also entitled to the use of a company car or car allowance. Share options and profit sharing are not part of the Group's Remuneration Policy. Subject to the foregoing, the terms and conditions of the Executive Committee members' contracts are considered as commercially sensitive information.

The Chief Executive Officer's remuneration is reviewed and approved by the Committee. The Chief Executive Officer is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as approved by the Committee. Executives are also eligible for an annual bonus entitlement and eligible for an annual salary increase within a maximum salary range approved by the Committee.

No supplementary pension or other pension benefits were payable to the Executives in 2020. Insofar as early retirement schemes are concerned, the Executives are subject to the schemes which are set out and defined in the Collective Agreement (for Managerial and Clerical Grades) as may be applicable to employees from time to time.

Total emoluments received by Executives during the financial year ended 31 December 2020 are reported below.

Variable Remuneration of Executives

The total variable remuneration of Executives is proposed by the CEO, reviewed by the Committee, and confirmed by the Board. During 2020 the Executives were awarded a performance bonus linked to the performance and achievement of their objectives. The objectives were based partly on financial targets (financial ratios) and partly on qualitative performance review.

The Bank's variable remuneration for Executives shall become subject to an improved Performance Review Process with effect from 1 January 2021.

The Remuneration Policy shall be further revised to include a 2nd pillar occupational pension for Senior Management and Employees. It is envisaged that the amendments to the Remuneration Policy will be concluded in 2021. The Remuneration Policy will also take into consideration any updates in the EBA Guidelines on sound remuneration policies.

4.2. Remuneration Policy – Directors

The Board of Directors is composed in its entirety of Non-Executive Directors. None of the Directors, in their capacity as Directors of the Bank, are entitled to profit sharing, share options or pension benefits. In terms of non-cash benefits, Directors are entitled to health insurance and to a refund of out-of-pocket expenses.

All Directors are non-employees and receive a fee for their services as Directors.

During 2020 the remuneration of the Chairman and Directors of the Bank was proposed by the Governance Committee and approved by the Shareholders at the respective Annual General Meeting. The remuneration consists of fixed fees for being appointed as Board of Director as well as for membership in Board Committees. It is set at a level which broadly reflects:

- market practices and rates of compensation at comparable regulated firms;
- the competencies and contribution required; and
- the extent of responsibilities and the number of board meetings and committee membership/s.

The Directors are appointed at every Annual General Meeting following their resignation and resubmitting themselves for re-election. There is no severance payments upon termination of their respective directorship. Directors are entitled to certain benefits after the termination of their directorship, including discounts on products and services offered by the Group.

Directors are obliged to avoid conflicts of interest and shall take reasonable steps to keep the Bank's matters confidential. Directors' emoluments are designed to reflect the time committed by Directors to the Bank's affairs, including the different Board Committees of which Directors are members, and their responsibilities on such Committees and confirmed at the Annual General Meeting.

4.3. Directors' Fees and Executives' Emoluments

The Directors' fees as approved by the Board of Directors are as follows:

Board Fees	**€**
Chairman	50,000
All other Directors	124,000
Board Committees Fees	**€**
Chairman of the Board	Nil
All other Directors	146,500

Executives' Emoluments

Fixed Remuneration	Group Directors' Fees	Variable Remuneration	Share Options	Others
€ 959,665	* € nil	€ 147,100	None	Non-cash benefits: life & health insurance and refund of out-of-pocket expenses

*This amount represents emoluments received by Executives in relation to their directorships on the Bank's subsidiary companies.

Directors' Fees

Fixed Remuneration	Variable Remuneration	Share Options	Others
€ 320,500	None	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses

The Bank's Directors' fees for the year ended 31 December 2020 are as follows:

	€
Frederick Mifsud Bonnici	50,000
Franco Azzopardi	37,000
Victor E. Agius	35,750
Joseph C. Attard	39,000
Laragh Cassar	33,500
Alfred DeMarco	30,750
Victor Gusman	33,000
Michael Pace Ross	29,000
Martin Scicluna	32,500
Total	**320,500**

Governance Statement

STATEMENT OF COMPLIANCE WITH THE CODE OF PRINCIPLES OF GOOD CORPORATE GOVERNANCE

The Board of Directors (the "Board" or "Directors") of APS Bank plc (the "Bank") is presenting this Statement of Compliance in conformity with the requirements of Listing Rules 5.94 *et seq* of the Malta Financial Services Authority (the "MFSA") and the principles outlined in the "Code of Principles for Good Corporate Governance" (the "Code"), in Appendix 5.1 of the Listing Rules. Reference to the Bank also covers the subsidiary undertakings forming the APS Group as noted in the Directors' Report on page 2.

The Board is committed to uphold the highest standards of corporate governance and to promote the Bank's culture, values, ethics and behaviours. The Bank declares its full support for the Code and undertakes to comply fully with it to the extent that this is considered in consistence with the size, nature, and operations of the Bank. As at the date of this Statement, the Board considers the Bank to be in compliance with the Code, save for the exceptions delineated on page 18.

COMPLIANCE WITH THE CODE

Principle 1: The Board

The Board promotes the well-being of the Bank by upholding strong principles of governance and is responsible for its long-term success by ensuring the Bank's proper administration, sound management and general supervision of its affairs. The Board is committed to continually improving its practices and capabilities so that it can discharge its role and responsibilities effectively, as the Bank's needs evolve. The Board retains ultimate responsibility for ensuring adequate financial and human resources are available to meet agreed objectives and strategy, and ensures such resources are responsibly and effectively deployed.

As at the date of this statement, the Bank continues to be led by an effective and committed Board. Currently, the Board is composed of nine Non-Executive Directors, including the Chairman, as listed in the Directors' Report on page 2. There is a range of relevant skills on the Board, gained in diverse business environments and different sectors. This gives the Board articulated perspectives during debates on a wide range of issues. Furthermore, the Board delegates certain responsibilities to various Board and Management Committees, as illustrated by the Governance Structure chart on page XVI. More information on the delegated authorities and responsibilities can be found in Principle 4.

All Directors are required to attend all meetings of the Board, the meetings of those Committees on which they serve, and the Annual General Meeting ("AGM"). They are expected to devote sufficient time to the Bank's affairs to enable them to fulfil their duties as Directors. The attendance at the meetings for each Director during 2020 is shown in Principle 5.

The Board is assisted by a full-time Company Secretary, which position is separate and independent from other management bodies. The responsibilities of the Company Secretary also cover Corporate Governance and Investor Relations. All Directors have unrestricted access to the Company Secretary. The Company Secretary works closely with the Chairman to ensure effective functioning of the Board and appropriate information flows between the Board and its Committees. The Company Secretary also facilitates Board induction and Directors' professional development.

Principle 2: Chairman and Chief Executive Officer

The Chairman is appointed from amongst the Directors by the largest shareholder holding at least thirty-three per cent of the ordinary issued share capital of the Bank. The Chairman is responsible for leading the Board and setting its agenda for meetings, ensuring that the Directors receive precise, timely and objective information so that they can properly discharge their duties, while encouraging their active engagement at meetings and on issues of a complex or contentious nature. The Chairman holds a non-executive independent function, and the role is separate and distinct from that of the Chief Executive Officer with a clear division of responsibilities.

The Chief Executive Officer is responsible for the running of the Bank's business and leads the management team which comes together to communicate, review and agree on issues and actions of Group-wide significance, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees. The Chief Executive Officer is also responsible for the recruitment and appointment of Senior Management, after consultation with the Nominations & Remuneration Committee.

Principle 3: Composition of the Board

The Bank's Articles of Association contain detailed provisions as to the manner of appointment and retirement of Directors, with the process being led by the Nominations and Remuneration Committee (until September 2020, the nominations framework fell under the remit of the Governance & Conduct Committee, which would convene itself to a Nominations Committee). Directors hold office from the close of the Annual General Meeting at which they are appointed until the end of the subsequent General Meeting, at which they become eligible for re-election. There were no retirements, resignations or additional appointments at the 2020 Annual General Meeting.

Each Director is expected to be an active participant in a Board that functions effectively as a whole. The Board balances longer-serving Directors, and recently appointed Directors with fresh insights. The Directors combine broad business and commercial experience with independent and objective judgement, and they provide independent challenge to the executives. All Directors hold office in a non-executive capacity while they also actively participate in Board Committees. All Board Directors are committed to act in consonance with high standards of corporate governance practices and of ethical behaviour.

The Board seeks to have an appropriate mix of skills, expertise and experience to enable it to deal with current and emerging opportunities and issues and to effectively appreciate the business risk issues and key performance indicators affecting the Bank's ability to achieve its objectives.

In accordance with the Code Provision 3.2, the independent Non-Executive Directors of the Bank as at 31 December 2020 were:
Frederick Mifsud Bonnici (Chairman)
Victor E. Agius
Joseph C. Attard
Franco Azzopardi
Laragh Cassar
Martin Scicluna

In determining the independence or otherwise of its Directors, the Board has considered the principles emanating from the Code, Joint ESMA and EBA "Guidelines on the Assessment of the Suitability of Members of the Management Body" (2017), as well as general principles of good practice.

The Bank has determined that the fact that, as from this financial year, Franco Azzopardi has served for over 12 years on the Board does not influence his objective and balanced judgement or in any way reduces his ability to take decisions independently.

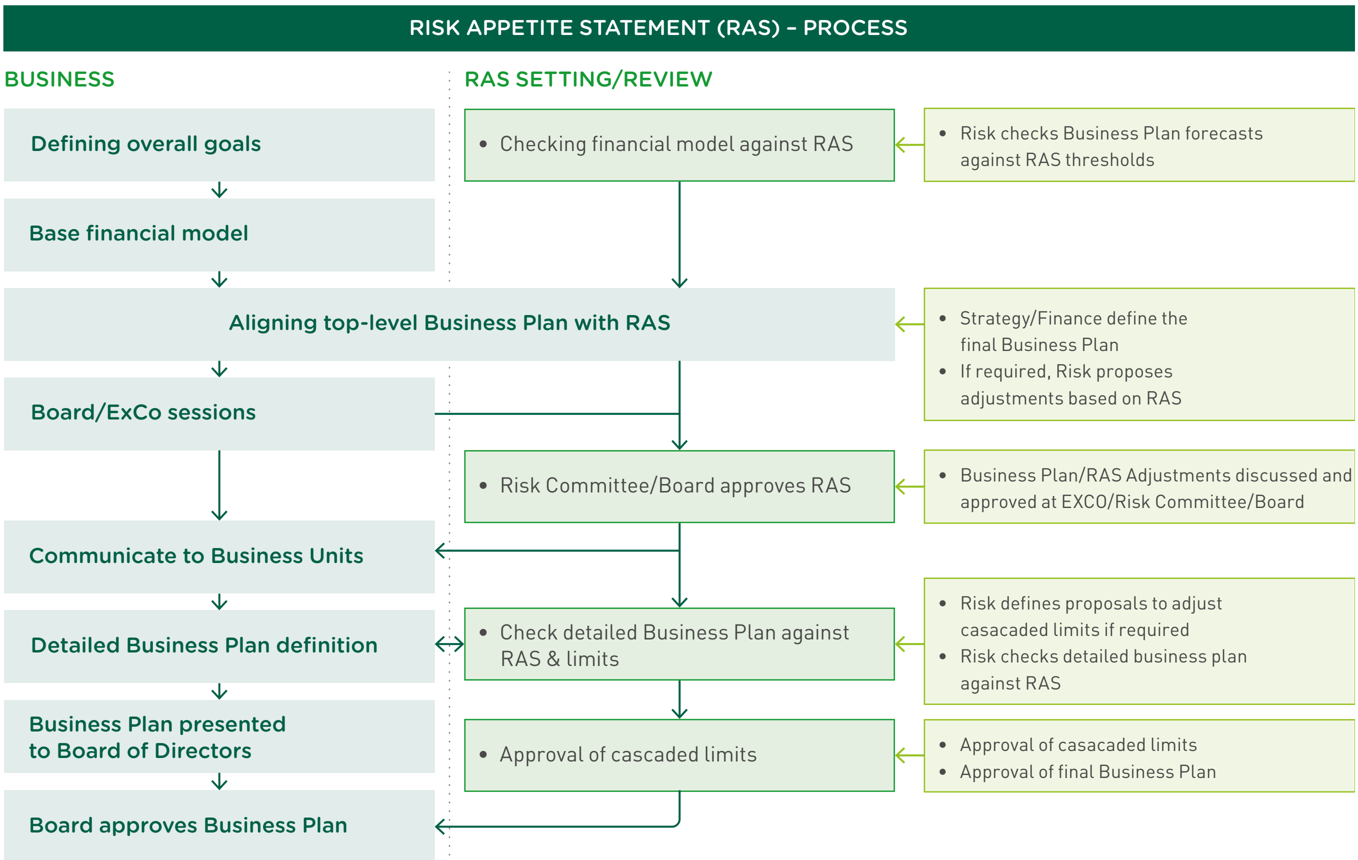
Conversely, the Bank considers Victor Gusman and Michael Pace Ross, who both hold senior administrative roles with the two main shareholders, non-independent from the Bank. Additionally, Alfred DeMarco sits on *the Kunsill Finanzjarju Djocezan* within the Archdiocese of Malta, and therefore he is regarded as being non-independent. This notwithstanding, the Board does not consider that their roles with the Shareholders, impair them from maintaining independence of free judgement and character; as they demonstrably make their own objective, sound and independent decisions and judgements when performing their Board duties.

Principle 4: The Responsibilities of the Board

The Board conducts itself in a manner which ensures effective execution of its functions in setting a clear purpose and strategy and formulating policy as well as to exercise stewardship and oversight of the institution. The Board approves major projects, budgets, capital expenditures and financing, and oversees the system of internal controls, corporate governance and risk management. Also, by setting respective risk tolerances through policy approval it ensures that the Bank's activities are in line with laws, regulations, codes of best practice and sound governance principles.

The Board has close interaction with the Senior Management team, led by the Chief Executive Officer, and together a balance is laid between oversight and strategy execution. The Board, with the advice of the Risk Committee, establishes the Bank's Risk Appetite, which is evidenced in a Risk Appetite Statement and a Risk Appetite Dashboard, that capture and describe the most significant financial and non-financial risks to which the Bank is exposed to and set guidance on the types and maximum amount of risk that the Board considers acceptable. The Risk Appetite Statement sets the "tone at the top" and is cascaded down to the tactical and operational levels through risk policies, limits and established processes and controls. This statement is supported by a Risk Appetite Dashboard, which sets out risk limits and triggers to benchmark the Bank's risk profile with its risk appetite.

The below infographic provides a summary of the process that the Board sets out when implementing the Bank's Business Plan whilst simultaneously ensuring that the Bank is still operating within its Risk Appetite Statement:



BOARD COMMITTEES

Audit Committee

- Monitors the financial reporting process, including the audit of the annual accounts and review of any interim reporting.
- Reviews proposed transactions by the Bank with related parties and oversees the standards / performance of the Internal Audit Department, whilst approving and monitoring its Audit Plan.
- Monitors the effectiveness of the internal control environment and accounting framework.
- Considers the adequacy of contingency plans for processing and production of financial information.
- Reviews the external auditor's independence, in particular with respect to the provision of additional services to the Bank, and liaises between external auditor, internal audit, the Board and Management.

ESG Committee

- Considers the material environmental, social & governance issues relevant to the Bank's business activities and promotes initiatives to raise ESG performance.
- Ensures that the Bank is keeping the UN Sustainable Development goals as an overarching guide, monitors their applicability & considers emerging ESG issues.
- Oversees the implementation of social sustainability initiatives and commitments, including performance, challenges and opportunities, to ensure their effectiveness in delivering social impact.
- Oversees the reputational impacts of the Bank's business strategies and practices, monitors policies and initiatives to ensure appropriate safeguards are in place for dealing fairly and ethically with third party stakeholders.

Nominations & Remuneration Committee

- Maintains nominations policies and pools and generally oversees the adoption of best practices.
- Reviews the structure and composition, including skills, knowledge, leadership,experience and diversity, of the Board, also ensuring succession strategies are in place.
- Recommends the compensation framework of Board and Senior Executives.
- Performs oversight on the Bank's Remuneration Policy, ensuring it is in line with best practices and applicable regulatory requirements and monitors market conditions.
- Considers and approves Senior Executive appointments and policies and assesses the performance of the CEO.
- Reviews remuneration disclosures in the Annual Report and other reporting as may be required.

Board Credit Committee (BCC)

- Reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy procedures.
- Receives and reviews updates/ amendments to approved facilities and approves, or delegates approval, for deviations as the case may be.
- Review emerging issues and concerns relating to the performance of the portfolio, including to specific sectoral exposures.
- Considers and advises the Risk Committee on credit limits and / or any matter for approval (e.g. country, geographic, segment limits) when this is required according to the Bank's Credit Policy.

Technology & Innovation Committee (TAIC)

- Oversees management with regard to IT-related risks, security and business continuity plans.
- Sponsors and supports the main IT strategic decisions & projects.
- Provides strategic leadership through a steady flow of innovative ideas that will serve as a catalyst for innovation at the Bank as well as monitoring IT project implementation.

Risk Committee

- Recommends the Bank's risk profile and proposes the Risk Appetite Statement for approval by the Board of Directors.
- Periodically reviews the Bank's risk management framework.
- Reviews strategic decisions, including new products and markets, acquisitions, and disposals, from a risk perspective while it keeps sight of regulatory and market developments and how these can impact on the Bank's risk appetite.
- Has a wide mandate for risk oversight, including credit risk, market risk, operational risk, technology / cyber risk, concentration risk, liquidity risk as well as compliance matters.
- Considers impairment and provisioning recommendations as prepared by Management and recommends them for adoption.

Conduct Committee

- Acts as first point of reference on Board governance policies and procedures, codes of conduct and conflicts of interest.
- Oversees the Bank's conduct framework and policies ensuring that it acts honestly, professionally and in the clients' best interest at all times.
- Oversees the Bank's agenda, promoting and supporting the fair, strong, efficient and transparent provision of products and services, keeping consumer (customers') protection primary.
- Oversees the structure and performance of the Bank's committees, besides steering the process of Directors' evaluation, both individually and collectively as a Board.
- Performs oversight on matters of ethics, brand, values, reputation and culture.

MANAGEMENT COMMITTEES

Assets-Liabilities ("ALCO")

- Generally responsible for the asset liability management ("ALM") strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy.
- Monitors interest rate, liquidity and currency risks and determines treasury strategy accordingly.
- Focuses on liquidity management and contingency planning, determines the liquidity strategy.
- Optimises capital allocation in terms of ALM strategy and regulatory requirements.
- Instigates the development of new treasury (funding and lending) products and approves and monitors the Bank's Funds Transfer Pricing (FTP) framework and its components, monitors implementation and reviews results.
- Regularly appraises Bank's performance in terms of ALM strategy.

Compliance Committee

- Ensures that prescribed regulations, rules, policies, guidelines and procedures are being followed and also anticipated in advance.
- Acts as a decision point for business acceptance, on-boarding and dismissal of customers, in line with the Bank's on-boarding and exit policies.
- It ensures that the Bank's Compliance function takes a holistic as well as balanced view of compliance risk.
- The Compliance Committee reports to the Risk Committee.

Executive Committee ("EXCO")

- Acts as consultative body and advisor to the CEO on matters such as strategy, operations and business.
- Reviews and debates relevant items before consideration by the Board / Board Committees and escalates key issues.
- Focuses on the four Ps, namely Performance, Products, Projects and People, and these four broad areas describe adequately the coverage of this Committee.
- Approves capital commitments and transactions within its delegated authority and recommends for Board approval the annual capital and revenue budgets, monitors KPIs, KRIs and financial performance on an ongoing basis.
- Has first line of oversight of the control frameworks, receiving and considering reports of operational reports, including serious service / product complaints and / or incidents.

Weekly Management Meeting

- Reports into the EXCO, with which it also works very closely.
- The Weekly Management Meeting brings together the senior levels of management – Chiefs and Heads, in a weekly forum where all members share updates about their respective areas of responsibility, work plans as well as matters or items of significant interest.
- Meetings are characterised by their regular frequency, tour-de-table style and informality, which serves to instil a high degree of communication and collaboration between all the members.

Management Credit Committee ("MCC")

- Receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy and procedures.
- Refers and recommends to the BCC limit applications where these exceed its MCC limits. The Committee receives and reviews updates / amendments to approved facilities and approves, or delegates approval, for deviations as the case may be, and considers and advises the BCC on credit limits and / or any matter for approval that is within its BCC competence.

COMMITTEES

In order to provide effective oversight and leadership, the Board has assigned particular responsibilities to delegated Committees. Each Committee has its own Terms of Reference, setting out the Committee's mandate, scope and working procedure. During 2020, as part of the Bank's commitment to uphold the highest standards of corporate governance and to further nurture the Bank's culture and values, the Board of Directors has revised its structure of Board and Management Committees in line with current best practices. The previous Governance & Conduct Committee has been streamlined into two Committees: a Conduct Committee, with 'governance' henceforth falling under a newly established Environmental, Social and Governance ("ESG") Committee. The ESG Committee has the objective of creating meaningful value to environmental, social and governance considerations that are now high on the sustainability agenda worldwide. The Conduct Committee focuses on regulatory, integrity and conduct issues, including oversight on the transparent provision of products and services and consumer protection. An updated mandate was also given to the Nominations & Remuneration Committee. Changes were also carried out to the composition of most Board and Management Committees, bringing further expertise and diversity into these bodies.

The infographic above lays out a summary of the main Terms of Reference of the respective Committees, followed by the membership of these Committees provided overleaf.

		Board Committees							Management Committees			
		Audit	Risk	ESG	NR	Conduct	BCC	TAIC	EXCO	Compliance	ALCO	MCC
Directors	Frederick Mifsud Bonnici				C							
	Victor E. Agius		■	C			C					
	Joseph C. Attard		■				■	C				
	Franco Azzopardi	C	■					■				
	Laragh Cassar				■	C		■				
	Alfred DeMarco	■				■	■					
	Victor Gusman				■	■		■				
	Michael Pace Ross		■	■		■						
	Martin Scicluna	■	C	■								
Management	Marcel Cassar		NV	NV		■	■		C			C
	Giovanni Bartolotta		NV	NV		■	NV		■	C	■	■
	Raymond Bonnici								■			
	Anthony Buttigieg		NV				NV		■	■		■
	Jonathan Caruana							■	■			
	Hervé Delpech		NV	■					■			
	Noorul-ain Khan*							■	■	■	■	
	Noel McCarthy		NV				■		■			■
	Ronald Mizzi		NV					■	■		■	■
Heads	Wilhelm Attard											■
	Cynthia Borg					■				■		
	Edward Calleja		NV				NV					NV
	Gilbert Caruana										■	
	Daniel Cassar							■				
	Liana DeBattista										■	
	Angele de Mesquita							■				
	Marvin Farrugia										C	NV
	Mario Gauci						NV					NV
	Kenneth Genovese										■	
	Gordon Gilford							■				
	Nives Grixti			NV		■	NV			■		NV
	Simon Micallef									■		
	Aaron Mifsud										■	■
	Rodney Naudi							■				
	Josef Portelli										■	
	Dorianne Tabone					■				■		
	Michael Tabone			■								

* Until 28 February 2021.

LEGEND

Audit	Audit Committee
Risk	Risk Committee
ESG	ESG Committee
NR	Nominations & Remuneration Committee
Conduct	Conduct Committee
BCC	Board Credit Committee
TAIC	Technology & Innovation Committee
EXCO	Executive Committee
Compliance	Compliance Committee
ALCO	Assets & Liabilities Committee
MCC	Management Credit Committee

C Chair

NV Non-Voting Member

Principle 5: Board Meetings

The Board meets regularly, typically monthly. In 2020, as a result of the COVID-19 disruptions, Board meetings were held virtually as from mid-first quarter. The Bank introduced the latest video conferencing technology to ensure that Board and Committee meetings continued to be held in a swift and effective manner. During the year under review, the Board met for a set 11 times, with an additional meeting held on an *ad hoc* basis. During 2020, the average rate of attendance was 98%. In terms of the Memorandum and Articles of Association and the Board Charter, when a Director is unable to attend there is the option to appoint another Director, including the Chairman, to act as his/her alternate and in any case to submit comments to the Chairman ahead of the meeting.

The below table depicts the attendance of Board members at Board meetings:

Board Attendance at Meetings in 2020

Board Member	Attendance/ of 12 meetings
Frederick Mifsud Bonnici	12/12
Victor E. Agius	12/12
Joseph C. Attard	12/12
Franco Azzopardi	12/12
Laragh Cassar	11/12
Alfred DeMarco	12/12
Victor Gusman	10/12
Michael Pace Ross	12/12
Martin Scicluna	12/12

Board agendas invariably include discussions and decisions on regulatory, risk and strategic matters, detailed presentations by the CEO, and other members of the Senior Management team, as appropriate. Structured reporting from the Committees, Subsidiaries and Associates are a regular agenda item of each Board Meeting. The CEO is invited to attend all Board meetings, and other Senior Executives attend Board meetings as required, according to the nature of the discussion and their specific area of responsibility. This provides the Board with an opportunity to engage directly with Senior Management on key issues.

After each Board Meeting, minutes are drawn up by the Company Secretary and circulated to all Directors. Minutes faithfully record the attendance of Directors at said meetings, conflicts raised, matters discussed, considerations made, decisions taken, and action points agreed upon. Minutes are kept of all the business transacted in the course of Committee meetings. All Directors have ready access to Committee papers and Minutes, which are also tabled at Board meetings. Committee Chairs report on Committee business at the subsequent Board meetings, also through written briefs.

In 2020, in addition to its scheduled meetings, the Board also met with the Management team in November for the annual Business Plan & Budget Review Off-Site Workshop, looking into the Bank's main priorities for the updated 2021-2023 Plan and strategic initiatives for the same period.

Directors also attended the Bank's Annual General Meeting held on 25 June 2020 wherein ordinary resolutions were approved. Following the European Central Bank's recommendation as a consequence of the COVID-19 pandemic, no dividend was recommended to the Annual General Meeting. Directors also attended the Extraordinary General Meeting held on 16 October 2020, wherein the extraordinary resolutions relating to the issuance and listing of the €55,000,000 3.25% Unsecured Subordinated Bonds (the "Bonds Issue" or "Subordinated Bonds") and the necessary amendments to the Bank's Memorandum and Articles of Association were considered and approved.

Principle 6: Information and Professional Development

The high standards of continuing professional development embedded in the Bank's culture run across the entire organisation and include the Board.

The Directors have access to a wide range of briefing and training sessions and other professional development opportunities. Internal and online training relevant to the business of the Bank is also provided. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities as Directors. Directors may also request individual in-depth briefings from time to time on areas of particular interest.

Directors are also invited to visit key operational facilities and branches of the Bank.

At the start of 2020, the Directors attended tailor-made class-based sessions combined with off-the-shelf training packages relating to anti-money laundering, cybercrime and data protection. The pandemic prevented the Bank from organising its bespoke annual seminar for its Directors. However, the annual Business Plan & Budget Review Off-Site Workshop held in November, also served as a professional development opportunity for the Directors. Furthermore, online training was provided by the Bank's external legal counsel with respect to the Listing Rules and Market Abuse Regulations in anticipation of the Bonds Issue. Directors attended online seminars for Non-Executive Directors on European Bank Boards. Directors were kept abreast of other webinars that were being organised by local and international entities. A training and development log is maintained by the Human Capital Department.

Upon appointment, all Directors are offered familiarisation of the Bank by the Chairman and CEO, co-ordinated by the Company Secretary and tailored to suit the requirements of the individual concerned. This includes providing an overview of the Bank's Memorandum and Articles of Association, Board Charter and key policies and practices relevant to the Board. The induction programme also includes briefings from the various members of the Management team.

Access to the services and resources of the Bank, including, where necessary, independent professional advice at the Bank's expense, are also available.

Principle 7: Evaluation of the Board's Performance

In terms of the 'Evaluation Policy and Procedure', at least once a year an evaluation is carried out to assess the Board's and Committee's performance and that of its individual Directors in accordance with best practice and guidelines issued by the European Banking Authority. The evaluation of a Director's performance is an integral part of the process for recommending or otherwise a Director's continuation in office.

The 2020 Board Evaluation was carried out in-house in January 2021, following an external evaluation carried out in 2019. The self-evaluation focused on the following main areas: Board and Board Committee systems and processes, strategy and planning, duty of care, and collective and individual knowledge and skills assessments.

Internal Evaluation Process

December 2020	January 2021 to February 2021	Ongoing
Three detailed self-evaluation questionnaires formulated by the Company Secretary and brief provided by Chairman during December Board meeting.	Directors completed online questionnaires. Company Secretary prepared a report based on questionnaire results. **February 2021** Draft report discussed by the Company Secretary with the Chairman.	The Report will be discussed between the Chairman and the Chair of Audit Committee. The final report will be discussed at a meeting of the Conduct Committee and recommended for discussion at the next Board meeting. Final report will be presented to the Board for discussion and evaluation of Action Points for finalisation and implementation. Company Secretary has been tasked with overseeing implementation of Action Points.

The setting-up of an ESG Committee, Conduct Committee and the reorganisation of the Remuneration Committee to a Nominations & Remuneration Committee arose as part of this evaluation exercise.

Principle 8: Committees

The function of the Nominations and Remuneration Committee is covered under Principle 4, when reviewing all the other Bank Committees, and in the Nominations & Remuneration Report, which also includes the Remuneration Statement in terms of Code Provision 8.A.4 and the Nominations Report in terms of Code Provision 8.B.7.

Principles 9 and 10: Relations with Shareholders and with the Market and Institutional Investors

The Board is aware that its actions and decisions impact the Bank's Shareholders, other stakeholders and the wider community in which the Bank operates. Effective engagement with stakeholders is important to the Board as it strengthens the business and helps to deliver a positive result for all stakeholder groups.

The following table identifies the Bank's key stakeholders and how both the Bank and the Board engaged with them throughout 2020. The Board seeks to understand the needs and the key areas of interest of each stakeholder group and consider them during deliberations and as part of the decision-making process.

Key Stakeholders	Reason for Engagement and Key Priorities for 2020
Shareholders	Meetings with Shareholders are conducted in a structured manner, with meetings held separately with the main Shareholders, namely AROM Holdings Ltd (ultimately owned by the Archdiocese of Malta), the Diocese of Gozo and the Metropolitan Cathedral Chapter, as well as with their financial advisers. Collective Shareholders' meetings were also held, including the Bank's Annual General Meeting and the Bank's Extraordinary General Meeting. This year's focus was the implementation of Phase 2 of the Capital Development Plan in line with the Bank's Strategic Plan, and the impact of dividend distribution restrictions due to regulatory measures taken as a result of the COVID-19 pandemic. As provided further below in the section entitled "General Meetings", the Bank's Memorandum and Articles of Association were amended to be in line with the securities' listing requirements. As a result, a number of Articles were amended to further improve the relationship with Shareholders.
Bondholders and Institutional Investors	The admission to trading of the Bank's first subordinated Bonds in the last quarter of 2020, provided an opportunity for the Bank to carry out roadshows to prospective bondholders and institutional investors to enable them to make informed investment decisions. The Bonds Issue required the launch of a Prospectus depicting information on the Bank, its governance structure, strategy, business model and details of the Bonds itself, in accordance with the requirements of the Listing Rules, the Companies Act and the Prospectus Regulation (https://www.apsbank.com.mt/investor-information).
Business clients, potential new clients, financial advisers	The Bank engages with business clients, potential new clients and financial advisers to ensure strong relationships are maintained allowing its vision, business model and *modus operandi* to be communicated, with emphasis on strategy and delivery. Furthermore, the Bank constantly monitors emerging trends and is responsive to clients' needs in order to create new products and identify future revenue drivers. The Bank sought to ensure that despite the COVID-19 pandemic it would continue to be close and accessible to its clients; thus, although meetings in presence became considerably less frequent, the Bank launched the APS Digest to assist commercial entities through these challenging and unprecedented times.
Employees	Meetings with employees took a different style this year, as the quarterly Townhall usually held in person was temporarily discontinued, with the last two transmitted via video conferencing. Although this dampened the full engagement with employees, yet the messages from management on scoping both short term targets and longer-term strategic goals were clearly explained and well received by staff. The implementation of the latest collaboration technologies thus enabled employees from different Units and Branches to come together "virtually", in the absence of physical meetings and of less frequent contact due to 'work from home' measures introduced to safeguard employees' and customers' health and safety. Employee engagement is measured through the cloud-based survey platform Peakon, first introduced in 2019 and carried out again in 2020. Excellent results were recorded across practically all segments of staff engagement, despite the challenging environment.
Relevant information provided to stakeholders	**1. Financial reporting** This year's annual financial reporting presentation was only delivered to the Bank's Shareholders, given the social distancing measures in place due to COVID-19. This notwithstanding, Annual Reports are easily available to the public on the Bank's website and available also in hard copy. As from 2020, the Bank also started publishing interim half-yearly results. **2. Company Announcements** As from 19 November 2020, the listing date of the Subordinated Bonds, the Bank is required to issue Company Announcements, in terms of the Listing Rules to bring useful, relevant and material facts to the attention of the market. **3. Press Releases** The Bank issues Press Releases on a regular basis in order to inform its clients and other stakeholders about developments and news. The widespread use of social communication media has helped the Bank to increase the reach and speed of its communication. **4. Website** The Bank's website (www.apsbank.com.mt) is the platform through which interested parties may have access to Bank information. During the last quarter of the year the website was revamped further to incorporate an 'Investor Relations' section which includes biographies of the members of the Board and of Executive Management as well as Annual Reports, Company Announcements and Press Releases.

Principle 11: Conflicts of Interest

Each Director is expected to act to the highest standards of ethical behaviour and fiduciary duties. The Directors are aware of their obligation to avoid conflicts of interest and their responsibility to act in the wider interest of the Bank and its Shareholders, irrespective of which shareholder nominated him/her to the Board.

The Board Charter contains specific sections dealing with conflicts of interest, starting with the general precept that Directors should take all reasonable steps to avoid such situations. However, from time to time, actual or potential conflicts of interest may arise in which case it needs to be ensured that these are managed properly by the Board and the interested Director, as also provided in the amended Conflicts of Interest Policy. Directors are required to inform the Board of any matter that may result or has already resulted in a conflict of interest. A record of such declaration is entered into the Bank's minute book and the said Director is precluded from voting in any resolution concerning a matter in respect of which he/she has declared a direct or indirect interest or asked to absent himself/herself when the conflicting matter is discussed.

Directors are informed and reminded of their obligations vis-à-vis dealing in the Bank's bonds in line with prevailing legislation and in terms of the Listing Rules. Clearance prior to dealing is obtained from the Chairman in line with the Bank's Personal Dealing Policy.

Principle 12: Corporate Social Responsibility

The Board of Directors ensures that sound principles of corporate social responsibility are adhered to and integrated into the core ethos of the Bank and embedded into its day-to-day culture and operations. For these reasons also, the Bank is a prominent supporter of various Corporate Social Responsibility ("CSR") initiatives at both national and community level aimed at contributing to economic, societal, environmental and cultural development.

Further details on the Banks' CSR outreach are disclosed separately on pages XVII to XXI.

Non-Compliance with the Code

Principle 3 (Composition of the Board): The Board is currently composed of nine Non-Executive Directors including the Chairman. While the Code of Principles for Good Corporate Governance provides that the Board should be composed of Executive and Non-Executive Directors, there are no Executive Directors presently appointed to the Board. The Board believes that with the required diversity of knowledge, judgment and experience, it can still adequately perform its functions (even without the appointment of any Executive Directors) and collectively execute the four basic roles of corporate governance namely; accountability, monitoring, strategy formulation and policy development. However, as a result of the amendment of the Memorandum & Articles of Association in view of the listing of subordinated bonds, Executive members are also eligible to be appointed directors.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Board responsibility

The Board oversees the system of internal controls, corporate governance and risk management frameworks, ensuring they are in line with applicable rules, regulations and guidelines, and assumes responsibility for establishing the purpose of the Bank, setting its strategy, establishing its culture and determining the values to be observed in achieving that strategy. The Directors and Senior Management are committed to maintaining a robust control framework as the foundation for the delivery of effective risk management. The Directors acknowledge their responsibilities in relation to the Bank's risk management and internal control systems and for reviewing their effectiveness.

In establishing and reviewing the risk management and internal control systems on an ongoing basis, the Directors carry out a robust assessment of the most significant and emerging risks facing the Bank, including those that would threaten its business model, future performance, solvency or liquidity and reputation, the likelihood of a risk event occurring and the costs of control. The process for identification, evaluation and management of the risk events faced by the Bank is integrated into the Bank's overall framework for risk governance. The risk identification, evaluation and management process also assesses whether the controls in place result in an acceptable level of residual risk. As mentioned above, the Risk Appetite Statement and Risk Appetite Dashboards are presented to and reviewed and debated regularly by the Risk Committee and the Board, in the presence of the Chief Risk Officer, to ensure that the Board is satisfied with the overall risk profile, risk accountabilities and mitigating actions. The Dashboards provide a quarterly view of the Bank's overall risk profile, key risks and management actions, together with performance against risk appetite and an assessment of emerging risks which could affect the Bank's performance over the life of the operating profile and assists in the strategy that is set-up.

Control effectiveness review

The Bank's control effectiveness is carried out following the "three lines of defence" model with an aim to evaluate the effectiveness of the Bank's control framework in its widest sense, with regard to its material risks, and to ensure management actions are in place to address key gaps or weaknesses in the control framework. The recently instituted Business Risk and Control Management Unit further strengthens the Bank's first line of defence in the areas of retail, commercial and e-channel banking to ensure that business decisions are consistent with the Bank's strategic and risk management objectives. The second line of defence, manifesting itself in reporting to the Risk Committee, is responsible for the design and implementation of the risk management framework and for risk reporting to Senior Management and the Board. As a third line of defence, the Internal Audit function provides independent assurance to Senior Management and the Board that the risk management framework is operating effectively. The Audit Committee receives reports from the Bank's statutory auditor, Deloitte (which include details of significant internal control matters that they have identified), and it has discussions with the statutory auditor at least twice a year, to ensure that there are no unresolved issues of concern. In 2020 an external quality assurance review was carried out on the Group's Internal Audit Function in line with the Institute of Internal Audit's International Professional Practices Framework and the Group's approved Internal Audit framework.

The Bank's risk management and internal control systems are regularly reviewed by the Board and are consistent with applicable guidance issued by the competent authorities and compliant with the requirements of CRD IV. More detail on the review of internal controls is found in the Capital Adequacy & Risk Disclosures Report found on pages 117 to 144.

The infographic overleaf summarises the Bank's internal control framework:

Board of Directors / Audit Committee		
1st Line of Defence	**2nd Line of Defence**	**3rd Line of Defence**
Who is responsible:	**Who is responsible:**	**Who is responsible:**
Operational management/ Employees Spearheaded by Business Risk and Control Management Unit	Compliance/oversight functions	Internal Audit
Activity/controls:	**Activity/controls:**	**Activity/controls:**
Policies and procedures Internal controls Planning, budgeting, forecasting processes Delegated authorities Business workflows/ IT system controls Personal objectives and incentives	Operational/governance/ regulatory compliance Compliance Committee / Risk Committee Controls compliance monitoring Management/Board reporting and review of KPIs and financial performance Corporate policies	Approved Internal Audit plan Internal Audit reporting line to Audit Committee Regular Internal Audit updates to Audit Committee

Listing Rule 5.97.5

The information relating to the Shareholder register required by Listing Rule is found in the Directors' Report.

GENERAL MEETINGS

General Meetings are the Bank's highest decision-making body, at which the shareholders exercise their voting rights. The proceedings are conducted in terms of the Bank's Articles of Association. A general meeting of the Bank is duly convened by providing twenty-one days' prior notice to the Shareholders.

Ordinary business is transacted at the Bank's Annual General Meeting, that considers the accounts, balance sheets and the reports of the Directors and the Auditors, the appointment or election of Directors, the appointment of Auditors and the fixing of the remuneration of Directors and the Auditors. All other business is deemed to be 'special', whether transacted at the Annual General Meeting or at an Extraordinary General Meeting.

On 19 October 2020, the Bank's Memorandum and Articles of Association were amended to bring them in line with the requirements of an entity with issued debt securities listed on the Malta Stock Exchange. The Articles relating to 'General Meetings' and the proceedings relating thereto were specifically amended. Of particular note is that Shareholders registered in the Shareholders' Register on the Record Date, have the right to attend, participate and vote at the General Meeting, and those owning not less than five percent (5%) of the voting issued share capital of the Bank may request the Bank to include items on the agenda of a General Meeting, and table draft resolutions for items included in the agenda of a General Meeting, insofar as they are received at least forty-six days before the date set for the relative General Meeting.

A Shareholder who is unable to participate in the General Meeting can appoint a proxy by written or electronic notification to the Bank. Every Shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the General Meeting and to have such questions answered by the Directors or such persons as the Directors may delegate for that purpose. The recent amendments to the Memorandum and Articles of Association permit General Meetings to be held by electronic means, a method that has proven to be necessary to safeguard the health and safety of Shareholders and stakeholders when public health guidelines dictate such, also introducing a new way of shareholder engagement.

This Statement was authorised for issue by the Board of Directors on 11 March 2021 and signed on its behalf by:

Frederick Mifsud Bonnici
Chairman

Franco Azzopardi
Director

11 March 2021

Independent Auditor's Report

Report on the Audit of the Financial Statements

OPINION

We have audited the financial statements of APS Bank plc ('the Bank') and the consolidated financial statements of the Bank and its subsidiaries (together, the Group), set out on pages 25 to 116, which comprise the statements of financial position as at 31 December 2020, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, and of the Bank's and the Group'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 have been properly prepared in accordance with the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371).

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 are independent of the Bank and the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the *Accountancy Profession (Code of Ethics for Warrant Holders)* Directive (Maltese Code) that are relevant to our audit of the financial statements in Malta, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Maltese Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. In conducting our audit, we have remained independent of the Bank and the Group and have not provided any of the non-audit services prohibited by article 18A (1) of the Accountancy Profession Act (Cap. 281).

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. The key audit matter described below pertains to the audit of both the Bank and the Group financial statements. This matter was addressed in the context of our audit of the Bank and the Group's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impairment of loans and advances to customers

At 31 December 2020 the Bank and Group reported total gross loans and advances to customers of EUR1,709,878,000 (2019: EUR1,474,015,000) and EUR20,875,000 (2019: EUR15,871,000) of expected credit loss provisions.

Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Uncertainty associated with COVID-19 and its consequent implications including curtailment of economic activity and recovery assumptions as well as government intervention, increased the level of judgement in the expected credit loss (ECL) calculation. Assumptions with increased complexity in respect of the timing and measurement and disclosure of ECL include:

- **Staging** - Allocation of assets to stage 1, 2, or 3 (as defined in note 44.2.2) on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures on customer behaviours and the identification of underlying significant deterioration in credit risk;
- **Model estimations** - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL;
- **Economic scenarios** – Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios;
- **Post model adjustments** - Assumptions used to estimate the possible impact of COVID-19 on certain customers and/or sectors and any resulting model adjustments;
- **Individual provisions-** Measurement of individual provisions including the assessment of multiple scenarios considering the impact of COVID-19 on exit strategies, collateral valuations and time to collect; and
- **Disclosures**- The completeness and preparation of disclosures considering the key judgments, sources of data and the design of the disclosures.

Our audit response to address the risk of material misstatement arising from the ECL calculation comprised the following:

Controls testing:
We tested the design, implementation and operating effectiveness of the Bank's and Group's key controls across the processes relevant to the ECL calculation. We reviewed the automated controls embedded in the ECL system and used data analytics in order to analyse the loan data and the movements in the various credit risk grading categories and stages in order to identify any anomalies and possible risk areas. We reviewed the collateral valuation reports including management's assessment of the reliability of the valuations being used.

Staging:
We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable considering the Bank's and Group's portfolio, risk profile, credit risk management policies and the macroeconomic environment. We challenged the criteria used to allocate an asset to stage 1, 2 or 3 in accordance with IFRS 9 and tested assets in stage 1, 2 and 3 to verify that they were allocated to the appropriate stage.

Model estimations:
We tested the data used in the ECL calculation by reconciling to source systems in order to gain reasonable assurance over the data quality. We recalculated the risk ratings (credit grading) for a sample of performing loans in order to test credit monitoring. Assumptions, inputs and formulas used in ECL models were tested on a sample basis. This included assessing the appropriateness of model design and formulas used, and recalculating the ECL on a sample basis.

Economic scenarios:
We reviewed the macroeconomic data being used, which is especially significant this year due to the impact that COVID-19 has had on the economic outlook.

Post model adjustments:
In addition to assessing the continuing appropriateness of management's assumptions, we evaluated and tested updates to key parameters and new assumptions including changes to the significant increase in credit risk (SICR) assessment, largely driven by the COVID-19 pandemic. We assessed the completeness and appropriateness of the post model adjustments intended to address early identification of SICR events in respect of those customers who had experienced increased credit risk by reference to the request for moratoria and the sector in which they operate, recognising that certain sectors were more directly impacted by COVID-19 than others. Our assessment included a review of the methodology applied in order to determine whether this appeared to be reasonable in the circumstances and also whether this was aligned to the requirements of IFRS9. We also tested the application of this approved methodology in order to gain reasonable assurance that it was applied accurately.

Individual provisions:
For a sample of individually impaired loans we evaluated the specific circumstances of the customer, including latest available information, the basis for measuring the impairment provision, and whether key judgements were appropriate. We re-performed management's impairment calculations, which were largely based on the expected recovery from collateral held. We tested the valuation of collateral challenging subjective estimates by referring to actual historical recovery data.

Disclosure:
We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards and regulatory considerations and expectations of the COVID-19 specific disclosures.

The Bank and Group's disclosures about impairment are included in Notes 2.3, 10,15 and 44, which include the Directors' assessment of the adequacy of the impairment provisions.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND THE AUDITOR'S REPORT THEREON

The Directors are responsible for the other information. The other information comprises the Chairman's Statement, the CEO's Review, the Board of Directors pages, the Executive Management pages, Governance Structure pages, the Corporate Social Responsibility Report, the Directors' Report, the Remuneration Report, the Corporate Governance Statement of Compliance, the Capital Adequacy and Risk Disclosures Report and the Five Year Summaries, which we obtained prior to the date of this Auditor's Report. However, the other information does not include the Bank's and the Group's financial statements and our Auditor's Report thereon.

Except for our opinion on the Directors' Report in accordance with the Companies Act (Cap. 386) and on the Corporate Governance Statement in accordance with the Listing Rules issued by the Maltese Listing Authority, our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 on the other information that we obtained prior to the date of this Auditor's Report, 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.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosure requirements of article 177 of the Companies Act (Cap. 386), and the statement required by Listing Rule 5.62 on the Bank's and the Group's ability to continue as a going concern.

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' Report on pages 2 to 5, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Directors' Report for the financial year for which the Bank's and the Group's financial statements are prepared is consistent with those financial statements; and
- the Directors' Report has been prepared in accordance with the applicable legal requirements.

In the light of the knowledge and understanding of the Bank, the Group and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE FINANCIAL STATEMENTS

As explained more fully in the Statement of Directors' Responsibilities on page 5, 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 Companies Act (Cap.386) and the Banking Act (Cap.371), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Directors have delegated the responsibility for overseeing the Bank's and the Group's financial reporting process to the Audit Committee.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

This report, including the opinions set out herein, has been prepared for the Bank's members as a body in accordance with articles 179, 179A and 179B of the Companies Act (Cap. 386).

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 opinions in accordance with articles 179, 179A and 179B of the Companies Act (Cap. 386). 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.

In terms of article 179A(4) of the Companies Act (Cap. 386), the scope of our audit does not include assurance on the future viability of the Bank or of the Group, or on the efficiency or effectiveness with which the Directors have conducted or will conduct the affairs of the Bank and the Group. The financial position of the Bank or the Group may improve, deteriorate, or otherwise be subject to change as a consequence of decisions taken, or to be taken, by the management thereof, or may be impacted by events occurring after the date of this opinion, including, but not limited to, events of force majeure.

As such, our Audit Report on the Bank's and the Group's historical financial statements is not intended to facilitate or enable, nor is it suitable for, reliance by any person, in the creation of any projections or predictions, with respect to the future financial health and viability of the Bank or the Group, and cannot therefore be utilised or relied upon for the purpose of decisions regarding investment in, or otherwise dealing with (including but not limited to the extension of credit), the Bank or the Group. Any decision-making in this respect should be formulated on the basis of a separate analysis, specifically intended to evaluate the prospects of the Bank or the Group and to identify any facts or circumstances that may be materially relevant thereto.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 or the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's Report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's Report. However, future events or conditions may cause the Bank or the Group to cease to continue as a going concern. Accordingly, in terms of generally accepted auditing standards, the absence of any reference to a material uncertainty about the Bank's or the Group's ability to continue as a going concern in our Auditor's Report should not be viewed as a guarantee as to the Bank's or the Group's ability to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

For the avoidance of doubt, any conclusions concerning the adequacy of the capital structure of the Bank, including the formulation of a view as to the manner in which financial risk is distributed between Shareholders and/or creditors cannot be reached on the basis of these financial statements alone and must necessarily be based on a broader analysis supported by additional information.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on Corporate Governance Statement of Compliance

Pursuant to Listing Rule 5.94 issued by the Malta Financial Services Authority, in its capacity as the Listing Authority in Malta, the Directors are required to include in the Bank's annual financial report a Corporate Governance Statement of Compliance explaining the extent to which they have adopted the Code of Principles of Good Corporate Governance set out in Appendix 5.1 to Chapter 5 of the Listing Rules, and the effective measures that they have taken to ensure compliance with those principles. The Corporate Governance Statement of Compliance is to contain at least the information set out in Listing Rule 5.97.

Our responsibility is laid down by Listing Rule 5.98, which requires us to include a report to Shareholders on the Corporate Governance Statement in the Bank's annual financial report.

We read the Corporate Governance Statement of Compliance and consider the implications for our report if we become aware of any information therein that is materially inconsistent with the financial statements or our knowledge obtained in the audit, or that otherwise appears to be materially misstated. We also review whether the Corporate Governance Statement of Compliance contains at least the information set out in Listing Rule 5.97.

We are not required to, and we do not, consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risk and control procedures.

In our opinion, the Corporate Governance Statement of Compliance set out on pages 10 to 19 has been properly prepared in accordance with the requirements of Listing Rules 5.94 and 5.97.

Additional matters on which we are required to report pursuant to the Banking Act (Cap. 371)

In our opinion:

- Proper accounting records have been kept so far as it appears from our examination thereof;
- The financial statements are in agreement with the accounting records; and
- We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

Matters on which we are required to report by exception pursuant to the Companies Act (Cap. 386) in addition to those reported above

We have responsibilities to report to you if in our opinion:

- proper accounting records have not been kept;
- proper returns adequate for our audit have not been received from branches not visited by us;
- the financial statements are not in agreement with the accounting records and returns; or
- we have been unable to obtain all the information and explanations which, to the best of our knowledge and belief, are necessary for the purpose of our audit.

We have nothing to report to you in respect of these responsibilities.

AUDITOR TENURE

We were first appointed to act as statutory auditor to audit the Bank's and the Group's financial statements by the members of the Bank on 27 July 2017 for the financial year ended 31 December 2017, and were subsequently reappointed as statutory auditor by the members of the Bank on an annual basis. The period of total uninterrupted engagement as statutory auditor is 4 financial years.

CONSISTENCY OF THE AUDIT REPORT WITH THE ADDITIONAL REPORT TO THE AUDIT COMMITTEE

Our audit opinion is consistent with the additional report to the Audit Committee in accordance with the provisions of Article 11 of the EU Audit Regulation No. 537/2014.

Sarah Curmi as Director
in the name and on behalf of
Deloitte Audit Limited
Registered auditor
Central Business District, Birkirkara, Malta.

11 March 2021

STATEMENTS OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2020

		The Group		The Bank	
		2020	2019	**2020**	2019
	Note	**€000**	€000	**€000**	€000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**56,461**	50,668	**56,455**	50,641
On debt and other fixed income instruments	(3)	**5,819**	7,353	**4,685**	6,033
Total interest receivable and similar income	(3)	**62,280**	58,021	**61,140**	56,674
Interest payable	(4)	**(13,434)**	(13,379)	**(13,434)**	(13,379)
Net interest income		**48,846**	44,642	**47,706**	43,295
Dividend income	(5)	**189**	196	**1,236**	1,572
Fee and commission income		**6,814**	6,980	**6,592**	6,919
Net gains on foreign exchange	(6)	**99**	687	**328**	460
Net gains/(losses) on financial instruments	(7)	**490**	3,956	**(262)**	415
Other operating income		**306**	220	**306**	220
Operating income		**56,744**	56,681	**55,906**	52,881
Personnel expenses	(8)	**(17,172)**	(15,328)	**(17,123)**	(15,328)
Fee and commission expenses	(9)	**(690)**	(384)	**(690)**	(384)
Other administrative expenses	(9)	**(13,261)**	(11,546)	**(13,007)**	(11,356)
Depreciation of property and equipment	(24)	**(1,896)**	(1,559)	**(1,896)**	(1,559)
Amortisation of intangible assets	(25)	**(1,651)**	(1,165)	**(1,649)**	(1,164)
Depreciation of right-of-use assets	(26)	**(481)**	(372)	**(481)**	(372)
Operating expenses before impairment losses		**(35,151)**	(30,354)	**(34,846)**	(30,163)
Net operating profit before associates' results & impairment gains & losses		**21,593**	26,327	**21,060**	22,718
Share of results of associates, net of tax	(22)	**(258)**	1,585	**-**	-
Operating profit before impairment gains and losses		**21,335**	27,912	**21,060**	22,718
Net impairment losses	(10)	**(5,538)**	(1,074)	**(5,538)**	(1,074)
Profit before tax		**15,797**	26,838	**15,522**	21,644
Income tax expense	(11)	**(5,707)**	(7,268)	**(5,589)**	(7,182)
Profit for the year		**10,090**	19,570	**9,933**	14,462
Profit for the year attributable to:					
Equity holders of the parent		**9,853**	19,116	**9,933**	14,462
Non-controlling interest		**237**	454	**-**	-
		10,090	19,570	**9,933**	14,462

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Profit for the year	**10,090**	19,570	**9,933**	14,462
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Change in fair value on debt instruments measured at fair value through other comprehensive income (FVTOCI)	**1,717**	2,040	**1,717**	2,040
Revaluation of land and buildings	**(291)**	18,807	**(291)**	18,807
Release of fair value on disposal of debt instruments measured at FVTOCI	**(271)**	410	**(271)**	410
Deferred income tax relating to the components of other comprehensive income (OCI)	**349**	(192)	**349**	(192)
Deferred income tax relating to components reclassified from OCI to profit and loss on derecognition of FVTOCI debt instruments	**5**	8	**5**	8
Deferred income tax relating to the revaluation on land and buildings	**45**	(2,681)	**45**	(2,681)
Items that may not be reclassified subsequently to profit or loss:				
Change in fair value on equity instruments held at FVTOCI	**-**	(84)	**-**	(84)
Other comprehensive income for the year, net of tax	**1,554**	18,308	**1,554**	18,308
Total comprehensive income for the year, net of tax	**11,644**	37,878	**11,487**	32,770
Total comprehensive income attributable to:				
Equity holders of the parent	**11,407**	37,424	**11,487**	32,770
Non-controlling interest	**237**	454	**-**	-
	11,644	37,878	**11,487**	32,770

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
ASSETS					
Cash and balances with Central Bank of Malta	(13)	**108,330**	162,403	**108,330**	162,403
Cheques in course of collection		**103**	128	**103**	128
Loans and advances to banks	(14)	**51,068**	59,840	**46,281**	54,841
Loans and advances to customers	(15)	**1,689,003**	1,458,144	**1,689,003**	1,458,144
Syndicated loans	(16)	**113,152**	125,953	**113,152**	125,953
Derivative financial instruments	(17)	**499**	721	**499**	721
Financial assets at fair value through profit or loss	(18)	**50,636**	41,478	**251**	464
Other debt and fixed income instruments	(19)	**315,983**	238,166	**315,983**	238,166
Equity and other non-fixed income instruments	(20)	**303**	308	**303**	308
Investment in subsidiaries	(21)	**-**	-	**45,250**	40,250
Investment in associates	(22)	**18,641**	19,257	**15,262**	15,262
Investment properties	(23)	**1,830**	1,830	**1,830**	1,830
Property and equipment	(24)	**46,180**	43,851	**46,180**	43,851
Intangible assets	(25)	**8,848**	7,320	**8,848**	7,318
Right-of-use assets	(26)	**5,235**	2,592	**5,235**	2,592
Deferred tax assets	(27)	**2,553**	460	**2,553**	460
Other receivables	(28)	**8,619**	6,478	**7,974**	5,907
TOTAL ASSETS		**2,420,983**	2,168,929	**2,407,037**	2,158,598
LIABILITIES					
Derivative financial instruments	(17)	**499**	721	**499**	721
Amounts owed to banks	(29)	**9,304**	24,512	**9,304**	24,512
Amounts owed to customers	(30)	**2,123,446**	1,928,971	**2,124,149**	1,929,504
Debt securities in issue	(31)	**54,558**	-	**54,558**	-
Current tax		**1,399**	463	**1,354**	452
Lease liabilities	(26)	**5,365**	2,629	**5,365**	2,629
Other liabilities	(32)	**10,090**	10,966	**10,090**	10,966
Accruals	(33)	**10,103**	8,752	**10,031**	8,712
TOTAL LIABILITIES		**2,214,764**	1,977,014	**2,215,350**	1,977,496
EQUITY					
Share capital	(34)	**62,255**	62,255	**62,255**	62,255
Share premium	(35)	**10,140**	10,140	**10,140**	10,140
Revaluation reserve	(36)	**32,260**	30,706	**32,260**	30,706
Retained earnings	(37)	**91,736**	82,785	**87,032**	78,001
Attributable to equity holders of the parent		**196,391**	185,886	**191,687**	181,102
Non-controlling interest	(38)	**9,828**	6,029	**-**	-
TOTAL EQUITY		**206,219**	191,915	**191,687**	181,102
TOTAL LIABILITIES AND EQUITY		**2,420,983**	2,168,929	**2,407,037**	2,158,598
MEMORANDUM ITEMS					
Contingent liabilities	(39)	**23,128**	22,855	**23,128**	22,855
Commitments	(40)	**786,427**	757,638	**786,427**	757,638

The financial statements on pages 25 to 116 were authorised for issue by the Board of Directors on 11 March 2021 and were signed by:

Frederick Mifsud Bonnici
Chairman

Franco Azzopardi
Director

Marcel Cassar
Chief Executive Officer

Ronald Mizzi
Chief Financial Officer

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to the equity holders of the parent						
The Group	**Share capital €000**	**Share premium €000**	**Revaluation reserve €000**	**Retained earnings €000**	**Total €000**	**Non-controlling interest €000**	**Total equity €000**
FINANCIAL YEAR ENDED 31 December 2020							
Balance at 1 January 2020	**62,255**	**10,140**	**30,706**	**82,785**	**185,886**	**6,029**	**191,915**
Profit for the year	-	-	-	9,853	9,853	237	10,090
Other comprehensive income	-	-	1,554	-	1,554	-	1,554
Total comprehensive income	**-**	**-**	**1,554**	**9,853**	**11,407**	**237**	**11,644**
Dividends paid (note 12)	-	-	-	-	-	(96)	(96)
Retained earnings adjustment due to tax	-	-	-	(902)	(902)	-	(902)
Net share capital issued by subsidiary company	-	-	-	-	-	3,658	3,658
Balance at 31 December 2020	**62,255**	**10,140**	**32,260**	**91,736**	**196,391**	**9,828**	**206,219**
FINANCIAL YEAR ENDED 31 December 2019							
Balance at 1 January 2019	**57,605**	**1,770**	**12,398**	**68,478**	**140,251**	**1,993**	**142,244**
Profit for the year	-	-	-	19,116	19,116	454	19,570
Other comprehensive income	-	-	18,308	-	18,308	-	18,308
Total comprehensive income	**-**	**-**	**18,308**	**19,116**	**37,424**	**454**	**37,878**
Dividends paid (note 12)	-	-	-	(4,681)	(4,681)	(55)	(4,736)
Issue of share capital (note 34)	4,650	-	-	-	4,650	-	4,650
Increase in share premium (note 35)	-	8,370	-	-	8,370	-	8,370
Retained earnings adjustment due to tax	-	-	-	(128)	(128)	-	(128)
Net share capital issued by subsidiary company	-	-	-	-	-	3,637	3,637
Balance at 31 December 2019	**62,255**	**10,140**	**30,706**	**82,785**	**185,886**	**6,029**	**191,915**

STATEMENTS OF CHANGES IN EQUITY

The Bank	Share capital €000	Share premium €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
FINANCIAL YEAR ENDED 31 DECEMBER 2020					
Balance at 1 January 2020	**62,255**	**10,140**	**30,706**	**78,001**	**181,102**
Profit for the year	-	-	-	9,933	9,933
Other comprehensive income	-	-	1,554	-	1,554
Total comprehensive income	**-**	**-**	**1,554**	**9,933**	**11,487**
Retained earnings adjustment due to tax	-	-	-	(902)	(902)
Balance at 31 December 2020	**62,255**	**10,140**	**32,260**	**87,032**	**191,687**
FINANCIAL YEAR ENDED 31 DECEMBER 2019					
Balance at 1 January 2019	**57,605**	**1,770**	**12,398**	**67,242**	**139,015**
Profit for the year	-	-	-	14,462	14,462
Other comprehensive income	-	-	18,308	-	18,308
Total comprehensive income	**-**	**-**	**18,308**	**14,462**	**32,770**
Dividends paid (note 12)	-	-	-	(3,575)	(3,575)
Issue of share capital (note 34)	4,650	-	-	-	4,650
Increase in share premium (note 35)	-	8,370	-	-	8,370
Retained earnings adjustment due to tax	-	-	-	(128)	(128)
Balance at 31 December 2019	**62,255**	**10,140**	**30,706**	**78,001**	**181,102**

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**64,405**	58,435	**63,051**	58,158
Interest and commission payments		**(13,326)**	(12,354)	**(13,326)**	(13,320)
Cash paid to employees and suppliers/depositors		**(31,622)**	(28,557)	**(31,378)**	(28,482)
Operating profit before changes in operating assets and liabilities		**19,457**	17,524	**18,347**	16,356
(Increase)/decrease in operating assets					
Loans and advances to customers		**(223,412)**	(266,995)	**(223,412)**	(266,995)
Reserve deposit with Central Bank of Malta		**(2,219)**	(992)	**(2,219)**	(992)
Cheques in course of collection		**25**	(59)	**25**	(59)
Other assets		**(15)**	(62)	**-**	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		**194,473**	276,163	**194,645**	276,195
Amounts owed to banks		**9,294**	(74,069)	**9,294**	(74,069)
Other liabilities		**(2,590)**	(1,065)	**(2,540)**	(1,082)
Cash used in operating activities before tax		**(4,987)**	(49,555)	**(5,860)**	(50,646)
Income tax paid		**(7,360)**	(7,675)	**(7,276)**	(7,531)
Net cash flows used in operating activities		**(12,347)**	(57,230)	**(13,136)**	(58,177)
INVESTING ACTIVITIES					
Dividends received		**544**	195	**1,236**	1,572
Interest income from debt securities		**6,684**	7,811	**6,684**	7,811
Purchase of financial assets measured at amortised cost		**(27,443)**	(14,813)	**(27,443)**	(14,813)
Proceeds on maturity of financial assets measured at amortised cost		**2,000**	20,504	**2,000**	20,504
Purchase of debt instruments measured at FVTOCI		**(107,335)**	(11,622)	**(107,335)**	(11,622)
Proceeds on disposal of debt instruments measured at FVTOCI		**53,957**	19,986	**53,957**	19,986
Purchase of financial assets at fair value through profit or loss (FVTPL)		**(39,165)**	(34,520)	**-**	-
Proceeds on disposal of financial assets at FVTPL		**31,496**	34,224	**221**	213
Purchase of equity and other non-fixed income instruments		**(950)**	(375)	**(950)**	(375)
Proceeds on disposal of equity and other non-fixed income instruments		**1,000**	880	**1,000**	880
Investment in subsidiary		**-**	-	**(5,000)**	-
Purchase of property, equipment and intangible assets		**(6,034)**	(6,781)	**(6,034)**	(6,781)
Net cash flows (used in) / from investing activities		**(85,246)**	15,489	**(81,664)**	17,375
FINANCING ACTIVITIES					
Dividends paid		**(91)**	(3,171)	**-**	(3,575)
Amounts received on creation of shares in subsidiaries		**4,207**	3,865	**-**	-
Amounts paid on redemption of units in subsidiaries		**(535)**	(228)	**-**	-
Proceeds from issue of debt securities in issue		**55,000**	-	**55,000**	-
Proceeds from issue of share capital		**-**	13,020	**-**	13,020
Cash payment for the principal portion of lease liability		**(496)**	(394)	**(496)**	(394)
Net cash flows from financing activities		**58,085**	13,092	**54,504**	9,051
Net decrease in cash and cash equivalents		**(39,508)**	(28,649)	**(40,296)**	(31,751)
Cash and cash equivalents at 1 January		**182,329**	210,978	**178,330**	210,081
Cash and cash equivalents at 31 December	(41)	**142,821**	182,329	**138,034**	178,330

Notes to the Financial Statements

1. REPORTING ENTITY

APS Group comprises APS Bank plc, ReAPS Asset Management Limited, APS Diversified Bond Fund and APS Global Equity Fund (sub-funds of APS Funds SICAV plc). The Group also has a significant investment in its associates IVALIFE Insurance Limited, APS Income Fund and APS Regular Income Ethical Fund.

The registered office of APS Bank plc is APS Centre, Tower Street, Birkirkara, BKR 4012 with corporate registration number C2192.

APS Bank plc is incorporated and domiciled in Malta as a public limited company under the Companies Act (Cap. 386 of the Laws of Malta).

The principal activities of the Group are described in the Directors' Report on page 2.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated and separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments, certain financial assets and investment properties, which have been measured at fair value and land and buildings classified in the statements of financial position as property and equipment, which have been measured at their revalued amounts by virtue of a change in accounting policy in 2019 (see note 24). The consolidated and separate financial statements are presented in Euro (€), and all values are rounded to the nearest thousand (€000) except when otherwise indicated.

The Group and the Bank present their statements of financial position in order of liquidity.

Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and comply with the provisions of the Banking Act, Cap. 371 and the Companies Act, Cap. 386 of the Laws of Malta.

Basis of consolidation

The consolidated financial statements comprise the financial statements of APS Bank plc and its subsidiaries, which together are referred to as the 'Group'. Subsidiaries are fully consolidated from the date on which the Group achieves control and continue to be consolidated until the date that such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, a majority of voting rights results in control to the extent that such substantive rights provide the investor with the current ability to direct the relevant activities of the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Effects of COVID-19 on the year-end financial statements

The coronavirus (COVID-19) outbreak caused a major global disruption to the world economy. For certain businesses this meant that the normal business operations had to be limited or even suspended especially in certain industries such as tourism, hospitality and the entertainment industry. Other industries such as the manufacturing, real estate and financial services have also recorded a drop in business levels as they adjust to the new economic environment.

The following are the effects that the pandemic had on the Group's and the Bank's financial statements during the year under review:

Moratoria on loan repayments

Credit and financial institutions licensed by the Malta Financial Services Authority ('MFSA') have been directed to offer a moratorium on repayments on capital and interest for borrowers who have been negatively affected by COVID-19. The Central Bank of Malta ('CBM') have issued Directive 18 for Moratoria on Credit Facilities in Exceptional Circumstances to which the Group has abided to.

As per CBM Directive 18, all suspended capital and/or interest payments during the moratorium period shall be spread evenly throughout the remaining term of the facility after the moratorium period. The Group did not capitalise any deferred interest throughout the period of the moratorium.

Remaining loan balances as at end of December 2020 which have been granted a moratorium on which capital and/or interest payments have been suspended are as follows:

	Dec-20
	€000
Commercial facilities	139,570
Retail facilities	19,058
	158,628

The table overleaf presents the Group's credit portfolio grouped by industry risk. Further information is included within the Capital Adequacy and Risk Disclosures Report under Section 6.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

	Dec-20 **Balance on which COVID-19 measures were granted** **€000**	**Dec-20** **Total Balance** **€000**	Dec-19 Total Balance €000
High risk sectors	**113,549**	**260,046**	203,958
Medium risk sectors	**15,498**	**215,073**	183,444
Low risk sectors	**10,523**	**111,430**	112,193
Households and individuals	**19,058**	**1,123,328**	974,418
	158,628	**1,709,877**	1,474,013

The following tables provide information on moratoria and forbearance measures on existing loans in relation to COVID-19:

Information on loans and advances subject to CBM compliant moratoria

Dec-20		**Gross Carrying Amount Total** **€000**
Loans and advances subject to a moratorium		**159,969**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders		**32,398**
	of which: Households	19,168
	of which: Non-Profit Institutions Serving Households & Sole Traders	13,230
of which: Households	*of which:* Collateralised by residential immovable property	22,590
of which: Non-financial corporations		**123,426**
of which: Non-financial corporations	*of which:* Small and medium-sized enterprises	112,756
	of which: Collateralised by commercial immovable property	104,843
of which: Other financial corporations		**4,145**

The above table includes the interest accrued on loans and advances subject to a moratorium amounting to €1.3 million.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Information on loans and advances subject to moratoria

Dec-20		Accumulated impairment, accumulated negative changes in fair value due to credit risk Total €000
Loans and advances subject to a moratorium		**(781)**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders		**(271)**
	of which: Households	(249)
	of which: Non-Profit Institutions Serving Households & Sole Traders	(22)
of which: Households	*of which:* Collateralised by residential immovable property	(172)
of which: Non-financial corporations		**(507)**
of which: Non-financial corporations	*of which:* Small and medium-sized enterprises	(507)
	of which: Collateralised by commercial immovable property	(63)
of which: Other financial corporations		**(3)**

Dec-20		Number of obligors	Gross carrying amount €000	Of which: active €000	Of which: expired €000
of which granted		**779**	**272,606**	**159,969**	**112,637**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders			**113,012**	**32,398**	**80,614**
	of which: Households		93,117	19,168	73,949
	of which: Non-Profit Institutions Serving Households & Sole Traders		19,895	13,230	6,665
of which: Households	*of which:* Collateralised by residential immovable property		97,280	22,590	74,690
of which: Non-financial corporations			**149,345**	**123,426**	**25,919**
of which: Non-financial corporations	*of which*: Small and medium-sized enterprises		138,675	112,756	25,919
	of which: Collateralised by commercial immovable property		127,368	104,843	22,525
of which: Other financial corporations			**10,249**	**4,145**	**6,104**

As at end of December 2020, clients who have applied for a moratorium on their loans and advances amounted to a gross carrying amount of € 302 million out of which € 272 million were granted.

Malta Development Bank ("MDB") COVID-19 Guarantee Scheme

The MDB Guarantee Scheme(''Guarantee'') was launched to support businesses who were negatively impacted by COVID-19. Following the introduction of the scheme, the Group launched the "Jet Pack" product which allowed eligible local businesses to apply for a working capital loan which amount depended on the size, wage bill and turnover of the business amongst other things.

Facilities sanctioned under the Guarantee as at 31 December 2020 amounted to €32,269K of which €30,813K was drawn down. The Guarantee covers 90% of each loan individual facility, capped at 50% of the actual portfolio volume.

MDB loan exposure are covered by government guarantee amounting to €13,828K and by hypothecs amounting to €2,384K.

Expected credit loss ("ECL") measurement

In the current context of the on-going COVID-19 pandemic, the Group took several decisions to address the repercussions brought along by the pandemic and thus having a more realistic ECL calculation. The Group has closely monitored the economic situation and the impact this might have on its portfolios particularly after the expiration of the moratoria period.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ECL is sensitive to judgements and assumptions, and in this regard, the Group applied judgement on specific performing exposures operating in sectors responding to the pandemic, by triggering a forward transition, as a response to the effects of the pandemic on the global economy, with particular attention on the local scenario. Facilities impacted by the Group's decisions and judgements relate only to loans and advances to customers as follows;

a) Commercial loan facilities, including their respective connected facilities, whereby the borrower was granted a moratorium, and excluding the following sectors:
   - Construction;
   - Education;
   - Human health and social work;
   - Fishing;
   - Mining and quarrying

The rationale for excluding these five sectors follows the impact of the pandemic on these sectors in a local context as these were marginally effected sectors. Facilities within these sectors are not considered as suffering from a Significant Increase in Credit Risk (SICR) and therefore were excluded from the forward transitioning, even though the customer was granted a moratorium.

b) Retail loan facilities which include only customers whose income depends on the following sectors, irrespective of the customer benefiting from a moratorium or otherwise;
   - Accommodation & food services;
   - Real estate activities;
   - Transportation & storage;
   - Art, entertainment & recreation activities.

At the reporting date, there were no past due repayments on these loans. However, given that several of these exposures are still benefitting from the moratoria initiative, it was deemed appropriate to intervene and apply a post-model adjustment as the moratoria on repayments might not be addressing effects on liquidity, brought along by the pandemic.

The impact of the post-model adjustment on the ECL charge on the loans and advances to customers portfolio is illustrated in the table below;

	Additional ECL
	€000
Commercial	919
Retail	2,860
Total	**3,779**

Given the significant degree of uncertainty, we expect the outlook to continue to evolve during the year 2021, consequently, the post-model adjustment will continue to be incorporated in the ECL charge calculation to mitigate the risk of not capturing SICR due to the suspension of capital and interest payments during the moratorium period.

As with any other economic forecast, the projections and likelihoods of occurrence are subject to a degree of uncertainty due to the unpredictable outcome of this outbreak, and therefore, the actual outcomes may be significantly different to those projected. The Group considers these post-model adjustments, to represent the best estimate of the possible outcomes.

A further analysis of the loans and advances to customers portfolio can be found in notes 10, 15 and 44.

Additional costs incurred

Following the outbreak of the COVID-19 pandemic, the Group has taken steps to safeguard the health of its clients as well as its employees, by implementing a number of measures that as a minimum met the recommendations of the Health Authorities. To implement these measures the Group incurred additional operational expenses such as:
- More frequent office cleaning;
- Purchase of personal protective equipment;
- Increase in internet bandwidth to support remote working; and
- Additional subscriptions to support online meetings.

The above additional costs are estimated to amount to Eur 90K, which amount is not considered to be material in relation to the ongoing operational expenditure.

The Group also implemented a number of measures that allowed staff maximum flexibility in their working arrangements in order to manage their specific personal and family circumstances during the pandemic. These measures enabled staff to work from home thus reducing the number of employees present at the office. To support these measures the Group incurred additional capital expenditure, such as the acquisition of a substantial amount of new laptops, softphones, headsets and a number of new mobile phones. The cost incurred in this regard amounted to circa Eur 419K.

Fair value movement

The COVID-19 pandemic caused significant volatility in the fair values of financial instruments. The initial impact noted during the second calendar quarter started subsiding and stabilising in subsequent months with certain unrealised losses starting to reverse during the last quarter. To this effect, net gains on financial instruments decreased to Eur 490K for the year under review (2019: Eur 3,956K). Net gains recorded in the statements of comprehensive income brought about by a change in fair value on debt instruments measured at FVTOCI amounted to Eur 1,717K (2019: Eur 2,040K).

2.2 Changes in accounting policies and disclosures

Standards, interpretations and amendments to published standards, which are effective in the current year

The following standards, interpretations and amendments are applicable in the current year:
- IFRS 3 (Amendment) – Definition of Business (effective for financial years beginning on or after 1 January 2020).
- IAS 1 and IAS 8 (Amendment) – Definition of material (effective for financial years on or after 1 January 2020).
- Amendments to IFRS 9, IAS 39 and IFRS 7- Interest Rate Benchmark Reform (effective for financial years on or after 1 January 2020).
- IFRS 16 (Amendment) – COVID-19 Related Rent Concessions (effective for financial years on or after 1 January 2020).

The above standards, interpretations and amendments did not have a material effect on the financial statements of the Group or the Bank.

Standards, interpretations and amendments to published standards that are not yet endorsed by the European Union

The following standards, interpretations and amendments have been issued by the IASB but not yet endorsed by the EU, except as disclosed below:
- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective for financial years on or after 1 January 2023 by virtue of the July 2020 Amendments).
- Amendments to IAS37 – Onerous Contracts – Cost of Fulfilling a Contract (effective for financial years on or after 1 January 2022).

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Amendments to IFRS 3 – Reference to the Conceptual Framework (effective for financial years on or after 1 January 2022).
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use (effective for financial years on or after 1 January 2022).
- Amendments to IFRS 9, IFRS 16 and IAS 41 (as part of the 2018 – 2020 Annual Improvements Cycle) (effective for financial years on or after 1 January 2022).
- IFRS 17 Insurance Contracts (effective for financial years on or after 1 January 2023).
- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for financial years on or after 1 January 2023).
- Amendments to IAS 8 – Definition of Accounting Estimates (effective for financial years on or after 1 January 2023).

The changes resulting from the above standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Group or the Bank. The Group and the Bank will assess the potential impact, if any, resulting from the following amendments:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for financial years on or after 1 January 2021 and endorsed by the European Union). Phase 2 of the project addresses issues that might affect financial reporting when an existing interest rate benchmark is actually replaced. The changes relate to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. In respect of the modification of financial assets, financial liabilities and lease liabilities, the IASB introduces a practical expedient for modifications required by the reform (modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis). These modifications are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16.

2.3 Summary of significant accounting policies

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest and similar income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' (EIR) is the rate that exactly discounts estimated future cash payments or receipts, excluding expected credit losses (ECLs), through the expected life of the financial instrument, or where appropriate, a shorter period, to that instrument's gross carrying amount on initial recognition.

The calculation of the EIR includes transaction costs and fees and points paid or received that are an integral part of the EIR.

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fees and commissions that are earned from services provided to customers are accrued for over that period. These fees include commission income, custody and other management and advisory fees. Other fee and commission income is recognised on completion of underlying transactions in the relevant period.

Dividend income

Dividend income from investments is recognised when the right to receive income is established, which is generally when shareholders approve the dividend.

Net gains on financial instruments

Net gains on financial instruments include realised gains and losses on disposal of financial instruments and unrealised gains and losses on financial assets at FVTPL. Realised gains and losses on disposal of financial assets at FVTPL represent the difference between an instrument's carrying amount and disposal amount and are recognised on the value date of transaction. Unrealised gains and losses on financial assets at FVTPL represent changes in fair value of financial instruments during the year and up to the reporting date. Net gains on financial instruments also include the reclassification of cumulative fair value movements from OCI to profit or loss on the derecognition of debt instruments at FVTOCI.

Foreign currency translation

The consolidated financial statements are presented in Euro, which is the functional currency of the Bank and its subsidiaries. Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Transactions in foreign currencies are translated at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of recognition.

Net gains or losses resulting from foreign exchange on financial assets and financial liabilities are recognised in note 6 – Net gains on foreign exchange.

Financial assets and liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed immediately in profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting financial instruments
Financial assets and financial liabilities could be offset and the net amount is presented in the statements of financial position only if there is a currently legally enforceable right to offset the recognised amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Classification and subsequent measurement
The Group classifies its financial assets in the following principal categories:
- Fair value through profit or loss ("FVTPL");
- Fair value through other comprehensive income ("FVTOCI"); or
- Amortised cost.

Consequently, all recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value. Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the hybrid contract is classified and subsequently measured in its entirety at either amortised cost or fair value.

Classification and subsequent measurement of financial assets depend on:
i. the Group's business model for managing the asset; and
ii. the cash flow characteristics of the asset.

Business model assessment
The business model reflects how the Group manages its financial assets in order to achieve a particular business objective. That is, whether the Group's objective is solely to hold assets to collect the contractual cash flows from assets or both to collect the contractual cash flows and to sell the assets. If neither of these is applicable i.e. financial assets are held for trading purposes or financial assets are managed and their performance is evaluated on a fair value basis, then the financial assets that meet the solely payment of principle and interest criterion are classified as part of 'other' business model and measured at FVTPL.

The Bank's business model does not depend on management's intentions for an individual instrument therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis. Factors considered by the Group in determining the business model for a group of assets include;
- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- past experience i.e. the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Solely payment of principal and interest (SPPI)
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, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset fails the SPPI test.

Financial assets with embedded derivatives are considered in their entirety, when determining whether their cash flows are solely payment of principal and interest. If the hybrid contract contains a host that is a financial asset, then the Group assesses the entire contract as described in the financial assets section above for classification and measurement purposes.

All of the Group's retail loans and certain fixed-rate corporate loans contain prepayment features. A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination of the contract.

In addition, a prepayment feature is treated as consistent with this criterion if:
- a financial asset is acquired or originated at a premium or discount to its contractual par amount;
- the prepayment amount substantially represents the contractual par amount plus accrued (but unpaid);
- contractual interest (which may also include reasonable compensation for early termination); and
- the fair value of the prepayment feature is insignificant on initial recognition.

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt instruments

Amortised cost
Debt financial assets which are held within a business model whose objective is to hold assets for collection of contractual cash flows where those cash flows give rise on specified dates to cash flows that are SPPI, and that are not designated at FVTPL, are measured at amortised cost.

Appropriate allowances for ECLs are recognised in profit or loss in accordance with the Bank's accounting policy on ECLs. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance. Interest income from these financial assets is included in 'Interest receivable and similar income' using the EIR method.

Financial assets classified in this category are principally as follows – Cash and bank balances, loans and advances to banks and customers, certain debt and fixed income instruments and syndicated loans.

Fair value through other comprehensive income (FVTOCI)
Debt financial assets that are held within a business model whose objective is achieved by both collection of contractual cash flows and sale of the assets, where those cash flows give rise on specified dates to cash flows that are solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI.

Appropriate allowances for ECLs are recognised in profit or loss in accordance with the Bank's accounting policy on ECLs. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gains on Financial Instruments'. Interest income from these financial assets is included in 'Interest receivable and similar income' using the EIR method. Certain debt and other fixed income instruments are being classified in this category.

Fair value through profit or loss (FVTPL)
Debt financial assets that are not classified as measured at amortised cost or FVTOCI are measured at FVTPL. Certain debt and other fixed income instruments are being classified in this category.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. The Group did not designate any of its debt financial assets in terms of this requirement.

A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented in the profit or loss statement within 'Net gain on Financial Instruments' in the period in which it arises. Interest income from these financial assets is included in 'Interest receivable and similar income' using the EIR method.

Equity instruments
The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVTOCI unless the instrument is held for trading. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns.

When the FVTOCI election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as 'Dividend income' when the Group's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the 'Net gains / (losses) on financial instruments' line in the statements of profit or loss.

Impairment of financial assets
IFRS 9 is based on a forward-looking 'ECL' model. This requires considerable judgement over how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

The Group assesses on a forward-looking basis the ECL associated with;

- debt financial assets carried at amortised cost and FVTOCI, comprising mainly debt and other fixed income securities, loans and advances to customers and banks, syndicated loans and balances with CBM; and
- irrevocable loan commitments and financial guarantee contracts issued.

The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. The Group recognises loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:

- financial assets, including debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment-grade'; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The credit risk note provides more detail of how the ECL allowance is measured. Loss allowances for ECL are presented as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts, generally, as a provision;

- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVTOCI: no loss allowance is recognised against the asset because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in OCI and accumulated in the fair value reserve.

Under IFRS 9, no impairment loss is recognised on equity investments and other financial instruments measured at FVTPL.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether this modification results in derecognition. A modification results in derecognition when the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at amortised cost and recalculates a new EIR for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original EIR.

Collateral valuation

The Bank uses collateral to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, guarantees and real estate. The fair value is generally assessed at a minimum at inception date. However, some collateral, for example cash or securities, is valued monthly. To the extent possible, the Group uses active market data for valuing collateral. Non-financial collateral, such as real estate, is valued based on data provided by external valuers to the extent that the underlying loans continue to be recognised.

Financial liabilities

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Amounts owed to banks and to customers and debt securities in issue

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Amounts owed to banks, Amounts owed to customers and Debt securities in issue are subsequently measured at amortised cost using the EIR method.

Modification of financial liabilities

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability at fair value. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original EIR, is at least 10% different from the discounted present value of the cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Derivative financial instruments

Derivatives are subsequently re-measured at fair value. All derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Derivatives embedded in hybrid contracts that contain financial asset hosts are not separated; instead, the hybrid contract is classified and subsequently measured in its entirety at either amortised cost or fair value. Derivatives embedded in hybrid contracts that contain financial liability hosts are treated as separate derivatives and measured at fair value if their economic characteristics and risks are not closely related to those of the host contract and the host contract is not itself measured at FVTPL.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities.

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of:

- the amortised premium and;
- the amount of the loss allowance determined in accordance with IFRS 9 arising as a result of the financial guarantee.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Any increase in the liability relating to financial guarantees is taken to the statements of profit or loss.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Loan commitments provided by the Group are considered for loss allowance determined in accordance with IFRS 9. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance would be recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the ECLs on the undrawn commitment component from those on the loan component, the ECLs on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined ECLs exceed the gross carrying amount of the loan, the ECLs are recognised as a provision.

Equity

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs. Redemptions or refinancing of equity instruments are recognised as changes in equity.

Ordinary shares issued by the company are classified as equity instruments.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statements of financial position as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statements of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statements of financial position. The consideration paid, including accrued interest, is recorded in the statements of financial position, within cash collateral on securities borrowed and reverse repurchase agreements, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in Net interest income and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within Financial liabilities held for-trading and measured at fair value with any gains or losses included in net gains on financial instruments.

Property and equipment

Property and equipment are initially recorded at cost.

During 2019 the Group and the Bank changed their accounting policy for the subsequent measurement of land and buildings from the cost model to the revaluation model. Accordingly, subsequent to initial recognition, land and buildings are stated at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made for the entire class of land and buildings and with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Any revaluation increase arising on the revaluation is recognised in OCI and accumulated in equity under the heading of revaluation reserve unless it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation is recognised in profit and loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of the asset.

Other tangible assets are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Depreciation is calculated using the straight-line method to write off the cost or revalued amount of each asset to its residual value over its estimated useful economic life. Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The annual rates used for this purpose are:

	%
Building	1.0
Computer equipment	25.0
Intangible assets	12.5 – 25.0
Other	5.0 – 20.0

Works of art and land are not depreciated by the Group.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of profit or loss in the year the asset is derecognised. The asset's residual value, useful life and method is reviewed, and adjusted if appropriate, at each financial year end.

Right of use assets, that would be presented within property and equipment if they were owned, are presented separately in the statements of financial position and their accounting policy is included below.

Intangible assets

Intangible assets comprise computer software. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets are initially measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the statements of profit or loss in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of computer software to its residual value over its estimated useful life of 4 – 8 years.

Development costs

Development costs on an individual project are recognized as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to measure reliably the expenditure during development.

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

Investment properties

Investment properties are stated initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statements of profit or loss in the period in which they arise, including the corresponding tax effect. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer.

Investment properties are derecognised when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statements of profit or loss in the period of derecognition.

Impairment of non-financial assets and investments in subsidiaries and associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statements of profit or loss in those expense categories consistent with the function of the impaired asset.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statements of profit or loss.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less any accumulated impairment losses in the separate financial statements of the Bank.

Investment in associates

The Group

The Group's investment in its associates is accounted for using the ''equity method''. An associate is an entity over which the Group has significant influence.

Under the equity method, the investment in an associate is initially recognised at cost in the statements of financial position. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statements of profit or loss reflects the Group's share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the statements of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the loss in the share of results of associate in the statements of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining net of tax investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the statements of profit or loss.

The Bank

The investment in associates is stated in the separate financial statements of the Bank at cost less any accumulated impairment losses.

Income from the investments is recognised only to the extent of the distributions received by the Bank.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends payable on ordinary shares

Dividends payable on ordinary shares are recognised in the period in which they are approved by the Group's shareholders.

Taxation

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statements of profit or loss.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statements of profit or loss. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Retirement benefit costs

The Group contributes towards the government pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payments of fixed contributions. These obligations are recognised as an expense in the statements of profit or loss as they accrue. The Group does not contribute towards any retirement benefit plans.

Other liabilities

Liabilities for other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

Cash and cash equivalents

For the purpose of the statements of cash flows, cash and cash equivalents comprise:

- Cash in hand and deposits repayable on call or short notice or with a contractual period to maturity of less than three months, with any bank or financial institution;
- Short-term highly liquid investments which are readily convertible into known amounts of cash without notice, subject to an insignificant risk of changes in value and with a contractual period of maturity of less than three months; and
- Advances to/from banks repayable within three months from the date of the advance.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the Group's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised. Contingent assets are disclosed where an inflow of economic benefits is probable.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets held-for-sale

A non-current asset is classified as held-for-sale if it is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable, that is:

- Management is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan have been initiated;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its current fair value; and
- Actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

Immediately before the initial classification of the asset as held-for-sale, the carrying amount of the asset will be measured in accordance with the applicable IFRSs. After classification, non-current assets held-for-sale are measured at the lower of the carrying amount and fair value less cost to sell. Non-current assets that are classified as held-for-sale are not depreciated.

Leases

Since the Group does not act as a lessor, the accounting policies herein address the accounting treatment of the Group as a lessee.

The Group as a lessee

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

The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group has elected to apply the recognition exemptions and to recognise the lease payments as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the pattern of the lessee's benefit.

The Group assesses the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. The assessment of whether an underlying asset is of low value is performed on an absolute basis. Leases of low-value assets qualify for the exemption regardless of whether those leases are material to the lessee. The assessment is not affected by the size, nature or circumstances of the lessee.

Accordingly, different lessees are expected to reach the same conclusion about whether a particular underlying asset is of low-value.

The Group determines that the following leases qualify as leases of low-value assets on the basis of the Group's accounting policy for such items:

- Leases of IT equipment; and
- Leases of water dispensers.

The lease term is the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the lessee is reasonably certain to extend that option; and (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. In assessing the length of the non-cancellable period of a lease, the Group applies the definition of a contract to determine the period for which the contract is enforceable. A lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty.

The lessee revises the lease term if there is a change in the non-cancellable period of a lease, for example if it exercises or does not exercise an option or if an event occurs that contractually obliges or prohibits the lessee from exercising an option. A lessee reassesses whether it is reasonably certain to exercise or not to exercise an option upon the occurrence of either a significant event or a significant change in circumstances that: (a) is within its control and (b) affects whether the lessee is reasonably certain to exercise or not to exercise an option.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments, less any lease incentives receivable;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

The right-of-use assets at the commencement date comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less any accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated 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. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the Section entitled 'Impairment of non-financial assets and investment in subsidiaries and associates'.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Some property leases contain variable payment terms that depend on an index/rate such as the Property/retail/consumer price index. The lessee measures the index of the lease payments using the rate at the commencement date. After the commencement date, lessees are required to re-measure the lease liability to reflect changes to the lease payments arising from changes in the index or rate. The subsequent remeasurement of the lease liability is adjusted against the right-of-use asset.

Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line item in other administrative expenses in profit or loss.

If the lessee is reasonably certain to exercise a purchase option, the exercise price is included as a lease payment. That is, entities consider the exercise price of asset purchase options included in lease contracts consistently with the evaluation of lease renewal and termination options.

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single arrangement. The Group does not apply this practical expedient. Accordingly, the Group is required to account for each lease component within the contract as a lease separately from non-lease components of the contract.

The lease liability is remeasured to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset until this is reduced to zero after which the corresponding adjustment is recognised in profit or loss. A lessee remeasures the lease liability by discounting the revised lease payments using a revised discount rate if (a) there is a change in the lease term or (b) there is a change in the assessment of a purchase option. A lessee remeasures the lease liability by discounting the revised lease payments if (a) there is a change in the amounts expected to be payable under a residual value guarantee or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments.

For a lease modification (that is, a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease) that is not accounted for as a separate lease, the lessee remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The Group presents lease liabilities and right-of-use assets that are not investment property separately from other assets and liabilities in the statements of financial position. The Group presents interest expense on the lease liability separately from the depreciation charge for the right-of-use asset. In the statements of cash flows, cash payments for the principal portion of the lease liability are presented within financing activities and cash payments for the interest portion of the lease liability are presented within operating activities. Short-term lease payments, payments for leases of low value assets and variable lease payments not included in the measurement of the lease liability are presented within operating activities.

Fair value measurement

The Group measures certain financial instruments and certain non-financial assets at fair value at each reporting date as disclosed in the Basis of Preparation.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations without any deduction for transaction costs. Securities defined in these financial statements as 'quoted' are traded in an active market.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

External valuers are involved for valuation of non-financial assets. Selection criteria of valuer include market knowledge, reputation, independence and whether professional standards are maintained.

Significant accounting judgements, estimates and assumptions

In the process of applying its accounting policies, the Group is required to make judgements, estimates and assumptions that affect the amounts recognised or disclosed in the financial statements. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Management has made the following judgements and estimates which have the most significant effect on amounts recognised in the consolidated financial statements:

Accounting for investments in which the Group controls less than 20%

As of 31 December 2020, the Bank directly held 15.45% (2019: 15.77%) interest in APS Income Fund and 17.56% (2019: 18.51%) interest in APS Regular Income Ethical Fund.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group assessed whether it has significant influence over the investees and concluded that significant influence can be clearly established upon considering the following factors:

- Representation in the Board of Directors.
- Participation in policy-making processes.
- Material transaction between the investee and the Bank.
- Provision of technical information and management services.

Therefore, the Group and the Bank continue to account for the investment in APS Income Fund and APS Regular Income Ethical Fund as associates.

Fair value of investment properties

The Group and the Bank carry their investment properties at fair value, with changes in fair value being recognised in the statements of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2020 and 31 December 2019. For investment properties, the valuation specialist determines the most appropriate methodology (market or / and income approach) depending on the nature of the property.

Fair value of land and buildings included within property and equipment

Land and buildings owned by the Group are carried at fair value, with changes in fair value being recognised in OCI. The Group engaged an independent valuation specialist to assess the fair value as at 31 December 2020 and 31 December 2019. The valuation specialist determines the most appropriate methodology (market/income approach) depending on the nature of the property.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (note 27).

Impairment losses on loans and advances

The Group and the Bank review their loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statements of profit or loss. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The critical judgements and estimates are explained in note 2.1 Expected credit loss measurement and in note 44.2 Credit risk.

Impairment of debt and other fixed income securities.

The Group reviews its debt investments measured at FVTOCI and its debt investments measured at amortised cost at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
On loans and advances to banks	**128**	942	**122**	942
On loans and advances to customers	**56,333**	49,726	**56,333**	49,699
	56,461	50,668	**56,455**	50,641
On debt securities:				
Measured at amortised cost	**1,745**	2,616	**1,745**	2,616
Amortisation on premiums and discounts on debt securities measured at amortised cost	**(753)**	(788)	**(753)**	(788)
Measured at FVTPL	**1,145**	1,342	**11**	22
Other debt securities	**4,886**	5,138	**4,886**	5,138
Amortisation on premiums and discounts on other debt securities	**(1,204)**	(955)	**(1,204)**	(955)
	5,819	7,353	**4,685**	6,033
	62,280	58,021	**61,140**	56,674

4. INTEREST PAYABLE

	The Group / The Bank	
	2020	2019
	€000	€000
On amounts owed to banks	**204**	579
On amounts owed to customers	**12,908**	12,741
On lease liabilities	**107**	59
On debt securities in issue	**215**	-
	13,434	13,379

5. DIVIDEND INCOME

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
From equity shares held in local and foreign entities and collective investment schemes	**189**	196	**1,236**	1,572

During 2020 the Group recognised dividend income amounting to €2K (2019: the same) on equity instruments designated at FVTOCI, which were held at year end. During 2020 the Group did not recognise any dividend income on equity instruments designated at FVTOCI upon initial recognition, which were derecognised during the year (2019: €13K).

6. NET GAINS ON FOREIGN EXCHANGE

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Net unrealised / realised gain on foreign exchange	**99**	687	**328**	460

7. NET GAINS / (LOSSES) ON FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Realised (losses) / gains on disposal of financial assets at FVTOCI	**(283)**	402	**(283)**	402
Unrealised net fair value movements on financial assets at FVTPL	**235**	2,108	**10**	(23)
Realised gains on disposal of financial assets at FVTPL	**538**	1,446	**11**	36
	490	3,956	**(262)**	415

8. PERSONNEL EXPENSES

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Wages and salaries (short-term):				
- key management personnel other than Directors	**3,223**	2,883	**3,223**	2,883
- other staff	**12,911**	11,555	**12,911**	11,555
- wages recharged to subsidiary at cost	**-**	-	**(49)**	-
Social security contributions	**1,038**	890	**1,038**	890
	17,172	15,328	**17,123**	15,328

The average number of persons employed during the year was as follows:

	The Group		The Bank	
	2020	2019	**2020**	2019
Managerial	**111**	95	**111**	95
Senior officers and officers	**327**	293	**327**	293
Others	**9**	8	**9**	8
	447	396	**447**	396

9. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Remuneration payable to the statutory auditors for:				
- the audit of financial statements	**159**	76	**130**	51
- tax advisory services	**6**	6	**4**	4
- other non-audit services	**13**	15	**13**	15
Directors' emoluments	**351**	333	**321**	309
Insurance	**305**	347	**153**	347
Professional fees	**1,012**	1,078	**762**	988
Regulatory fees	**2,806**	2,068	**2,806**	2,068
Repairs and maintenance	**3,022**	2,046	**3,016**	2,046
Telecommunications	**623**	413	**623**	413
Office operating expenses	**2,636**	2,648	**2,632**	2,641
Card and other financial charges	**912**	185	**912**	185
Other administrative expenses	**1,416**	2,331	**1,635**	2,289
	13,261	11,546	**13,007**	11,356
Fee and commission expenses	**690**	384	**690**	384
	13,951	11,930	**13,697**	11,740

Additional disclosures on Directors' emoluments is made in the Remuneration Report page 9.

10. NET IMPAIRMENT LOSSES

	The Group / The Bank	
	2020	2019
	€000	€000
Charge for the year:		
- collective impairment	**4,616**	1,044
- individual impairment	**4,251**	4,971
- bad debts written off	**215**	1,539
	9,082	7,554
Reversal of write-downs:		
- collective impairment	**(561)**	(634)
- individual impairment	**(2,983)**	(5,846)
	(3,544)	(6,480)
Net impairment losses	**5,538**	1,074

	The Group / The Bank	
	2020	2019
	€000	€000
Cash and balances with Central Bank of Malta:		
- Stage 1	**5**	-
Loans and advances to banks:		
- Stage 1	**49**	-
Loans and advances to customers:		
- Stage 1	**(109)**	(28)
- Stage 2	**3,845**	(27)
- Stage 3	**1,483**	664
	5,219	609
Syndicated loans:		
- Stage 1	**(49)**	25
- Stage 2	**184**	455
	135	480
Debt securities at amortised cost:		
- Stage 1	**27**	(1)
Debt securities at FVTOCI:		
- Stage 1	**94**	(14)
- Stage 2	**9**	-
	103	(14)
Net impairment losses	**5,538**	1,074

All reversal of write-downs are in relation to loans and advances to customers. Accordingly, the impairment losses gross of reversals for loans and advances to customers amounted to €8,763K (2019: €7,089K).

11. INCOME TAX EXPENSE

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Current income tax	**7,396**	6,749	**7,278**	6,663
Deferred income tax	**(1,689)**	519	**(1,689)**	519
Income tax expense	**5,707**	7,268	**5,589**	7,182

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2019: 35%) for the years ended 31 December 2020 and 2019 is as follows:

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Profit before tax	**15,797**	26,838	**15,522**	21,644
Theoretical tax expense at 35%	**5,529**	9,393	**5,433**	7,575
Tax effect of:				
- Non-taxable sale of investments	**11**	(139)	**11**	(139)
- Income taxed at lower rates of tax	**(430)**	(550)	**(430)**	(550)
- Depreciation not recovered by way of capital allowance	**275**	206	**275**	206
- Income from financial instruments included in untaxed account	**22**	(1,732)	**-**	-
- Other differences	**300**	90	**300**	90
Income tax expense	**5,707**	7,268	**5,589**	7,182

12. DIVIDENDS PAID AND PROPOSED

	The Bank	
	2020	2019
	€000	€000
Dividends paid on ordinary shares:		
Final gross of income tax for 2019:		
- cents per share (2018: 7.59 cents per share)	**-**	3,500
Final net of income tax for 2019:		
- cents per share (2018: 4.94 cents per share)	**-**	2,275
Interim gross of income tax for 2020:		
- cents per share (2019: 4.02 cents per share)	**-**	2,000
Interim net of income tax for 2020:		
- cents per share (2019: 2.61 cents per share)	**-**	1,300

During the year the Group`s subsidiaries paid dividends amounting to €966,119 (2019: €1,165,365) to their shareholders, including the Bank.

Following a recommendation by the European Central Bank as endorsed by the Malta Financial Services Authority, the Bank did not distribute a dividend during the year ended 31 December 2020. Details of the recommended final dividend can be found on page 3 in the Directors' Report.

13. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group / The Bank	
	2020	2019
	€000	€000
Cash in hand (note 41)	**15,064**	11,225
Balances with Central Bank of Malta (excluding reserve deposit) (note 41)	**76,650**	136,776
Reserve deposit with Central Bank of Malta	**16,621**	14,402
Gross cash and bank balances	**108,335**	162,403
Less: allowance for impairment losses	**(5)**	-
Net cash and bank balances	**108,330**	162,403

Deposits with the Central Bank of Malta represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Included in this balance is an amount of € 1,400,000 (2019: €1,400,000) pledged in favour of the MFSA's Depositors' Compensation Scheme. During the current and the prior year the Bank has been compliant with the reserve deposit requirement.

14. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Repayable on call and at short notice (note 41)	**51,117**	58,840	**46,330**	54,841
Placements with other banks not repayable at short notice	**-**	1,000	**-**	-
Gross loans and advances to banks (i)	**51,117**	59,840	**46,330**	54,841
Less: allowance for impairment losses (ii)	**(49)**	-	**(49)**	-
Net loans and advances to banks	**51,068**	59,840	**46,281**	54,841

i. Gross loans and advances to banks analysed by currency

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
- Euro	**22,851**	28,012	**18,064**	23,013
- Foreign	**28,266**	31,828	**28,266**	31,828
	51,117	59,840	**46,330**	54,841

ii. Impairment allowance for loans and advances to banks

	The Group / The Bank	
	2020	2019
	€000	€000
At 1 January	**-**	-
Charge / (reversal) for the year	**49**	-
At 31 December	**49**	-

15. LOANS AND ADVANCES TO CUSTOMERS

	The Group / The Bank	
	2020	2019
	€000	€000
Repayable on call and at short notice	**82,074**	90,122
Term loans and advances	**1,627,804**	1,383,893
Gross loans and advances to customers (i)	**1,709,878**	1,474,015
Less: allowance for impairment losses (ii)	**(20,875)**	(15,871)
Net loans and advances to customers	**1,689,003**	1,458,144

i. Gross loans and advances to customers analysed by currency

	The Group / The Bank	
	2020	2019
	€000	€000
- Euro	**1,708,775**	1,472,903
- Foreign	**1,103**	1,112
	1,709,878	1,474,015

ii. Impairment allowance for loans and advances to customers

	The Group / The Bank	
	2020	2019
	€000	€000
At 1 January	**15,871**	16,802
Charge / (reversal) for the year:		
- Collective	**3,814**	67
- Individual	**1,190**	(998)
At 31 December	**20,875**	15,871
- Collective impairment losses	**4,636**	904
- Individual impairment losses	**16,239**	14,967
	20,875	15,871

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Concentration of loans and advances to customers

The following table shows the risk concentration by industry for loans and advances to customers, gross ofprovisions:

	The Group / The Bank	
	2020	2019
	€000	€000
Agriculture	**6,524**	7,674
Fishing	**10,678**	17,522
Mining and quarrying	**-**	37
Manufacturing	**23,846**	22,104
Electricity, gas and water supply	**6,756**	3,709
Construction	**93,948**	93,001
Wholesale and retail trade	**39,503**	40,080
Hotels and restaurants, excluding related construction activities	**127,219**	90,699
Transport, storage and communication	**38,745**	22,853
Financial intermediation	**67,890**	58,000
Real estate, renting and business	**110,841**	94,985
Professional, scientific and technical	**16,110**	9,633
Administrative and support services	**7,232**	7,213
Public administration	**11,449**	12,713
Education	**7,731**	7,696
Health and social work	**13,352**	4,299
Community, recreational and personal service activities	**4,755**	6,347
Households and individuals	**1,123,299**	975,450
	1,709,878	1,474,015

16. SYNDICATED LOANS

	The Group / The Bank	
	2020	2019
	€000	€000
Agriculture	**1,380**	6,517
Community, recreational and personal service activities	**4,871**	-
Manufacturing	**48,461**	25,945
Wholesale and retail trade	**9,998**	10,042
Transport, storage and communication	**4,544**	4,572
Financial intermediation	**32,722**	62,881
Public administration	**2,441**	7,140
Health and social work	**10,131**	10,117
Gross syndicated loans (i)	**114,548**	127,214
Less: allowance for impairment loss (ii)	**(1,396)**	(1,261)
Net syndicated loans	**113,152**	125,953

16. SYNDICATED LOANS (CONTINUED)

i. Gross syndicated loans analysed by currency

	The Group / The Bank	
	2020	2019
	€000	€000
- Euro	**92,961**	89,542
- Foreign	**21,587**	37,672
	114,548	127,214

ii. Impairment allowance for syndicated loans

	The Group / The Bank	
	2020	2019
	€000	€000
At 1 January	**1,261**	781
Charge / (reversal) for the year	**135**	480
At 31 December	**1,396**	1,261

17. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group / The Bank	
	2020	2019
	€000	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	**499**	721
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	**499**	721

The table below shows the fair values of derivative financial instruments recorded as assets and liabilities together with their notional amount. The notional amount represents the basis upon which changes in the value of derivatives are measured. Notional amount indicates the volume of outstanding transactions as at the year end.

	The Group / The Bank					
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	2020	**2020**	**2020**	2019	2019	2019
	€000	**€000**	**€000**	€000	€000	€000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	**38,975**	**499**	**-**	38,975	721	-
Equity/commodity-index warrants written	**(38,975)**	**-**	**499**	(38,975)	-	721
	-	**499**	**499**	-	721	721

The Group's exposure under the derivative contracts is closely monitored as part of the overall management of market risk.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Fixed income instruments and collective investment schemes	**50,636**	41,478	**251**	464
Analysed by currency:				
- Euro	**43,036**	24,358	**251**	464
- Foreign	**7,600**	17,120	**-**	-
	50,636	41,478	**251**	464
Listing Status:				
- Listed on Malta Stock Exchange	**2,548**	2,359	**-**	-
- Listed elsewhere	**48,088**	39,119	**251**	464
	50,636	41,478	**251**	464
Carrying amount				
At 1 January	**41,478**	36,241	**464**	879
Disposals	**(30,184)**	(28,872)	**(200)**	(392)
Acquisitions	**39,165**	32,019	**-**	-
Increase / (decrease) in fair value	**177**	2,090	**(13)**	(23)
At 31 December	**50,636**	41,478	**251**	464

The above financial assets are mandatorily measured at FVTPL in terms of IFRS 9.

19. OTHER DEBT AND FIXED INCOME INSTRUMENTS

	The Group / The Bank	
	2020	2019
	€000	€000
At amortised cost	**104,307**	79,617
Fair value through other comprehensive income	**211,751**	158,595
Gross other debt and fixed income instruments	**316,058**	238,212
Less: allowance for impairment losses	**(75)**	(46)
Net other debt and fixed income instruments	**315,983**	238,166

	The Group / The Bank	
	2020	2019
At amortised cost	**€000**	€000
Issued by public bodies:		
- Local government	**17,529**	17,580
- Foreign government	**86,478**	56,742
	104,007	74,322
Issued by other issuers:		
- Foreign other	**300**	5,295
Total	**104,307**	79,617

19. OTHER DEBT AND FIXED INCOME INSTRUMENTS (CONTINUED)

	The Group / The Bank	
	2020	2019
Fair value through other comprehensive income	**€000**	€000
Issued by public bodies:		
- Local government	**93,966**	50,235
- Foreign government	**38,864**	17,280
	132,830	67,515
Issued by other issuers:		
- Local banks	**-**	500
- Foreign banks	**22,524**	27,612
- Foreign other	**56,351**	62,921
- Local other	**46**	47
	78,921	91,080
Total	**211,751**	158,595
Total debt and other fixed income instruments	**316,058**	238,212
Analysed by currency:		
- Euro	**276,895**	205,468
- Foreign	**39,163**	32,744
	316,058	238,212
Unamortised premiums on debt and other fixed income instruments	**11,097**	6,007

	The Group / The Bank	
	2020	2019
	€000	€000
Listing status:		
- Listed on Malta Stock Exchange	**111,542**	68,362
- Listed elsewhere	**204,216**	169,550
- Unlisted	**300**	300
	316,058	238,212

	The Group / The Bank	
	2020	2019
Carrying amount– Gross of impairment allowances	**€000**	€000
At amortised cost		
At 1 January	**79,617**	85,905
Redemptions and disposals	**(2,000)**	(20,312)
Acquisitions	**27,443**	14,812
Amortisation	**(753)**	(788)
At 31 December	**104,307**	79,617

19. OTHER DEBT AND FIXED INCOME INSTRUMENTS (CONTINUED)

	The Group / The Bank	
	2020	2019
Carrying amount – Gross of impairment allowances	**€000**	€000
Fair value through other comprehensive income		
At 1 January	**158,595**	165,184
Redemptions and disposals	**(54,296)**	(18,213)
Acquisitions	**108,662**	9,938
Amortisation	**(1,246)**	(987)
Increase in fair value	**1,363**	2,834
Exchange adjustments	**(1,327)**	(161)
At 31 December	**211,751**	158,595
Total	**316,058**	238,212

Eligible debt instruments with a nominal value of €155,922,231 (2019: €119,251,504) have been pledged against the provision of credit lines by the Central Bank of Malta, under the usual terms and conditions applying to such agreements. Debt instruments with a nominal value of €3,850,000 (2019: €3,850,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme.

20. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

	The Group / The Bank	
	2020	2019
	€000	€000
Equity and other non-fixed income instruments at FVTOCI	**303**	308
Analysed by currency:		
- Euro	**228**	228
- Foreign	**75**	80
	303	308
Listing status:		
- Unlisted	**303**	308

	The Group / The Bank	
	2020	2019
	€000	€000
Carrying amount		
At 1 January	**308**	1,272
- Acquisitions	**959**	-
- Disposals	**(999)**	(880)
- Increase / (decrease) in fair value	**35**	(84)
At 31 December	**303**	308

These are equity investments which are not held for trading.

As part of the Group's business model, investments recognised at FVTOCI do not form part of its core business. The fair value of the equity instruments measured at FVTOCI derecognised during 2020 was €999,982 (2019: €964,000). The cumulative gains on the disposal of these instruments was of €41,000 (2019: €380,000).

21. INVESTMENT IN SUBSIDIARIES

The Bank	2020 €000	2019 €000
Cost		
At 1 January	**40,250**	40,250
Additions	**5,000**	-
At 31 December	**45,250**	40,250

The investment in subsidiaries are made up as follows:

Name	Country of Incorporation	Equity interest 2020 %	Equity interest 2019 %	Cost 2020 €000	Cost 2019 €000
APS Diversified Bond Fund 40,000,000 investor shares at €1.00 (2019: 40,000,000 investor shares at €1.00)	**Malta**	**82.26**	87.75	**40,000**	40,000
APS Global Equity Fund 5,000,000 investor shares at €1.00	**Malta**	**91.91**	-	**5,000**	-
ReAPS Asset Management Limited 250,000 ordinary shares at €1.00 (2019: 250,000 ordinary shares at €1.00)	**Malta**	**100.00**	100.00	**250**	250
				45,250	40,250

	APS Diversified Bond Fund 2020 €000	APS Diversified Bond Fund 2019 €000	APS Global Equity Fund 2020 €000	APS Global Equity Fund 2019 €000	ReAPS Asset Management Limited 2020 €000	ReAPS Asset Management Limited 2019 €000
Current assets	**49,954**	46,535	**5,745**	-	**1,122**	863
Non-current assets	**-**	-	**-**	-	**1**	2
Current liabilities	**(99)**	(86)	**(19)**	-	**(294)**	(246)
Net assets value	**49,855**	46,449	**5,726**	-	**829**	619
Income	**1,545**	4,189	**298**	-	**1,332**	1,164
Expenses	**(387)**	(331)	**(24)**	-	**(1,009)**	(964)
Profit before tax	**1,158**	3,858	**274**	-	**323**	200
Tax	**(3)**	(16)	**(2)**	-	**(113)**	(70)
Profit after tax	**1,155**	3,842	**272**	-	**210**	130

22. INVESTMENT IN ASSOCIATES

The Bank's investment in associates is as follows:

Name	Country of Incorporation	Equity interest 2020 %	Equity interest 2019 %	Cost 2020 €000	Cost 2019 €000
APS Funds SICAV plc 1,199 founder shares at €1.00 (2019: 1,199 founder shares at €1.00)	**Malta**	**99.99***	99.99*	**1**	1
APS Income Fund 98,853.14 investor shares at €100.01 (2019: 98,853.14 investor shares at €100.01)	**Malta**	**15.45**	15.77	**9,886**	9,886
APS Regular Income Ethical Fund 5,000,000 investor shares at €1.00 (2019: 5,000,000 investor shares at €1.00)	**Malta**	**17.56**	18.51	**5,000**	5,000
IVALIFE Insurance Limited (*formerly Vitae Life Limited*) 375,000 ordinary shares at €1.00 (2019: 375,000 ordinary shares at €1.00)	**Malta**	**25.00**	25.00	**375**	375
				15,262	15,262

*The 99.99% equity interest pertains solely to the Bank's share in the total founder shares of APS Funds SICAV plc.

22. INVESTMENT IN ASSOCIATES (CONTINUED)

The following table illustrates summarised financial information of the Group's investment in associates:

	APS Income Fund		APS Regular Income Ethical Fund		IVALIFE Insurance Limited	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
Current assets	**89,148**	90,404	**36,396**	34,375	**427**	-
Non-current assets	**-**	-	**-**	-	**639**	-
Current liabilities	**(196)**	(203)	**(143)**	(144)	**(145)**	-
Net assets value (NAV)	**88,952**	90,201	**36,253**	34,231	**921**	-
Split into:						
Accumulator shares	**21,591**	21,524	**12,938**	11,728	**-**	-
Distributor shares	**67,361**	68,677	**23,315**	22,503	**-**	-
	88,952	90,201	**36,253**	34,231	**-**	-
Group's percentage of:						
- Distributor shares' NAV	**12,657**	13,159	**5,898**	5,917	**-**	-
- NAV	**-**	**-**	**-**	**-**	**230**	**-**
Income	**(660)**	7,787	**972**	3,805	**-**	-
Expenses	**(840)**	(817)	**(446)**	(422)	**(579)**	-
Profit before tax	**(1,500)**	6,970	**526**	3,383	**(579)**	-
Tax	**(278)**	(398)	**(58)**	(36)	**-**	-
(Loss) / profit after tax	**(1,778)**	6,572	**468**	3,347	**(579)**	-
Group's share of (loss) / profit for the year	**(205)**	1,012	**127**	573	**(180)**	-

The following table illustrates the movements in the carrying amount of the Group's investment in associates:

	2020	2019
	€000	€000
Carrying amount of the investment at 1 January	**19,257**	17,748
Share of associate's results, net of tax	**(258)**	1,585
Investment in associate	**-**	375
Dividend distribution	**(358)**	(451)
Carrying amount of the investment at 31 December	**18,641**	19,257

The associates had no contingent liabilities or capital commitments as at 31 December 2020 (2019: the same).

22. INVESTMENT IN ASSOCIATES (CONTINUED)

APS Income Fund and APS Regular Income Ethical Fund

The APS Income Fund and APS Regular Income Ethical Fund are both sub-funds of APS Funds SICAV plc. The Company is recognised under the laws of Malta as a multi-fund public limited liability company with variable share capital pursuant to the Companies Act. The Company and its sub-funds are authorised in terms of the Investment Services Act (Cap. 370, Laws of Malta) as an open-ended collective investment scheme qualifying as a Maltese UCITS, and licensed and regulated by the MFSA.

The fair value of the investments in APS Income Fund (Class D) and APS Ethical Income Fund (Class B) as at 31 December 2020 amounted to €18,554,033 (2019: €19,075,666). The fair value of the investment in IVALIFE Insurance Limited as at 31 December 2020 amounted to €230,152.

The following are the quoted market prices of the APS Income Fund as at end of December 2020 and December 2019 and represent Level 1 investments in the fair value hierarchy:

	APS Income Fund	
	2020	2019
	€	€
Accumulator	**190.2051**	193.7937
Distributor	**128.0337**	133.1133

The APS Regular Income Ethical Fund is not listed on a Stock Exchange and its fair value represents a Level 2 investment in the fair value hierarchy:

	APS Regular Income Ethical Fund	
	2020	2019
	€	€
Accumulator Class A	**1.4945**	1.4731
Distributor Class B	**1.1795**	1.1834
Accumulator Class C	**1.4883**	1.4680
Distributor Class D	**1.1766**	1.1811

IVALIFE Insurance Limited

During the financial year ended 31 December 2019, the Group invested €375,000 as initial capital in IVALIFE Insurance Limited ("IVALIFE"), representing its 25% shareholding in the company. The Group is deemed to have a significant influence in the company and is measuring its investment as an 'associate'.

After the balance sheet date, IVALIFE obtained regulatory approval with the Group making a further investment in the company. Further information is disclosed in note 45.

23. INVESTMENT PROPERTIES

The Group's investment properties consist of commercial and residential properties in Malta. As at 31 December 2020 and 2019 the fair values of investment properties held by the Group were as follows:

	The Group / The Bank	
	2020	2019
	€000	€000
As at 1 January	**1,830**	1,860
Property sold during the year	**-**	(100)
Fair value movement	**-**	70
As at 31 December	**1,830**	1,830

During the year under review the Group did not repossess or sell any investment properties. Fair value movements are recognised as "Other operating income" in the statements of profit or loss.

24. PROPERTY AND EQUIPMENT

The Group	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost or valuation				
At 1 January 2019	16,444	7,672	16,676	40,792
Effect of changes in accounting policy	18,807	-	-	18,807
As restated	35,251	7,672	16,676	59,599
Accumulation of depreciation on revalued property	(1,599)	-	-	(1,599)
Additions	1,674	1,039	1,604	4,317
At 31 December 2019	35,326	8,711	18,280	62,317
Additions	234	1,444	2,547	4,225
At 31 December 2020	**35,560**	**10,155**	**20,827**	**66,542**
Depreciation				
At 1 January 2019	2,235	4,994	11,277	18,506
Accumulation of depreciation on revalued property	(1,599)	-	-	(1,599)
Charge for the year	217	760	582	1,559
At 31 December 2019	853	5,754	11,859	18,466
Charge for the year	313	903	680	1,896
At 31 December 2020	**1,166**	**6,657**	**12,539**	**20,362**
Net Book Value				
At 31 December 2020	**34,394**	**3,498**	**8,288**	**46,180**
At 31 December 2019	34,473	2,957	6,421	43,851
At 1 January 2019	14,209	2,678	5,399	22,286

	2020 €000	2019 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**13**	809
- Authorised by the Directors but not yet contracted	**4,712**	4,652
	4,725	5,461

24. PROPERTY AND EQUIPMENT (CONTINUED)

The Bank	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost or valuation				
At 1 January 2019	16,444	7,672	16,676	40,792
Effect of changes in accounting policy	18,807	-	-	18,807
As restated	35,251	7,672	16,676	59,599
Accumulation of depreciation on revalued property	(1,599)	-	-	(1,599)
Additions	1,674	1,039	1,604	4,317
At 31 December 2019	35,326	8,711	18,280	62,317
Additions	234	1,444	2,547	4,225
At 31 December 2020	**35,560**	**10,155**	**20,827**	**66,542**
Depreciation				
At 1 January 2019	2,235	4,994	11,277	18,506
Accumulation of depreciation on revalued property	(1,599)	-	-	(1,599)
Charge for the year	217	760	582	1,559
At 31 December 2019	853	5,754	11,859	18,466
Charge for the year	313	903	680	1,896
At 31 December 2020	**1,166**	**6,657**	**12,539**	**20,362**
Net Book Value				
At 31 December 2020	**34,394**	**3,498**	**8,288**	**46,180**
At 31 December 2019	34,473	2,957	6,421	43,851
At 1 January 2019	14,209	2,678	5,399	22,286

	2020 €000	2019 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**13**	809
- Authorised by the Directors but not yet contracted	**4,712**	4,652
	4,725	5,461

The gross carrying amount of fully depreciated property and equipment that is still in use as at 31 December 2020 is of €16,120K (2019: €15,641K).

The carrying amount of property and equipment at 31 December 2020 that would have been recognised had land and buildings been carried under the cost model is € 27,664K (2019: € 25,044K) for both the Group and the Bank.

25. INTANGIBLE ASSETS

	The Group Computer software €000	The Bank Computer software €000
Cost		
At 1 January 2019	16,456	16,452
Additions	2,624	2,624
At 31 December 2019	19,080	19,076
Additions	3,179	3,179
At 31 December 2020	**22,259**	**22,255**
Amortisation		
At 1 January 2019	10,595	10,594
Charge for the year	1,165	1,164
At 31 December 2019	11,760	11,758
Charge for the year	1,651	1,649
At 31 December 2020	**13,411**	**13,407**
Net book value		
At 31 December 2020	**8,848**	**8,848**
At 31 December 2019	7,320	7,318
At 1 January 2019	5,861	5,858

	2020 €000	2019 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**744**	3,272
- Authorised by the Directors but not yet contracted	**8,017**	4,510
	8,761	7,782

The gross carrying amount of fully amortised intangible assets that is still in use as at 31 December 2020 is of € 9,426K (2019: €8,958K).

26. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases properties, warehouses, office spaces, vehicles, spaces for the utilisation of parking and utilisation of space to provide banking related services. The Group no longer leases offsite ATMs as the operation of offsite ATMs has been discontinued as from the year under review.

Rental contracts are typically made for fixed periods with the lease term varying from 4 years to 20 years with the majority of the leases having a remaining period of less than 5 years, with some agreements containing an extension option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Extension and Termination Options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group`s operations. The majority of extension and termination options held are exercisable only after an express written consent by both parties after expiration of the contract. Given that consent should be provided by both parties in determining the lease term, the latter includes only the non-cancellable lease term.

Extension options have not been included in the lease liability, where the Group could replace the assets without significant cost or business disruption.

Purchase options

The group leases vehicles with terms of five to seven years with the majority having a remaining lease term of less than 12 months. After expiration of the agreement, the lessee has the option to purchase the vehicle. However, the Group has no intention to exercise this option.

The statement of financial position shows the following amounts relating to leases:

	The Group/The Bank	
	2020	2019
	€000	€000
Right-of-use-assets		
Property	**5,147**	2,405
Equipment	**-**	39
Vehicles	**88**	148
	5,235	2,592
Lease liabilities		
Current	**548**	355
Non-current	**4,817**	2,274
	5,365	2,629

Additions to the right-of-use assets during the year ended 31 December 2020 were € 3,751K (2019: € 44K). Total cash outflows in relation to leases during the year amounted to € 486K (2019: € 395K).

26. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (CONTINUED)

The statements of profit or loss show the following amounts relating to leases:

	The Group/The Bank	
	2020	2019
	€000	€000
Depreciation charge on right-of-use assets		
Property	**415**	301
Equipment	**4**	10
Vehicles	**62**	61
	481	372
Interest expense		
Interest expense (included in interest payable)	**107**	59
Expenses relating to leases of low-value assets (included in other administrative expenses)	**70**	108
	177	167

Variable lease payments

During the year under review, the Group incorporated new property leases subject to variable lease payments measured at the rate as specified in the lease agreement whereby the rent is increased on an annual basis or as otherwise indicated in the contract. The Group recognised €71,908 and €260,818 as an interest expense on the lease liabilities and amortisation on the right-of-use assets respectively in the statements of profit and loss for the leases which are subject to variable lease payments.

Leases not yet commenced to which the lessee is committed

Other future cash outflows to which the lessee is potentially exposed to that are not reflected in the measurement of lease liabilities includes the exposure arising from leases not yet commenced to which the lessee is committed. The Group has entered into commitments for certain leases with a commencement date which begins after 31 December 2020. The future cash outflows expected for these leases is €1,390K (2019: €4,752K).

Residual guarantees

During the current financial year, there were no leases with residual value guarantees.

Restrictions or covenants

The Group is restricted from assigning, letting or subletting of the premises to third parties. However, there are cases where the lessee may be able to do so with prior written consent of the lessor and which approval shall remain in the absolute discretion of the lessor.

Restrictions are also imposed in cases of motor vehicles where the lessee is expressly prohibited from lending, leasing, hiring or in any other manner transferring control or use of the vehicle to third parties whether gratuitously or against payment or in any other manner, whether directly or indirectly, using the vehicle for hire and reward purposes.

The Group is expressly precluded from permitting the utilisation of the properties or any part thereof for any other purpose than that stipulated in the contract.

27. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group / The Bank	
	2020	2019
	€000	€000
Fair value movements on investment securities	**(1,034)**	(1,396)
Fair value movements on investment properties	**(146)**	(146)
Impairment allowance for loans and advances to banks and customers	**7,809**	5,996
Impairment allowance for investment securities	**38**	37
Excess of capital allowances over depreciation	**(1,524)**	(1,362)
Movement on right-of-use assets	**45**	12
Revaluation of land and buildings	**(2,635)**	(2,681)
	2,553	460

Deferred tax arising on the fair value movements on land and buildings classified in the statements of financial position within property and equipment and on investment securities, amounting to €404,241 was credited (2019: €2,872,859 debited) directly in OCI. For details on other movements refer to note 11.

28. OTHER RECEIVABLES

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Accrued income	**6,312**	4,875	**6,312**	4,875
Prepayments and other receivables	**2,307**	1,603	**1,429**	812
Amounts due from subsidiaries	**-**	-	**233**	220
	8,619	6,478	**7,974**	5,907

29. AMOUNTS OWED TO BANKS

	The Group / The Bank	
	2020	2019
	€000	€000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand (note 41)	**10**	24,512
- over 3 months but less than 1 year but not repayable on demand	**9,294**	-
	9,304	24,512
Analysed by currency:		
- Euro	**9,304**	7,915
- Foreign	**-**	16,597
	9,304	24,512

30. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Term deposits	**776,641**	795,653	**776,641**	795,653
Repayable on demand	**1,346,805**	1,133,318	**1,347,508**	1,133,851
	2,123,446	1,928,971	**2,124,149**	1,929,504
Analysed by currency:				
- Euro	**2,051,742**	1,842,341	**2,052,445**	1,842,874
- Foreign	**71,704**	86,630	**71,704**	86,630
	2,123,446	1,928,971	**2,124,149**	1,929,504

31. DEBT SECURITIES IN ISSUE

	The Group / The Bank	
	2020	2019
	€000	€000
At 1 January	**-**	-
Debt securities issued	**55,000**	-
Net unamortised expenses	**(442)**	-
At 31 December	**54,558**	-

During the year under review the Bank issued an Unsecured Subordinated Bond which is due to mature in 2030. The bonds may be early re-deemed by the Bank on specific dates, subject to MFSA approval and subject to the Bank providing at least 30 days' written notice. The 3.25% Unsecured Bonds Issue were fully subscribed and are being classified as a financial liability at amortised cost as at end of December 2020. The bonds are denominated in Euro.

32. OTHER LIABILITIES

	The Group / The Bank	
	2020	2019
	€000	€000
Other liabilities	**10,090**	10,966

33. ACCRUALS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Accrued interest payable	**4,370**	4,242	**4,370**	4,242
Other accruals	**5,733**	4,510	**5,661**	4,470
	10,103	8,752	**10,031**	8,712

34. SHARE CAPITAL

	The Group / The Bank	
	2020	2019
	€000	€000
Authorised		
400,000,000 ordinary shares at €0.25 each		
(2019: 80,000,000 ordinary shares of €1.25 each)	**100,000**	100,000
Issued and fully paid		
249,019,200 ordinary shares of €0.25 each		
(2019: 49,803,840 ordinary shares of €1.25 each)	**62,255**	62,255

	The Group / The Bank	
	Number of shares	Number of shares
	2020	2019
	'000	'000
At 1 January	**49,804**	46,084
Cancellation of ordinary shares at €1.25 per share	**(49,804)**	-
Re-designation of ordinary shares at €0.25 per share	**249,019**	-
Issue of share capital	**-**	3,720
At 31 December	**249,019**	49,804

During an Extraordinary General Meeting held on 19 October 2020 the Shareholders approved a resolution whereby the authorised share capital was re-designated from 80,000,000 ordinary shares at €1.25 each to 400,000,000 ordinary shares at €0.25 each. The resolution also included a re-designation of the issued share capital from 49,803,840 ordinary shares at €1.25 each to 249,019,200 ordinary shares at €0.25 each, fully paid up.

During 2019 the Bank increased its share capital through a rights issue to its current shareholders.

Further information on the Bank's Shareholders is disclosed in the Directors' Report and in note 46 – Ultimate controlling party.

35. SHARE PREMIUM

	The Group / The Bank	
	2020	2019
	€000	€000
At 1 January	**10,140**	1,770
Issue of share capital	**-**	8,370
At 31 December	**10,140**	10,140

The share premium reserve is not available for distribution.

36. REVALUATION RESERVE

During 2019, the Group and the Bank changed their accounting policy for the subsequent measurement of land and buildings classified in the statements of financial position within property and equipment from the cost model to the revaluation model.

	The Group / The Bank	
	2020	2019
	€000	€000
Revaluation reserve on:		
Financial instruments at FVTOCI	**16,380**	14,580
Land and buildings	**15,880**	16,126
	32,260	30,706

The following table shows the movement in the revaluation reserve attributable to the land and buildings and financial instruments measured at FVTOCI:

	The Group / The Bank			
	Land and buildings		**Financial instruments at FVTOCI**	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
At 1 January	**16,126**	-	**14,580**	12,398
Revaluation adjustment, gross of tax	**(291)**	18,807	**1,446**	2,366
Deferred tax thereon	**45**	(2,681)	**354**	(184)
At 31 December	**15,880**	16,126	**16,380**	14,580

The revaluation reserve is not available for distribution.

37. RETAINED EARNINGS

The retained earnings represent retained profits which are available for distribution to shareholders subject to qualification as realised profits in accordance with the requirements of the Companies Act, Cap. 386 of the Laws of Malta.

Retained earnings is inclusive of Eur 1,700K reserves for General Banking Risk under BR/09/2013.

38. NON-CONTROLLING INTEREST

The following is a reconciliation of the Non-controlling interest:

	APS Diversified Bond Fund		APS Global Equity Fund		Total	
	2020	2019	**2020**	2019	**2020**	2019
	€000	€000	**€000**	€000	**€000**	€000
At 1 January	**6,029**	1,993	**-**	-	**6,029**	1,993
Creation of shares	**3,738**	3,865	**455**	-	**4,193**	3,865
Redemption of shares	**(535)**	(228)	**-**	-	**(535)**	(228)
Dividends paid	**(96)**	(55)	**-**	-	**(96)**	(55)
Profit after tax	**215**	454	**22**	-	**237**	454
At 31 December	**9,351**	6,029	**477**	-	**9,828**	6,029

39. CONTINGENT LIABILITIES

	The Group / The Bank	
	2020	2019
	€000	€000
Guarantees	**20,923**	22,331
Other contingent liabilities	**2,205**	524
	23,128	22,855

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. The measurement of these instruments is disclosed in the accounting policies.

The majority of contingent liabilities are backed by corresponding obligations from third parties.

40. COMMITMENTS

	The Group / The Bank	
	2020	2019
	€000	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**786,427**	757,638

Capital commitments are disclosed in Note 24.

41. CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Cash in hand (note 13)	**15,064**	11,225	**15,064**	11,225
Balances with Central Bank of Malta (excluding reserve deposit) (note 13)	**76,650**	136,776	**76,650**	136,776
Loans and advances to banks (repayable within 3 months) (note 14)	**51,117**	58,840	**46,330**	54,841
Amounts owed to banks (note 29)	**(10)**	(24,512)	**(10)**	(24,512)
Cash and cash equivalents included in the statements of cash flows	**142,821**	182,329	**138,034**	178,330

42. RELATED PARTY DISCLOSURES

The Group's structure

These consolidated financial statements of the Group include the financial statements of APS Bank plc and its subsidiaries and associates, as disclosed in Notes 21 and 22 respectively.

During the course of its normal banking business, the Bank conducts business on commercial terms with its subsidiaries, associates, shareholders, key management personnel and other related parties.

The registered office of APS Funds SICAV plc, APS Regular Income Ethical Fund, APS Income Fund, APS Diversified Bond Fund, APS Global Equity Fund and ReAPS Asset Management Limited is APS Centre, Tower Street, Birkirkara, BKR 4012. The registered office of IVALIFE Insurance Limited is Gaba Building, Level 2, Naxxar Road, Iklin, IKL 9026.

Information on the Bank's Shareholders is disclosed in the Directors' Report and in note 46 – Ultimate controlling party.

42. RELATED PARTY DISCLOSURES (CONTINUED)

Related party transactions

The following table provides the total amount of transactions, which have been entered into by the Bank with the subsidiaries and associate for the relevant financial year:

Related parties	Year	Income from related parties €000	Expenses charged to / (by) related parties €000	Amounts owed by related parties €000	Amounts owed to related parties €000
Subsidiaries:					
APS Diversified Bond Fund	**2020**	**237**	**-**	**62**	**-**
APS Diversified Bond Fund	2019	217	-	61	3
APS Global Equity Fund	**2020**	**9**	**-**	**9**	**-**
APS Global Equity Fund	2019	-	-	-	-
ReAPS Asset Management Limited	**2020**	**938**	**-**	**233**	**703**
ReAPS Asset Management Limited	2019	887	-	220	530
Associates:					
APS Income Fund	**2020**	**-**	**23**	**-**	**3,078**
APS Income Fund	2019	-	170	-	6,771
APS Regular Income Ethical Fund	**2020**	**-**	**-**	**-**	**-**
APS Regular Income Ethical Fund	2019	-	10	-	226

Transactions with key management personnel of the Group/Bank

a) Compensation of key management personnel of the Group/Bank:

The amounts disclosed in note 8 and 9 are recognised as an expense during the reporting year and are paid to key management personnel of the Group. These only include short-term employee benefits. (2019: the same).

b) Transactions with Directors:

	2020 €000	2019 €000
Loans and advances	**894**	661
Commitments	**432**	206

Facilities granted to Directors are made in the ordinary course of business on substantially the same terms as for comparable transactions with individuals of a similar standing, or where applicable, other employees.

42. RELATED PARTY DISCLOSURES (CONTINUED)

c) Transactions with Executives:

	2020 €000	2019 €000
Loans and advances	**4,734**	3,754
Commitments	**624**	203

Facilities granted to Executives are made in the ordinary course of business on substantially the same terms as for comparable transactions with individuals of a similar standing, or where applicable, other employees.

d) Transactions with other related parties:

	Balances as at 31.12.2020 €000	**Interest receivable 2020 €000**	Balances as at 31.12.2019 €000	Interest receivable 2019 €000
Amounts due from other related parties:				
Shareholders and entities with common directorship	**7,362**	**203**	6,901	198

	Balances as at 31.12.2020 €000	**Interest payable 2020 €000**	Balances as at 31.12.2019 €000	Interest payable 2019 €000
Amounts due to other related parties:				
-Shareholders	**23,509**	**186**	21,391	467
-Key management personnel	**2,225**	**9**	1,524	5
-Other related parties	**2,223**	**11**	16,085	184

Included in the amounts due to shareholders as at end of 2019 are deposits amounting to €250,000 held as collateral for loan commitments and overdraft facilities granted to related parties. No amounts are applicable for 2020. Also included are term deposits of €9,137,120 (2019: €6,833,720), which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties include secured facilities of €6,971,010 (2019: €6,890,620) and €391,328 (2019: €10,017) unsecured facilities.

For the year ended 31 December 2020, the Bank recognised impairments on receivables from related parties amounting to €5,122 (2019: nil).

No guarantees were received by related parties as at end of December 2020 (2019: nil). Special guarantees given to related parties amount to €101,162 (2019: €226,633).

43. FAIR VALUES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The level within which the fair value measurement is categorised is determined based on the lowest level of input that is significant to fair value measurement.

The reporting of fair values is intended to guide users as to the amount, timing and certainty of cash flows.

Fair value measurement hierarchy of the Group's and Bank's assets and liabilities is as follows:

	Fair value measurement hierarchy			
	Level 1	**Level 2**	**Level 3**	**Total**
The Group	**€000**	**€000**	**€000**	**€000**
Assets as at 31 December 2020				
Property and Equipment (Note 24)				
- Land and buildings	-	-	34,394	34,394
Investment properties (Note 23)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	499	-	499
Financial assets at FVTPL (Note 18)				
- Fixed income instruments and collective investment schemes	50,636	-	-	50,636
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 19)	211,751	-	-	211,751
- Equity and other non-fixed income instruments (Note 20)	-	-	303	303
Total	**262,387**	**499**	**36,527**	**299,413**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges (Note 17)	-	499	-	499
Total	**-**	**499**	**-**	**499**

43. FAIR VALUES (CONTINUED)

The Group	Fair value measurement hierarchy Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets as at 31 December 2019				
Property and Equipment (Note 24)				
- Land and buildings	-	-	34,473	34,473
Investment properties (Note 23)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	721	-	721
Financial assets at FVTPL (Note 18)				
- Fixed income instruments and collective investment schemes	41,478	-	-	41,478
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 19)	158,595	-	-	158,595
- Equity and other non-fixed income instruments (Note 20)	-	-	308	308
Total	**200,073**	**721**	**36,611**	**237,405**
Liabilities as at 31 December 2019				
Derivative liabilities not designated as hedges (Note 17)	-	721	-	721
Total	**-**	**721**	**-**	**721**

The Bank	Fair value measurement hierarchy Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets as at 31 December 2020				
Property and equipment (Note 24)				
- Land and buildings	-	-	34,394	34,394
Investment properties (Note 23)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	499	-	499
Financial assets at FVTPL (Note 18)				
- Fixed income instruments and collective investment schemes	251	-	-	251
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 19)	211,751	-	-	211,751
- Equity and other non-fixed income instruments (Note 20)	-	-	303	303
Total	**212,002**	**499**	**36,527**	**249,028**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges (Note 17)	-	499	-	499
Total	**-**	**499**	**-**	**499**

43. FAIR VALUES (CONTINUED)

The Bank	Fair value measurement hierarchy Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets as at 31 December 2019				
Property and equipment (Note 24)				
- Land and buildings	-	-	34,473	34,473
Investment properties (Note 23)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 17)	-	721	-	721
Financial assets at FVTPL (Note 18)				
- Fixed income instruments and collective investment schemes	464	-	-	464
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 19)	158,595	-	-	158,595
- Equity and other non-fixed income instruments (Note 20)	-	-	308	308
Total	**159,059**	**721**	**36,611**	**196,391**
Liabilities as at 31 December 2019				
Derivative liabilities not designated as hedges (Note 17)	-	721	-	721
Total	**-**	**721**	**-**	**721**

There were no reclassifications made within the fair value hierarchy and there were no changes in valuation techniques used by the Bank during the year, except as disclosed below.

Investment properties

During the year ended 31 December 2019, investment properties held by the Group and the Bank were valued by an independent architect. Both commercial and residential properties were valued using the market value basis, as defined in the European Valuation Standards manual, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value in relation to the commercial property was based on the price of €2,471 per square metre whereas the price of residential property was of €1,896 per square metre.

For the year ended 31 December 2020, the independent architect was reappointed and confirmed that the valuation methodology and inputs of 31 December 2019 have not changed for both commercial and residential property. No fair value movement on investment property was recognised during 2020.

Significant increases / (decreases) in estimated market rates per square meter in isolation would result in a significantly higher / (lower) fair value of the properties. Significant decreases / (increases) in the discount rate in isolation would result in a significantly higher (lower) fair value of the properties.

As at the end of 31 December 2020 (2019: nil) the Group has no restrictions on the realisation of investment properties in note 23.

As disclosed above, there was no fair value movement on property recognised during the financial year ending 31 December 2020 (2019: €70k). This fair value movement in relation to 2019 is all attributable to assets held at year end and no fair value movement was recognised in respect of assets disposed during the year.

43. FAIR VALUES (CONTINUED)

	Residential properties		Commercial properties	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
At 1 January	**400**	460	**1,430**	1,400
Disposal	**-**	(100)	**-**	-
Fair value movement	**-**	40	**-**	30
At 31 December	**400**	400	**1,430**	1,430

Property and equipment – Land and buildings
As at end of 2019, an independent architect was engaged to provide valuations based on a market value basis, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of the valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value was based on prices in the range of €1,172 and €10,909 per square metre.

For the year ended 31 December 2020, the independent architect was reappointed and confirmed that the valuations of 31 December 2019 have not changed for the land and buildings owned by the Group except for one property on which the valuation decreased by € 291,000. (Note 36).

Significant increases / (decreases) in estimated market rates per square metre in isolation would result in a significantly higher / (lower) fair value of the properties. The property is being used at its highest and best use and valuation on the properties was done as at 31 December 2020.

Derivative liabilities not designated as hedges
The last valuation for derivative instruments was made on 31 December 2020 and 31 December 2019 on the basis of observable inputs using a discounted cash flow model by applying appropriate yield curves at the balance sheet date.

Financial assets at FVTPL– fixed income instruments and collective investments schemes
All of the Group's financial assets at FVTPL are carried at market value using available quoted market prices.

Financial assets at FVTOCI
Fair values of debt and equity instruments classified in this category are generally based on quoted market prices, if available.

Other financial instruments
Cash balances, balances with the Central Bank of Malta and loans and advances to banks which are repayable on call and at short notice are highly liquid assets. The Directors regard the amounts shown in the statements of financial position for these items as reflecting their fair value as these assets will be realised for cash in the immediate future. The fair value of the placements with other banks not repayable at short notice is not materially different from their carrying amount since these carry an arm's length rate of interest which is reflective of conditions at year end. The fair value was determined using a Level 2 discounted cash flow valuation technique using relevant interest rates as the major inputs.

At the reporting date, debt securities classified at amortised cost amounted to €104.3 million (2019: €79.6million). Their market value amounted to €115.6 million (2019: €88.3 million) (Level 1), whilst their nominal value amounted to €100.8 million (2019: €76.3 million). For other details refer to Note 19.

Loans and advances to customers are stated at the amounts contractually due less provision to reflect the expected recoverable amounts. Their carrying amount is not deemed to differ materially from their fair value as these are re-priced to take into consideration changes in both the Bank's base rate and credit margins.

At the reporting date, syndicated loans and trade finance classified at amortised cost amounted to €113.2 million (2019: €126.0 million). Their market value amounted to €113.3 million (2019: €123.4 million) (Level 2), whilst their nominal value amounted to €114.5 million (2019: €126.0 million). For other details refer to Note 16.

Amounts owed to banks and customers are mainly deposit liabilities. Of this category of liability, 82% (2019: 81%) have contractual re-pricing within one year, whilst 18% (2019: 19%) re-prices between one year and over. For demand deposits and term deposits within one year, fair value is taken to be the amount payable on demand at the reporting date. For term deposits after one year with a carrying amount of €392.1 million (2019: €378.8 million), fair value is €392.1 million (2019: €378.8 million). All term deposits at different maturities were revalued to reflect the current interest rates.

Debt securities in issue have a carrying amount of €54.6 million at 31 December 2020. The market value, based on quoted prices in an active market (Level 1), amounted to €56.1 at 31 December 2020.

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below.

	2020	2019
	€000	€000
Opening balance at 1 January	**308**	309
Fair value movements	**(5)**	(1)
Closing balance at 31 December	**303**	308

44. RISK MANAGEMENT

44.1 Risk management framework

The Board of Directors (hereafter referred to as "the Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Risk Committee. The Risk Committee proposes the risk appetite statement for approval by the Board and ensures implementation of the Group's risk management and compliance strategy, systems and policies. The Group's Risk Appetite Statement articulates the types and level of risk that the Group is willing to take in the pursuit of the strategic objectives. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's risk governance framework ensures oversight of, and accountability for, the effective management of risk. Responsibility for risk lies at all levels within the Group through a three lines of defence model. Business units, as the first line of defence, are responsible for identifying, assessing and mitigating the risks to which the Group is exposed in the respective operational function. The management of the various forms of risk is then coordinated and monitored by the Risk and Compliance functions. The Internal Audit Department, as the third line of defence, provides independent assurance to the Board on the adequacy of the risk management framework.

44.2 Credit risk

Credit risk is the possibility that a borrower or counterparty fails to meet its obligations in accordance with (or performing according to) agreed terms, causing a financial loss, including losses resulting from a reduction in portfolio value arising from actual or perceived deterioration in credit quality.

Credit risk arises mainly from interbank, commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

To meet the financial needs of customers, the Group and the Bank enter into various commitments and contingent liabilities, as disclosed below. Even though these obligations are not recognised on the statements of financial position (being, off-balance sheet items), they are subject to credit risk and are, therefore, part of the overall risk of the Group and the Bank.

	The Group / The Bank	
	Not later than one year	
	2020	2019
	€000	€000
Loan commitments	**786,427**	757,638
Guarantees, acceptance and other financial facilities	**23,128**	22,855
	809,555	780,493

The Group is also exposed to credit risk arising from investments in debt securities and other financial instruments through its trading and investment activities including non-equity portfolio assets and derivatives as well as settlement balances with market counterparties, reverse repurchase agreements and balances with CBM.

The Group has a detailed Credit Risk Policy, which lays down the principles for the management of credit risk. The Group manages and controls its exposure to credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and connected entities, as well as by geographical and industry concentrations.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

44.2.1 Credit risk measurement

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

44.2.1.1 Credit risk grading

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses these grades in identifying significant increases in credit risk under IFRS 9. Credit risk grades are a primary input into the determination of the term structure of PD for exposures.

The Group use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as the level of collateral for retail exposures and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as information from the credit risk register. In addition, the models enable management overlay by the responsible person, to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Besides what is discussed in Note 2.1 in the context of COVID-19, the following are additional considerations for each type of portfolio held by the Group:

Retail

After the date of initial recognition, for retail business, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness, such as unemployment and previous delinquency history, is also incorporated into the internal credit rating system.

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.1 Credit risk measurement (Continued)

44.2.1.1 Credit risk grading (Continued)

Commercial

For commercial business, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as public financial statements. This will determine the updated internal credit rating.

Debt securities

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on historical realised default rates, as published by an external credit rating agency.

Syndicated loans

Similar to debt securities, syndicated loans are rated using an external rating agency credit grades. Again, these credit grades are frequently reviewed and monitored for immediate update where necessary.

The Group's internal gradings for loans and advances comprise of nine (9) rating levels including three (3) default classes, whilst the remaining rating levels represent exposures not in default. Each rating category is assigned a stage under IFRS 9, where the PDs differ according to which stage, the rating category falls under.

For debt securities and syndicated loans, PDs are obtained from market data provided by a third party. PDs are assigned to the instruments, according to their external credit rating, region and sector. The risk of default increase exponentially at each higher credit risk rating. This means that the difference in the PD between an A and A- rating grade is lower than the difference in the PD between a B and B- rating grade.

44.2.2 ECL measurement

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 in 'Stage 1' and has its credit risk continuously monitored by the Group.
- 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. Note 44.2.2.1 describes how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Note 44.2.2.2 describes how the Group defines credit-impairment and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis. Please refer to note 44.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 44.2.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

Further disclosure is also provided in note 44.2.2.5 on how the Group determines appropriate groupings when ECL is measured on a collective basis and in Note 2.1 in the context of COVID-19.

The below diagram summarises the impairment requirements under IFRS 9.

The key judgements and assumptions adopted by the Group in addressing the requirements of the standard are discussed in the following notes and in Note 2.1.

44.2.2.1 Significant Increase in Credit Risk (SICR)

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The main judgements that will be made by the Group in identifying whether a significant increase in credit risk has occurred for an exposure are as follows:

- For loans and advances to customers, the Group's internal credit risk grades will be used to assess whether there has been a significant increase in credit risk, performed by comparing the internal credit risk grades as at reporting date with the internal credit risk grades on initial recognition.
- For the loans and advances to banks and balances with CBM, the Group will apply the low credit risk simplification to all its exposures, thus to the extent that these investments are considered to be low credit risk, they are not subject to the significant increase in credit risk assessment.
- The investment and syndicated loans' portfolios are divided into two separate sub portfolios; Investment grade and Sub-Investment grade. The low credit risk simplification is applied for investment grade exposures, thus not subject to significant increase in credit risk assessment. For the sub-investment grade exposures, a one-notch downgrade in their respective external credit rating will be considered as a significant increase in credit risk.
- In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates; for financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
Initial Recognition	Significant increase in credit risk since initial recognition	Credit-impaired assets
12 month ECL	Lifetime ECL	Lifetime ECL

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.1 Significant Increase in Credit Risk (SICR) (Continued)

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument, together with its internal grading/credit rating on initial recognition. For certain revolving facilities (e.g. overdrafts), the date when the facility was first entered into, could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, as discussed in note 2.3 *Modification of loans*. In accordance with ESMA public statement: ''Accounting implications of the COVID-19 outbreak on the calculation of Expected Credit Losses in accordance with IFRS 9'' of 25 March 2020, which clarified that it is unlikely that the contractual changes resulting from these moratoria can be considered as substantial, the Group has not derecognised the related credit exposures.

Determining whether credit risk has increased significantly

The Group has established a framework that incorporates both quantitative and qualitative information to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Group's internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

Quantitative criteria:

For financial instruments other than the Group's investment portfolio, the Group will presumptively consider that a significant increase in credit risk occurs when the borrower is more than 30 days past due on its contractual payments. The Group will determine days past due by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In assessing whether a financial instrument has experienced a SICR, the Group also considers non-payments on connected accounts of the same issuer to the Group, which exceed 30 days.

Qualitative criteria:

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

If the borrower meets one or more of the following criteria, the internal grading of the credit facility falls due to a significant increase in credit risk i.e. transition to Stage 2:

- Excesses over an overdraft limit become fairly frequent and/or exceed the 30 days past due (latter automated in the core banking system);
- A pattern of cheques returned unpaid;
- Review of borrowing accounts overdue;
- Trading losses that indicate a negative financial trend leading to an unsound financial position;
- A significant downgrade from a superior credit rating;
- Significant decrease in collateral value which is expected to increase risk of default (for bullet repayment loans only, such as commercial property-for-resale and/or residential Bridge Loans repayable from sale of the same collateral); and
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans and/or non-collection of debtors/amounts due.

The assessment of SICR incorporates forward-looking information and is performed on a regular basis. More detail is provided in note 44.2.2.4.

The Group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The average time between the identification of a significant increase in credit risk and default appears reasonable; and
- Exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3).

The Group has used the low credit risk exemption for the investments' portfolio in the current and prior year, meaning that such financial instruments were not subject to the SICR test.

The Group reviewed its assessment of SICR during 2020 in order to take into account the effect of COVID-19, as explained in detail in note 2.1, pages 32 to 35.

44.2.2.2 Definition of default and credit impaired

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- with respect to loans and advances to customers, the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has either exceeded a sanctioned limit or has been advised of a limit that is smaller than the current balance outstanding; or
- with regards to investments' portfolio and syndicated loans' portfolio, a payment by the counterparty or issuer is more than 30 days past due.

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt financial assets carried at FVTOCI, loan commitments and financial guarantees are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

44.2 Credit risk (Continued)
44.2.2 ECL measurement (Continued)
44.2.2.2 Definition of default and credit impaired (Continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

44.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The 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.

ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD estimates are estimates at a certain date, which, for loans and advances to customers, loan commitments and financial guarantees, are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally-compiled data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. They are adjusted to reflect forward-looking information as described below. Market data, obtained from a third party service provider, is used for the PD of investment portfolio, balances with CBM and loans and advances to banks.
- EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical observations and forward-looking forecasts. For some financial assets, the Group determines EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates, against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the EIR as the discounting factor.

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

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

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are risk managed on an individual basis; these facilities are however collectively assessed for IFRS 9 purposes. Although the Group can cancel these facilities with immediate effect, this contractual right is not enforced in the normal day-to-day management, but rather only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

44.2.2.4 Forward looking information

Under IFRS 9, the Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The assessment of significant increase in credit risk and the calculation of ECL, both incorporate forward-looking information. The Group performs a historical analysis and identifies the key economic variables affecting credit risk and ECLs for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by financial instrument. The Group performs expert judgement in this process.

A third party provider has been engaged to provide, on a regular basis, the forecasted macro-economic scenarios covering a ten-year time horizon. The 'base line' scenario represents the most-likely outcome and is the same scenario considered by the Group for the purposes of strategic planning and budgeting. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios, which represent more optimistic and more pessimistic outcomes.

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)
44.2.2 ECL measurement (Continued)
44.2.2.4 Forward looking information (Continued)

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

The Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has analysed relationships between macro-economic variables and credit risk and credit losses. These key drivers include inflation rates, unemployment rates and GDP forecasts.

The following table illustrates the macro-economic indicators incorporated in the IFRS 9 model, for each macro-economic scenario, as at 31 December 2020;

		Scenarios					
		2020			2019		
	Macro-Economic Variables	**Baseline**	**Upside**	**Downside**	Baseline	Upside	Downside
Indicators	GDP (%)	**5.54**	**5.60**	**5.42**	5.33	5.34	5.30
	Inflation rates (%)	**4.42**	**5.08**	**3.67**	3.44	2.93	2.20
	Unemployment rates (%)	**5.48**	**5.35**	**5.75**	3.86	3.80	4.06

This above data is reviewed and updated on a quarterly basis, nevertheless, for the ECL calculation as at the reporting date, the latest macro-economic data available was incorporated within the IFRS 9 model.

44.2.2.5 Grouping shared risk characteristics

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The characteristics and any supplementary data used to determine groupings as follows;

- Product type (e.g. residential/buy to let mortgage, credit cards);
- Credit risk grades;
- Industry – taking into consideration external information;
- LTV ratio band;
- Repayment type (e.g. bullet cash flow type);
- Collateral type; and
- Geographic region of exposure.

The groupings selected by the Group are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous. During the period, the Group has performed a modification within the segmentation of the loans and advances to customers' portfolio, as there were no sufficient historical data for particular segments to produce accurate results and at present, the groups are classified as follows;

- Loans and advances to customers;
  a. Mortgages;
  b. Personal;
  c. Commercial;
- Loans and advances to banks;
- Debt instruments; and
- Syndicated loans.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.6 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

With respect to financial instruments which expose the Group to credit risk, the maximum exposure equals the carrying amount of these instruments, except for loan commitments and financial guarantees.

Credit risks exposures relating to the statements of financial position assets and off-balance sheet items are as follows:

	The Group		The Bank	
	Maximum exposure		Maximum exposure	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Cash and balances with Central Bank of Malta				
(excluding cash in hand)	**93,266**	151,178	**93,266**	151,178
Cheques in course of collection	**103**	128	**103**	128
Loans and advances to banks (net)	**51,068**	59,840	**46,281**	54,841
Loans and advances to customers (net)	**1,173,021**	1,022,680	**1,173,021**	1,022,680
Loans and advances to corporate entities (net)	**515,982**	435,463	**515,982**	435,463
Syndicated loans (net)	**113,152**	125,953	**113,152**	125,953
Derivative financial instruments	**499**	721	**499**	721
Other debt and fixed income instruments (net)	**315,983**	238,166	**315,983**	238,166
Financial assets at FVTPL	**50,636**	41,478	**251**	464
Other receivables	**8,619**	6,478	**7,974**	5,907
As at 31 December	**2,322,329**	2,082,085	**2,266,512**	2,035,501
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other contingent liabilities	**23,128**	22,855	**23,128**	22,855
Commitments	**786,427**	757,638	**786,427**	757,638
As at 31 December	**809,555**	780,493	**809,555**	780,493

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.7 Concentrations of risk

The Group Concentrations of risk	Financial Institu-tions €000	Manufac-turing €000	Real Estate €000	Wholsale and Retail Trade €000	Public Sector €000	Other Industries €000	Individu-als €000	Total €000
Cash and balances with Central Bank of Malta								
(excluding cash in hand) (gross)	93,271	-	-	-	-	-	-	93,271
Cheques in course of collection	103	-	-	-	-	-		103
Loans and advances to banks (gross)	51,117	-	-	-	-	-	-	51,117
Loans and advances to customers (gross)	5,506	23,846	204,547	39,503	11,525	301,610	1,123,341	1,709,878
Syndicated loans (gross)	32,721	48,461	-	9,998	2,441	20,927	-	114,548
Derivative financial instruments	499	-	-	-	-	-	-	499
Other debt and fixed income instruments (gross)	36,226	10,087	2,878	11,951	240,281	14,635	-	316,058
Financial assets at FVTPL	13,468	1,535	-	-	12,862	22,771	-	50,636
Other receivables	-	-	-	-	-	8,619	-	8,619
As at 31 December 2020	**232,911**	**83,929**	**207,425**	**61,452**	**267,109**	**368,562**	**1,123,341**	**2,344,729**
Financial guarantees and other contingent liabilities	687	358	8,275	1,359	-	9,719	2,730	23,128
Commitments	30,649	10,959	170,419	18,472	918	75,477	479,533	786,427
As at 31 December 2020	**31,336**	**11,317**	**178,694**	**19,831**	**918**	**85,196**	**482,263**	**809,555**

The Group Concentrations of risk	Financial Instititions €000	Manufac-turing €000	Real Estate €000	Wholsale and Retail Trade €000	Public Sector €000	Other Industries €000	Individu-als €000	Total €000
Cash and balances with Central Bank of Malta								
(excluding cash in hand) (gross)	151,178	-	-	-	-	-	-	151,178
Cheques in course of collection	128	-	-	-	-	-	-	128
Loans and advances to banks	59,840	-	-	-	-	-	-	59,840
Loans and advances to customers (gross)	6,238	22,085	190,584	39,993	12,890	227,805	974,420	1,474,015
Syndicated loans (gross)	62,882	25,945	-	10,042	7,139	21,206	-	127,214
Derivative financial instruments	721	-	-	-	-	-	-	721
Other debt and fixed income instruments (gross)	43,597	11,609	3,015	13,857	147,644	18,490	-	238,212
Financial assets at FVTPL	8,356	1,405	-	-	20,083	11,634	-	41,478
Other receivables	-	-	-	-	-	6,478	-	6,478
As at 31 December 2019	**332,940**	**61,044**	**193,599**	**63,892**	**187,756**	**285,613**	**974,420**	**2,099,264**
Financial guarantees and other contingent liabilities	3,731	199	10,694	1,658	-	4,288	2,285	22,855
Commitments	26,825	8,181	206,541	12,590	625	91,115	411,761	757,638
As at 31 December 2019	**30,556**	**8,380**	**217,235**	**14,248**	**625**	**95,403**	**414,046**	**780,493**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.7 Concentrations of risk (Continued)

The Bank Concentrations of risk	Financial Institu-tions €000	Manufac-turing €000	Real Estate €000	Wholsale and Retail Trade €000	Public Sector €000	Other Industries €000	Individu-als €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	93,271	-	-	-	-	-	-	93,271
Cheques in course of collection	103	-	-	-	-	-	-	103
Loans and advances to banks (gross)	46,330	-	-	-	-	-	-	46,330
Loans and advances to customers (gross)	5,506	23,846	204,547	39,503	11,525	301,610	1,123,341	1,709,878
Syndicated loans (gross)	32,721	48,461	-	9,998	2,441	20,927	-	114,548
Derivative financial instruments	499	-	-	-	-	-	-	499
Other debt and fixed income instruments (gross)	36,226	10,087	2,878	11,951	240,281	14,635	-	316,058
Financial assets at FVTPL	-	-	-	-	251	-	-	251
Other receivables	-	-	-	-	-	7,974	-	7,974
As at 31 December 2020	**214,656**	**82,394**	**207,425**	**61,452**	**254,498**	**345,146**	**1,123,341**	**2,288,912**
Financial guarantees and other contingent liabilities	687	358	8,275	1,359	-	9,719	2,730	23,128
Commitments	30,649	10,959	170,419	18,472	918	75,477	479,533	786,427
As at 31 December 2020	**31,336**	**11,317**	**178,694**	**19,831**	**918**	**85,196**	**482,263**	**809,555**

The Bank Concentrations of risk	Financial Institu-tions €000	Manufac-turing €000	Real Estate €000	Wholsale and Retail Trade €000	Public Sector €000	Other In-dustries €000	Individu-als €000	Total €000
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	151,178	-	-	-	-	-	-	151,178
Cheques in course of collection	128	-	-	-	-	-	-	128
Loans and advances to banks	54,841	-	-	-	-	-	-	54,841
Loans and advances to customers (gross)	6,238	22,085	190,584	39,993	12,890	227,805	974,420	1,474,015
Syndicated Loans (gross)	62,882	25,945	-	10,042	7,139	21,206	-	127,214
Derivative financial instruments	721	-	-	-	-	-	-	721
Other debt and fixed income instruments (gross)	43,597	11,609	3,015	13,857	147,644	18,490	-	238,212
Financial assets at FVTPL	-	-	-	-	464	-	-	464
Other receivables	-	-	-	-	-	5,907	-	5,907
As at 31 December 2019	**319,585**	**59,639**	**193,599**	**63,892**	**168,137**	**273,408**	**974,420**	**2,052,680**
Financial guarantees and other contingent liabilities	3,731	199	10,694	1,658	-	4,288	2,285	22,855
Commitments	26,825	8,181	206,541	12,590	625	91,115	411,761	757,638
As at 31 December 2019	**30,556**	**8,380**	**217,235**	**14,248**	**625**	**95,403**	**414,046**	**780,493**

44.2 Credit risk (Continued)
44.2.2 ECL measurement (Continued)
44.2.2.8 Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. Of the total loans and advances to customers, 88.04% (2019: 86.86%) were collateralised.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:
- Cash and securities;
- Government guarantees;
- Mortgages over residential properties, with the substantial majority being situated in Malta;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities, equities and insurance policies.

Longer-term finance and lending to corporate entities are generally secured, however, revolving personal credit facilities are, generally, unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds, which are mainly secured by residential mortgages.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use. During 2020, no new properties have been repossessed. During 2019, the Bank sold two properties with a value of €2.6 million and €0.1 million.

The Group also makes use of master netting agreements with counter parties. As at 31 December 2020 and 31 December 2019 there were no financial assets or liabilities arising from these agreements.

A portion of the Group's financial assets originated by the mortgage business has sufficiently low 'loan to value' (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's ECL model. The carrying amount of such financial assets is €981 million as at 31 December 2020 (2019 - €862 million).

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

The Group / The Bank 31 December 2020 Credit-impaired assets	Gross exposure €000	Impairment allowance €000	Carrying amount €000	Fair value of collateral held €000
Loans to individuals:				
- Overdraft	1,961	1,536	425	399
- Term loans	1,822	697	1,125	1,119
- Home loans	10,022	2,475	7,547	7,600
Loans to corporate entities:				
- Large corporate entities	-	-	-	-
- Small and medium-sized enterprises (SMEs)	31,682	11,531	20,151	20,759
- Other	-	-	-	-
Total credit-impaired assets	**45,487**	**16,239**	**29,248**	**29,877**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.8 Collateral and other credit enhancements (Continued)

The Group / The Bank 31 December 2019 Credit-impaired assets	Gross exposure €000	Impairment allowance €000	Carrying amount €000	Fair value of collateral held €000
Loans to individuals:				
- Overdraft	928	611	317	315
- Term loans	2,308	946	1,362	1,562
- Home loans	7,724	2,836	4,888	4,927
Loans to corporate entities:				
- Large corporate entities	-	-	-	-
- Small and medium-sized enterprises (SMEs)	32,224	10,656	21,568	22,527
- Other	-	-	-	-
Total credit-impaired assets	**43,184**	**15,049**	**28,135**	**29,331**

The Group / The Bank

The following table shows the distribution of LTV ratios for the Group's home loans and term loans credit-impaired portfolio:

	Credit-impaired (Gross carrying amount)	
	2020	2019
Home loans portfolio- LTV distribution	**€000**	€000
Lower than 50%	**3,901**	4,053
50 to 60%	**1,018**	321
60 to 70%	**582**	274
70 to 80%	**787**	479
80 to 90%	**1,870**	1,184
90 to 100%	**1,339**	1,066
Higher than 100%	**525**	347
Total	**10,022**	7,724

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.2 ECL measurement (Continued)

44.2.2.9 Credit quality

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVTOCI. Unless specifically indicated, for financial assets, the amount in the table represents gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in previous notes.

The Bank	12 month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
31 December 2020	**€000**	**€000**	**€000**	**€000**
Loans and advances to customers at amortised cost				
Grade 1-4: Low risk	1,308,717	-	-	1,308,717
Grades 5-6: Watch & substandard	-	355,675	-	355,675
Grade 7: Doubtful	-	-	21,150	21,150
Grade 8: Classified	-	-	24,336	24,336
Loss allowance	(589)	(4,047)	(16,239)	(20,875)
Carrying amount	**1,308,128**	**351,628**	**29,247**	**1,689,003**
Debt securities – At amortised cost				
Investment grade	104,007	-	-	104,007
Sub investment grade	300	-	-	300
Loss allowance	(75)	-	-	(75)
Carrying amount	**104,232**	**-**	**-**	**104,232**
Debt securities - FVTOCI				
Investment grade	209,342	-	-	209,342
Sub investment grade	1,683	726	-	2,409
Carrying amount	**211,025**	**726**	**-**	**211,751**
Syndicated loans				
Grade 1-4: Low risk (trade finance)	23,997	-	-	23,997
Investment grade	24,000	-	-	24,000
Sub investment grade	30,918	35,633	-	66,551
Loss allowance	(646)	(750)	-	(1,396)
Carrying amount	**78,269**	**34,883**	**-**	**113,152**
Cash and balances with Central Bank of Malta				
Investment grade	108,335	-	-	108,335
Sub investment grade	-	-	-	-
Loss allowance	(5)	-	-	(5)
Carrying amount	**108,330**	**-**	**-**	**108,330**
Loans and advances to banks				
Investment grade	46,302	-	-	46,302
Sub investment grade	28	-	-	28
Loss allowance	(49)	-	-	(49)
Carrying amount	**46,281**	**-**	**-**	**46,281**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)
44.2.2 ECL measurement (Continued)
44.2.2.9 Credit quality (Continued)

The Bank	12 month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
31 December 2019	€000	€000	€000	€000
Loans and advances to customers at amortised cost				
Grade 1-4: Low risk	1,422,619	-	-	1,422,619
Grades 5-6: Watch & substandard	-	8,211	-	8,211
Grade 7: Doubtful	-	-	18,009	18,009
Grade 8: Classified	-	-	25,176	25,176
Loss allowance	(699)	(123)	(15,049)	(15,871)
Carrying amount	**1,421,920**	**8,088**	**28,136**	**1,458,144**
Debt securities - At amortised cost				
Investment grade	79,317	-	-	79,317
Sub investment grade	300	-	-	300
Loss allowance	(46)	-	-	(46)
Carrying amount	**79,571**	**-**	**-**	**79,571**
Debt securities - FVTOCI				
Investment grade	157,470	-	-	157,470
Sub investment grade	1,125	-	-	1,125
Carrying amount	**158,595**	**-**	**-**	**158,595**
Syndicated loans				
Grade 1-4: Low risk	28,808			28,808
Investment grade	7,694	-	-	7,694
Sub investment grade	75,670	15,042	-	90,712
Loss allowance	(714)	(547)	-	(1,261)
Carrying amount	**111,458**	**14,495**	**-**	**125,953**

The following table provides an analysis of the performing and non-performing exposures of the Group's and Bank's lending portfolio:

The Group/The Bank	Total 2020 €000	Of which forborne 2020 €000	Total 2019 €000	Of which forborne 2019 €000
Performing				
Stage 1	**1,308,717**	**596**	1,418,680	4,255
Stage 2	**355,675**	**1,596**	13,766	924
Non-Performing				
Stage 3	**45,486**	**15,142**	41,569	15,983
Total gross/forborne exposures	**1,709,878**	**17,334**	**1,474,015**	**21,162**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance

The loss allowance recognised during the period is impacted by a variety of factors, as described below and in Note 2.1:

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

The Group/The Bank Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	699	123	15,049	15,871
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(119)	-	-	(119)
Transfer to stage 2	-	3,073	-	3,073
Transfer to stage 3	-	-	(49)	(49)
Write-offs	-	-	(215)	(215)
New financial assets originated or purchased	207	890	515	1,612
Financial assets derecognised during the period	(86)	(16)	(410)	(512)
(Decreases) / increases due to change in credit risk	(112)	(23)	1,349	1,214
Loss allowance as at 31 December 2020	**589**	**4,047**	**16,239**	**20,875**

The Group/The Bank Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2019 under IFRS 9	337	418	16,047	16,802
Movements in loss allowance				
Transfers:				
Transfer to stage 1	2	-	-	2
Transfer to stage 2	-	(250)	-	(250)
Transfer to stage 3	-	-	313	313
Write-offs	-	-	(1,539)	(1,539)
New financial assets originated or purchased	230	8	374	612
Financial assets derecognised during the period	(77)	(44)	(117)	(238)
Increases / (decreases) due to change in credit risk	207	(9)	(29)	169
Loss allowance as at 31 December 2019	**699**	**123**	**15,049**	**15,871**

44.2 Credit risk (Continued)
44.2.3 Loss allowance (Continued)

The Group/The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	46	-	-	46
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	16	-	-	16
Increases due to change in credit risk	13	-	-	13
Loss allowance as at 31 December 2020	**75**	**-**	**-**	**75**

The Group/The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2019 under IFRS 9	49	-	-	49
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	10	-	-	10
Financial assets derecognised during the period	(18)	-	-	(18)
Increases due to change in credit risk	7	-	-	7
Foreign exchange and other movements	(2)	-	-	(2)
Loss allowance as at 31 December 2019	**46**	**-**	**-**	**46**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance (Continued)

The Group/The Bank Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	143	-	-	143
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(9)	-	-	(9)
Transfer to stage 2	-	9	-	9
Transfer to stage 3	-	-	-	-
Write-offs		-	-	-
New financial assets originated or purchased	79	-	-	79
Financial assets derecognised during the period	(18)	-	-	(18)
Increases due to change in credit risk	42	-	-	42
Loss allowance as at 31 December 2020	**237**	**9**	**-**	**246**

The Group/The Bank Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2019 under IFRS 9	157	-	-	157
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	4	-	-	4
Financial assets derecognised during the period	(12)	-	-	(12)
Decreases due to change in credit risk	(6)	-	-	(6)
Loss allowance as at 31 December 2019	**143**	**-**	**-**	**143**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)
44.2.3 Loss allowance (Continued)

The Group/The Bank Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	714	547	-	1,261
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(115)	-	-	(115)
Transfer to stage 2	-	105	-	105
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	336	18	-	354
Financial assets derecognised during the period	(289)	(1)	-	(290)
Increases due to change in credit risk	19	62	-	81
Loss allowance as at 31 December 2020	**665**	**731**	**-**	**1,396**

The Group/The Bank Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2019 under IFRS 9	689	92	-	781
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(455)	-	-	(455)
Transfer to stage 2	-	455	-	455
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	331	-	-	331
Financial assets derecognised during the period	(107)	-	-	(107)
Increases due to change in credit risk	256	-	-	256
Loss allowance as at 31 December 2019	**714**	**547**	**-**	**1,261**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance (Continued)

The Group/The Bank Loans and advances to banks	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	-	-	-	-
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	5	-	-	5
Loss allowance as at 31 December 2020	**5**	**-**	**-**	**5**

The Group/The Bank Cash and balances with the Central Bank of Malta	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020 under IFRS 9	-	-	-	-
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	49	-	-	49
Loss allowance as at 31 December 2020	**49**	**-**	**-**	**49**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance (Continued)

The following tables further explain changes in the gross carrying amount of each portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

The Group/The Bank	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL (but not POCI)	**Total**
Loans and advances to customers at amortised cost	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2020	1,418,680	13,766	41,569	1,474,015
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(262,260)	-	-	(262,260)
Transfer to stage 2	-	253,416	-	253,416
Transfer to stage 3	-	-	5,046	5,046
Write-offs			(215)	(215)
New financial assets originated or purchased	278,772	89,284	1,357	369,413
Financial assets derecognised during the period	(135,241)	(672)	(2,495)	(138,408)
Increases / (decreases) due to changes in credit risk	8,767	(120)	224	8,871
Gross carrying amount as at 31 December 2020	**1,308,718**	**355,674**	**45,486**	**1,709,878**

The Group/The Bank	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL (but not POCI)	**Total**
Loans and advances to customers at amortised cost	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2019	1,202,105	18,245	50,335	1,270,685
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(2,201)	-	-	(2,201)
Transfer to stage 2	-	(379)	-	(379)
Transfer to stage 3	-	-	(17)	(17)
Write-offs	-	-	(1,539)	(1,539)
New financial assets originated or purchased	341,756	348	1,398	343,502
Financial assets derecognised during the period	(124,053)	(4,126)	(6,521)	(134,700)
Increases / (decreases) due to changes in credit risk	1,073	(322)	(2,087)	(1,336)
Gross carrying amount as at 31 December 2019	**1,418,680**	**13,766**	**41,569**	**1,474,015**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance (Continued)

The Group/The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	79,617	-	-	79,617
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs				
New financial assets originated or purchased	27,359	-	-	27,359
Financial assets derecognised during the period	(2,000)	-	-	(2,000)
Changes to modifications that did not result in derecognition	(669)	-	-	(669)
Gross carrying amount as at 31 December 2020	**104,307**	**-**	**-**	**104,307**

The Group/The Bank Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2019	85,905	-	-	85,905
Movements in loss allowance				
Transfers:				
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	15,114	-	-	15,114
Financial assets derecognised during the period	(20,649)	-	-	(20,649)
Changes to modifications that did not result in derecognition	(753)	-	-	(753)
Changes in model/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Gross carrying amount as at 31 December 2019	**79,617**	**-**	**-**	**79,617**

44. RISK MANAGEMENT (CONTINUED)

44.2 Credit risk (Continued)

44.2.3 Loss allowance (Continued)

The Group/The Bank **Syndicated loans**	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	112,172	15,042	-	127,214
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(16,524)	-	-	(16,524)
Transfer to stage 2	-	16,524	-	16,524
Transfer to stage 3				
Write-offs				
New financial assets originated or purchased	44,179	4,111	-	48,290
Financial assets derecognised during the period	(59,406)	(44)	-	(59,450)
Changes in model/risk parameters	(100)	(1,420)	-	(1,520)
Foreign exchange and other movements	14	-	-	14
Gross carrying amount as at 31 December 2020	**80,335**	**34,213**	**-**	**114,548**

The Group/The Bank **Syndicated loans**	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2019	57,502	5,000	-	62,502
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(10,042)	-	-	(10,042)
Transfer to stage 2	-	10,042	-	10,042
Transfer to stage 3	-	-	-	-
Write-offs	-	-	-	-
New financial assets originated or purchased	74,882	-	-	74,882
Financial assets derecognised during the period	(10,227)	-	-	(10,227)
Foreign exchange and other movements	57	-	-	57
Gross carrying amount as at 31 December 2019	**112,172**	**15,042**	**-**	**127,214**

44.2 Credit risk (Continued)

44.2.4 Write-off policy

The Group 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. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- situations where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group does not have any enforcement activities on written-off activities, meaning that the Group does not seek to recover amounts which it is legally owed in full, once these are written off.

44.2.5 Modification of financial assets

The Group sometimes modifies the terms of loans provided to customers. The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified but the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- internal grading/credit rating at the reporting date based on the modified terms; with
- internal grading/credit rating on initial recognition at the original contractual terms.

The Group renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if:

- the debtor is currently in default on its debt or if there is a high risk of default;
- there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms; and
- the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, revision of interest rate, or changing the timing of interest payments. Both retail and corporate loans are subject to the forbearance policy. The appropriate committee, depending on the facility amount and type of facility, reviews reports on forborne facilities on a regular basis.

For financial assets modified as part of the Group's forbearance policy, the credit grading will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of one year before the exposure is no longer considered to be in default/credit-impaired.

44.3 Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due. To limit this risk, the Group has arranged for diversified funding sources. The Group also manages this risk by matching the maturities of assets and liabilities.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow.

The disclosures made in the financial statements showing maturities are intended to show the timing of cash flows arising from assets and liabilities.

In November 2020, the Group issued €55,000,000 3.25% Unsecured Subordinated Bonds 2025-2030. Further disclosure on these subordinated bonds is included in Note 44.6 ('Capital Management'). The issuance of the bonds had a minimal impact on the Group's liquidity position.

The Group's Liquidity Coverage Ratio (LCR) remained relatively stable and within the Bank's risk appetite and applicable regulatory limit. Further information on the LCR is included in the 'Capital Adequacy and Risk Disclosures Report'. The proceeds from the subordinated bond were applied in two areas: (i) investment grade assets within the Group's investments portfolio and (ii) the lending portfolio.

The following table analyses the assets and liabilities into relevant maturity groupings, based on the remaining period to the contractual maturity date. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table below does not reflect the expected cash flows indicated by its deposit retention history.

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

The Group	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2020						
Assets						
Cash and balances with Central Bank of Malta	108,330	-	-	-	-	108,330
Cheques in course of collection	103	-	-	-	-	103
Loans and advances to banks	51,068	-	-	-	-	51,068
Loans and advances to customers (net)	16,670	104,519	120,788	1,447,026	-	1,689,003
Syndicated loans (net)	3,501	38,607	59,053	11,991	-	113,152
Derivative financial instruments	-	122	377	-	-	499
Other debt and fixed income instruments (net)	1,663	12,454	145,480	156,386	-	315,983
Financial assets at FVTPL	446	432	11,504	22,383	15,871	50,636
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in associates	-	-	-	-	18,641	18,641
Other assets	7,556	1,061	-	-	64,648	73,265
	189,337	**157,195**	**337,202**	**1,637,786**	**99,463**	**2,420,983**
Liabilities and equity						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,444,788	286,996	379,201	12,461	-	2,123,446
Debt securities in issue	-	-	-	54,558	-	54,558
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,790	1,110	2,488	382	15,822	21,592
Equity	-	-	-	-	206,219	206,219
	1,446,588	**298,070**	**383,809**	**70,475**	**222,041**	**2,420,983**
Gap	**(1,257,251)**	**(140,875)**	**(46,607)**	**1,567,311**	**(122,578)**	**-**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

The Group	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2019						
Assets						
Cash and balances with Central Bank of Malta	162,403	-	-	-	-	162,403
Cheques in course of collection	128	-	-	-	-	128
Loans and advances to banks	59,840	-	-	-	-	59,840
Loans and advances to customers (net)	16,631	109,581	104,026	1,227,906	-	1,458,144
Syndicated loans (net)	6,290	68,511	46,637	4,515	-	125,953
Derivative financial instruments	-	-	554	167	-	721
Other debt and fixed income instruments (net)	7,329	18,012	114,806	98,019	-	238,166
Financial assets at FVTPL	202	356	12,936	22,398	5,586	41,478
Equity and other non-fixed income instruments	-	-	-	-	308	308
Investment in associates	-	-	-	-	19,257	19,257
Other assets	5,472	1,005	-	-	56,054	62,531
	258,295	**197,465**	**278,959**	**1,353,005**	**81,205**	**2,168,929**
Liabilities and equity						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,283,878	267,398	340,233	37,462	-	1,928,971
Lease liabilities	8	356	922	1,343	-	2,629
Other liabilities	1,015	924	2,399	366	15,477	20,181
Equity	-	-	-	-	191,915	191,915
	1,309,413	**268,678**	**344,108**	**39,338**	**207,392**	**2,168,929**
Gap	**(1,051,118)**	**(71,213)**	**(65,149)**	**1,313,667**	**(126,187)**	**-**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

The Bank	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2020						
Assets						
Cash and balances with Central Bank of Malta	108,330	-	-	-	-	108,330
Cheques in course of collection	103	-	-	-	-	103
Loans and advances to banks	46,281	-	-	-	-	46,281
Loans and advances to customers (net)	16,670	104,519	120,788	1,447,026	-	1,689,003
Syndicated loans (net)	3,501	38,607	59,053	11,991	-	113,152
Derivative financial instruments	-	122	377	-	-	499
Other debt and fixed income instruments (net)	1,663	12,454	145,480	156,386	-	315,983
Financial assets at FVTPL	251	-	-	-	-	251
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in subsidiaries	-	-	-	-	45,250	45,250
Investment in associates	-	-	-	-	15,262	15,262
Other assets	6,681	1,061	-	-	64,878	72,620
	183,480	**156,763**	**325,698**	**1,615,403**	**125,693**	**2,407,037**
Liabilities and equity						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,445,491	286,996	379,201	12,461	-	2,124,149
Debt securities in issue	-	-	-	54,558	-	54,558
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,743	1,110	2,488	382	15,752	21,475
Equity	-	-	-	-	191,687	191,687
	1,447,244	**298,070**	**383,809**	**70,475**	**207,439**	**2,407,037**
Gap	**(1,263,764)**	**(141,307)**	**(58,111)**	**1,544,928**	**(81,746)**	**-**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

The Bank	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2019						
Assets						
Cash and balances with Central Bank of Malta	162,403	-	-	-	-	162,403
Cheques in course of collection	128	-	-	-	-	128
Loans and advances to banks	54,841	-	-	-	-	54,841
Loans and advances to customers (net)	16,631	109,581	104,026	1,227,906	-	1,458,144
Syndicated loans (net)	6,290	68,511	46,637	4,515	-	125,953
Derivative financial instruments	-	-	554	167	-	721
Other debt and fixed income instruments (net)	7,329	18,012	114,806	98,019	-	238,166
Financial assets at FVTPL	202	-	262	-	-	464
Equity and other non-fixed income instruments	-	-	-	-	308	308
Investment in subsidiaries	-	-	-	-	40,250	40,250
Investment in associates	-	-	-	-	15,262	15,262
Other assets	4,681	1,005	-	-	56,272	61,958
	252,505	**197,109**	**266,285**	**1,330,607**	**112,092**	**2,158,598**
Liabilities and equity						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,284,411	267,398	340,233	37,462	-	1,929,504
Lease liabilities	8	356	922	1,343	-	2,629
Other liabilities	1,005	924	2,399	366	15,436	20,130
Equity	-	-	-	-	181,102	181,102
	1,309,936	**268,678**	**344,108**	**39,338**	**196,538**	**2,158,598**
Gap	**(1,057,431)**	**(71,569)**	**(77,823)**	**1,291,269**	**(84,446)**	**-**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2020 and 31 December 2019 based on contractual undiscounted repayment obligations:

The Group	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2020						
Liabilities						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,449,431	292,734	381,837	13,024	-	2,137,026
Debt securities in issue	-	-	-	72,433	-	72,433
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,790	1,110	2,488	382	15,822	21,592
	1,451,231	**303,808**	**386,445**	**88,913**	**15,822**	**2,246,219**

The Group	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2019						
Liabilities						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,308,644	267,803	342,677	38,340	-	1,957,464
Lease liabilities	8	407	1,036	1,544	-	2,995
Other liabilities	1,015	924	2,399	366	15,477	20,181
	1,334,179	**269,134**	**346,666**	**40,417**	**15,477**	**2,005,873**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

Analysis of financial liabilities by remaining contractual maturities (Continued)

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2020 and 31 December 2019 based on contractual undiscounted repayment obligations:

The Bank	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2020						
Liabilities						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,450,134	292,734	381,837	13,024	-	2,137,729
Debt securities in issue	-	-	-	72,433	-	72,433
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,743	1,110	2,488	382	15,752	21,475
	1,451,887	**303,808**	**386,445**	**88,913**	**15,752**	**2,246,805**

The Bank	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
At 31 December 2019						
Liabilities						
Amounts owed to banks	24,512	-	-	-	-	24,512
Derivative financial instruments	-	-	554	167	-	721
Amounts owed to customers	1,309,174	267,803	342,677	38,340	-	1,957,994
Lease liabilities	8	407	1,036	1,544	-	2,995
Other liabilities	1,005	924	2,399	366	15,436	20,130
	1,334,699	**269,134**	**346,666**	**40,417**	**15,436**	**2,006,352**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

Asset Encumberance

In accordance with Appendix 3 of BR07/2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994* and the CRR, credit institutions shall ensure compliance with the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets.

The Group's encumbered assets relate to debt securities which are pledged in favour of the European Central Bank for the purposes of existing and potential long term re-financing operations and also cash in favour of the Depositor Compensation Scheme.

The Group	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets as at 31 December 2020	**€000**	**€000**	**€000**	**€000**
Equity instruments	-	-	18,944	554
Debt securities	159,873	171,054	206,745	164,790
Other assets	1,400	-	2,034,021	-
Assets of the reporting institutions	**161,273**	**171,054**	**2,259,710**	**165,344**

The Group	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets as at 31 December 2019	**€000**	**€000**	**€000**	**€000**
Equity instruments	-	-	19,565	934
Debt securities	125,697	134,448	153,945	119,305
Other assets	1,400	-	1,868,321	-
Assets of the reporting institutions	**127,097**	**134,448**	**2,041,831**	**120,239**

44. RISK MANAGEMENT (CONTINUED)

44.3 Liquidity risk (Continued)

Asset Encumberance (Continued)

The Bank Assets as at 31 December 2020	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	60,815	554
Debt securities	151,537	162,718	164,696	164,790
Other assets	1,400	-	2,028,589	-
Assets of the reporting institutions	**152,937**	**162,718**	**2,254,100**	**165,344**

The Bank Assets as at 31 December 2019	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	55,820	934
Debt securities	119,244	127,995	119,384	119,305
Other assets	1,400	-	1,862,750	-
Assets of the reporting institutions	**120,644**	**127,995**	**2,037,954**	**120,239**

In the above table, the unencumbered assets disclosed under *Other Assets* include loans and advances, cash and short- term funds, property, plant and equipment, tax assets and other assets.

The table below discloses the liabilities associated with the Bank's encumbered assets.

	The Group		The Bank	
	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
Encumbered assets/collateral received and associated liabilities as at 31 December 2020	€000	€000	€000	€000
Carrying amount of selected financial liabilities	1,108,909	161,273	1,108,909	152,937

	The Group		The Bank	
	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
Encumbered assets/collateral received and associated liabilities as at 31 December 2019	€000	€000	€000	€000
Carrying amount of selected financial liabilities	931,449	127,097	931,449	120,644

44. RISK MANAGEMENT (CONTINUED)

44.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and the prices of equities, bonds and commodities.

The Group's exposure to market risk is mainly in the form of interest rate risk and foreign exchange risk. The risk associated with the Group's exposure in equities is not considered to be material. Also, as disclosed in Note 17, the Bank enters into derivative contracts to economically hedge against movement in certain cash flows on financial liabilities having embedded derivatives which are separately accounted for.

44.4.1 Interest rate risk

Interest rate risk is the risk of the exposure of the Group's financial condition to unfavourable movements in interest rates.

The Group manages its exposure to interest rate risk using interest rates repricing gaps and both economic value and earnings based measures. The Group's interest rate risk management framework is in line with the relevant guidelines issued by the EBA, which came into force as from 30 June 2019. Further information is provided in the Capital Adequacy and Risk Disclosures Report.

The following tables show the impact on the Group's economic value and net interest income under different interest rate scenarios, as mandated by the relevant EBA Guidelines.

Sensitivity of reported equity to interest rates movements	Parallel shock up	Parallel shock down	Short rates up	Short rates down	Steepener	Flattener
At 31 December 2020	€000	€000	€000	€000	€000	€000
Average for the period	(2,107)	1,960	(16,903)	3,668	14,663	(16,215)
Maximum for the period	9,148	3,510	(14,178)	4,899	18,414	(12,555)
Minimum for the period	(11,423)	(1,592)	(21,698)	1,406	9,892	(18,701)

Sensitivity of reported equity to interest rates movements	Parallel shock up	Parallel shock down	Short rates up	Short rates down	Steepener	Flattener
At 31 December 2019	€000	€000	€000	€000	€000	€000
Average for the period	(6,313)	1,411	(12,732)	4,310	8,783	(11,630)
Maximum for the period	(5,121)	1,757	(12,112)	5,391	9,614	(11,191)
Minimum for the period	(7,562)	816	(13,228)	3,707	8,217	(12,306)

44.4 Market risk (Continued)

44.4.1 Interest rate risk (Continued)

Sensitivity of projected net interest rate income to interest rates movements	Parallel shock up	Parallel shock down
At 31 December 2020	**€000**	**€000**
Average for the period	619	(188)
Maximum for the period	1,693	(56)
Minimum for the period	80	(415)

The range between the 'Maximum' and 'Minimum' projected net interest income above is partly attributed to enhancements which were carried out to the underlying model during the financial year ending 31 December 2020.

Sensitivity of projected net interest rate income to interest rates movements	Parallel shock up	Parallel shock down
At 31 December 2019	**€000**	**€000**
Average for the period	219	(90)
Maximum for the period	608	(36)
Minimum for the period	129	(209)

The below tables set out interest sensitive assets and liabilities categorised by repricing dates.

The Group	Up to 1 year	1 – 5 years	5 – 10 years	More than 10 years	Others
At 31 December 2020	**€000**	**€000**	**€000**	**€000**	**€000**
Assets					
Cash and balances with Central Bank of Malta	76,650	-	-	-	-
Loans and advances to banks	51,068	-	-	-	-
Loans and advances to customers	1,472,719	210,951	1,276	4,057	-
Syndicated loans	113,152	-	-	-	-
Financial assets at FVTPL	2,746	19,752	18,200	403	9,535
Debt securities	14,118	145,480	131,150	25,235	-
	1,730,453	**376,183**	**150,626**	**29,695**	**9,535**
Liabilities					
Amounts owed to banks	9,304	-	-	-	-
Amounts owed to customers	1,116,045	994,548	12,253	600	-
Debt securities in issue	-	54,558	-	-	-
	1,125,349	**1,049,106**	**12,253**	**600**	**-**
Net interest rate risk GAP at 31 December 2020	**605,104**	**(672,923)**	**138,373**	**29,095**	**9,535**

44. RISK MANAGEMENT (CONTINUED)

44.4 Market risk (Continued)

44.4.1 Interest rate risk (Continued)

The Group At 31 December 2019	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000	Others €000
Assets					
Cash and balances with Central Bank of Malta	136,776	-	-	-	-
Loans and advances to banks	59,840	-	-	-	-
Loans and advances to customers	1,209,254	247,932	433	525	-
Syndicated loans	125,953	-	-	-	-
Financial assets at FVTPL	2,249	16,335	18,476	300	4,118
Debt securities	25,341	114,806	50,771	47,248	-
	1,559,413	**379,073**	**69,680**	**48,073**	**4,118**
Liabilities					
Amounts owed to banks	24,512	-	-	-	-
Amounts owed to customers	1,128,810	761,949	38,213	-	-
	1,153,322	**761,949**	**38,213**	**-**	**-**
Net interest rate risk GAP at 31 December 2019	**406,091**	**382,876**	**31,467**	**48,073**	**4,118**

The Bank At 31 December 2020	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000	Others €000
Assets					
Cash and balances with Central Bank of Malta	76,650	-	-	-	-
Loans and advances to banks	46,281	-	-	-	-
Loans and advances to customers	1,472,719	210,951	1,276	4,057	-
Syndicated loans	113,152	-	-	-	-
Financial assets at FVTPL	251	-	-	-	-
Debt securities	14,118	145,480	131,150	25,235	-
	1,723,171	**356,431**	**132,426**	**29,292**	**-**
Liabilities					
Amounts owed to banks	9,304	-	-	-	-
Amounts owed to customers	1,116,748	994,548	12,253	600	-
Debt securities in issue	-	54,558	-	-	-
	1,126,052	**1,049,106**	**12,253**	**600**	**-**
Net interest rate risk GAP at 31 December 2020	**597,119**	**(692,675)**	**120,173**	**28,692**	**-**

44. RISK MANAGEMENT (CONTINUED)

44.4 Market risk (Continued)
44.4.1 Interest rate risk (Continued)

The Bank	**Up to 1 year**	**1 – 5 years**	**5 – 10 years**	**More than 10 years**	**Others**
At 31 December 2019	**€000**	**€000**	**€000**	**€000**	**€000**
Assets					
Cash and balances with Central Bank of Malta	136,776	-	-	-	-
Loans and advances to banks	54,841	-	-	-	-
Loans and advances to customers	1,209,254	247,932	433	525	-
Syndicated loans	125,953	-	-	-	-
Financial assets at FVTPL	202	262	-	-	-
Debt securities	25,341	114,806	50,771	47,248	-
	1,552,367	**363,000**	**51,204**	**47,773**	**-**
Liabilities					
Amounts owed to banks	24,512	-	-	-	-
Amounts owed to customers	1,129,343	761,949	38,213	-	-
	1,153,855	**761,949**	**38,213**	**-**	**-**
Net interest rate risk GAP at 31 December 2019	**398,512**	**(398,949)**	**12,991**	**47,773**	**-**

The carrying amount of assets and liabilities that carry a variable interest rate is €1.5 billion and €1.3 billion, respectively (2019: €1.4 billion and €1.1 billion).

44.4.2 Currency risk

Currency risk is the risk of the exposure of the Group's financial position, financial performance and cash flow to unfavourable movements in foreign exchange rates.

The Group's financial assets and liabilities are substantially held in Euro. Limits are set on the level of exposure, both by individual currency and in total. The exposure is also monitored through regular sensitivity analysis.

The aggregate amount of assets and liabilities denominated in foreign currencies translated into Euro are as follows:

	2020			
	USD	**GBP**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**
Assets	**32,447**	**39,661**	**18,470**	**90,578**
Liabilities	**32,445**	**39,656**	**18,291**	**90,392**

	2019			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	41,667	46,899	15,749	104,316
Liabilities	41,228	46,939	15,626	103,792

The minimal currency exposure is not expected to leave any significant impact on the Group's income.

Additional disclosures on currency composition of year-end balances is disclosed in notes 14, 15, 16, 18, 19, 20, 29 and 30.

44. RISK MANAGEMENT (CONTINUED)

44.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including internal audit verifications. Further information on the Group's exposure to operational risk, and the management thereof, is included in the 'Capital Adequacy and Risk Disclosures' Report.

44.6 Capital management

The Group continuously aims at building and sustaining a strong capital base and at applying it efficiently throughout its activities to attain its strategic objectives, optimise shareholder value whilst ensuring the sustainability of the Bank's business model and risk profile. A strong and prudent capital base is one of the pillars of the Group's business model and maintaining adequate capital ratios will continue being key to enable the Group to steer through currently challenging economic conditions.

During the year under review, European and national authorities took swift measures to address the impact on the financial sector of the coronavirus pandemic. In March 2020, the ECB Banking Supervision Unit announced a number of temporary capital and operational relief measures to ensure that banks could continue to fulfil their role in funding the real economy amidst the impact of the COVID-19. Banks were allowed, amongst other measures, to fully use capital and liquidity buffers, including Pillar 2 Guidance (P2G). Banks also benefited from relief in the composition of capital for Pillar 2 requirements.

Notwithstanding the above measures, during 2020 the Group operated at all times above the level of capital including the capital buffers. Further information on the capital buffers is included in the 'Capital Adequacy and Risk Disclosures' Report.

Further to the above, the ECB recommended that banks exercise extreme prudence on dividends and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions to the recommended prudent amounts, until 30 September 2021.

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process (ICAAP), in compliance with Banking Rule BR/12/2014 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994, as mandated by the Capital Requirements Directive. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. This process takes into consideration Pillar I risks, as well as other material risks (Pillar II risks) including concentration risk, interest rate risk and reputational risk. Thus, the ICAAP serves as a key decision-making tool. The ICAAP demonstrated that the Group is well capitalised. The document was approved by the Board of Directors and submitted to the MFSA.

Further information on the Group's capital position may be found in the Capital Adequacy and Risk Disclosures Report which is prepared in line with the Pillar III requirements of Banking Rule BR/07/2014 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act, and governed by the Capital Requirements Regulation (CRR).

The capital adequacy ratio measures the Group's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Capital Requirements Regulation and Capital Requirements Directive IV. During the year under review, the Group has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Group as at the reporting date.

44. RISK MANAGEMENT (CONTINUED)

44.6 Capital management (Continued)

	The Group		The Bank	
	2020	2019	**2020**	2019
	€000	€000	**€000**	€000
Adjusted book value	**2,505,549**	2,183,744	**2,491,603**	2,173,414
Risk weighted amounts:				
Credit risk calculation - standardised approach	**1,149,649**	1,023,481	**1,140,147**	1,016,425
Operational risk - basic indicator approach	**101,244**	84,340	**100,956**	84,207
Foreign exchange risk	**187**	563	**187**	563
Total credit, operational and foreign exchange risk	**1,251,080**	1,108,384	**1,241,290**	1,101,195
CET 1 / Tier 1 Capital	**189,437**	179,123	**174,915**	168,317
Tier 2 Capital	**54,558**	-	**54,558**	-
Total Own Funds	**243,995**	179,123	**229,473**	168,317
Capital Adequacy Ratio				
Tier 1 Ratio	**15.14%**	16.16%	**14.09%**	15.28%
Total Capital Ratio	**19.50%**	16.16%	**18.49%**	15.28%

* The original own funds calculation comprises retained earnings which are adjusted to exclude the amount specified in favour of the Depositor's Compensation Scheme Reserve in line with the legislation (note 19).

** For the year under review, the Bank decided to revise the Credit Conversion Factor (CCF) of undrawn credit facilities for particular products from 0% applied in previous years, to 50%. This had an impact on the Bank's Risk Weighted Assets.

*** The Group' capital is composed of Common Equity Tier 1 (CET 1) and Tier 2 capital instruments, as defined by the CRR. CET 1 capital is the highest quality capital and, therefore, the most effective in absorbing losses. The Group's capital is mainly composed of CET 1 capital, which primarily consists of ordinary share capital and retained earnings.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange with the listing of €55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. The subordinated bond qualifies as Tier 2 Capital, which rank after the claims of all depositors (including financial institutions) and all other creditors.

Further information on the composition and features of the Bank's capital instruments is provided in the tables overleaf.

No changes were made in the objectives, policies and processes governing the Group's capital management from the previous years.

44. RISK MANAGEMENT (CONTINUED)

44.6 Capital management (Continued)

The Group	2020 €000	2019 €000
CET1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	**72,395**	72,395
Retained earnings	**82,386**	75,834
Accumulated other comprehensive income	**32,260**	30,706
Funds for general banking risk	**1,700**	1,700
Non-controlling interest	**9,828**	6,029
	198,569	186,664
CET1 capital: regulatory adjustments		
Intangible assets	**(8,849)**	(7,320)
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016/101	**(283)**	(221)
	(9,132)	(7,541)
Common Equity Tier 1 / CET1 capital	**189,437**	179,123
Tier 2 capital		
Debt securities in issue	**54,558**	-
Total Capital	**243,995**	179,123
Total Risk Weighted Assets	**1,251,080**	1,108,384
Capital Ratios		
CET1 / Tier 1 Capital Ratio	**15.14%**	16.16%
Total Capital Ratio	**19.50%**	16.16%

Amounts below the thresholds for deduction:		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have significant investments in those entities (not included in CET 1 capital)	**6,693**	6,447

44.6 Capital management (Continued)

The Bank	2020 €000	2019 €000
CET1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	**72,395**	72,395
Retained earnings	**77,683**	71,051
Accumulated other comprehensive income	**32,260**	30,706
Funds for general banking risk	**1,700**	1,700
	184,038	175,852
CET1 capital: regulatory adjustments		
Intangible assets	**(8,848)**	(7,318)
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016/101	**(275)**	(217)
	(9,123)	(7,535)
Common Equity Tier 1 (CET1) capital	**174,915**	168,317
Tier 2 capital		
Debt securities in issue	**54,558**	-
Total Capital	**229,473**	168,317
Total Risk Weighted Assets	**1,241,290**	1,101,195
Capital Ratios		
CET1 / Tier 1 Capital Ratio	**14.09%**	15.28%
Total Capital Ratio	**18.49%**	15.28%
Amounts below the thresholds for deduction:		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have significant investments in those entities (not included in CET 1 capital)	**6,693**	6,447

44. RISK MANAGEMENT (CONTINUED)

44.6 Capital management (Continued)

In line with the CRR, the following table discloses the main features and the terms and conditions of Bank's Tier 1 and Tier 2 instruments.

Capital instruments main features		
Issuer	APS Bank plc	APS Bank plc
Unique identifier	213800A10379I6DMCU10	213800A10379I6DMCU10
Governing law(s) of the instrument	Maltese law	Maltese law
Regulatory treatment		
Transitional CRR rules	CET 1	Tier 2
Post-transitional CRR rules	CET 1	Tier 2
Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated	Solo & consolidated	Solo & consolidated
Instrument type	Ordinary shares	Debt securities in issue
Amount recognised in regulatory capital	62,255	55,000
Nominal amount of instrument	62,255	55,000
Issue price	N/A	55,000
Redemption price	N/A	100
Accounting classification	Shareholder's equity	Amortised cost
Original date of issuance	1 June 1970*	19 November 2020
Perpetual or dated	Perpetual	Dated
Original maturity date	No	19 November 2030
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	No	19 November 2025 at 100
Subsequent call dates, if applicable	No	19 November 2026, 19 November 2027, 19 November 2028, 19 November 2029
Coupons / dividends		
Fixed or floating dividend/coupon	Floating	Fixed
Coupon rate and any related index	N/A	3.25%, no index
Existence of a dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Convertible
Write-down features	No	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to creditors and depositors	Subordinated to creditors, senior secured and depos-itors
Non-compliant transitioned features	No	N/A

*Various, latest date of capital injection was 28 May 2019.

44. RISK MANAGEMENT (CONTINUED)

44.6 Capital management (Continued)

Full Reconciliation of Own Funds Items to Audited Financial Statements of the Group as at 31 December 2020 is presented below:

	Balance in accordance with IFRS €000	Reconciling items €000	Balance in accordance with regulatory scope €000
Share capital (note 34)	62,255	-	62,255
Debt securities in issue (note 31)	54,558	-	54,558
Share premium (note 35)	10,140	-	10,140
Revaluation reserve (note 36)	32,260	-	32,260
Retained earnings (note 37)	91,736	(7,650)	84,086
of which general banking reserves (note 37)	1,700	-	1,700
of which general reserve	1	-	1
Intangible assets (note 25)	8,849	-	8,849
Prudent valuation adjustment	-	(283)	(283)
Non-controlling interest (note 38)	9,828	-	9,828

45. SUBSEQUENT EVENTS

In January 2021, the Group made an additional investment of capital of €1.5 million in IVALIFE Insurance Limited, bringing the total cost of investment to €1.9m. The Group holds a 25% shareholding in the company.

In February 2021, the Malta Financial Services Authority gave its authorisation in terms of the Insurance Business Act to IVALIFE Insurance Limited to write long-term business in relation to risks situated in Malta for Class I (Life and Annuity) and Class III (Linked long-term).

46. ULTIMATE CONTROLLING PARTY

The financial statements of APS Bank plc are included in the consolidated financial statements of AROM Holdings Limited, a company registered in Malta, a copy of which can be obtained from the Registry of Companies. The Bank's immediate parent is AROM Holdings Limited. The ultimate controlling party of APS Bank plc is the Archdiocese of Malta.

The registered address of both AROM Holdings Limited and the Archdiocese of Malta is Archbishop's Curia, St. Calcedonius Square, Floriana.

47. COMPARATIVE INFORMATION

Certain items of the comparative period have been reclassified to conform to the presentation of the current year's financial statements. These include reclassifications under Notes 9, 13, 14, 15, 16 and 44.

Capital Adequacy and Risk Disclosures Report

1. INTRODUCTION

This report provides an overview of the regulatory capital and risk management practices and exposures of APS Bank Group (hereafter 'the Group') in line with Pillar 3 of the Basel framework. Pillar 3 of the Basel framework aims to promote financial market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

The Pillar 3 disclosures within this report are prepared in line with Banking Rule BR/07/2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994* and governed by Part Eight of the Capital Requirements Regulation (CRR) No. 575/2013. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published guidelines on disclosure requirements under Part Eight of the CRR. This information is published annually. Reference was also made to Pillar 3 disclosures requirements published by the Basel Committee on Banking Supervision and which were last updated in December 2018.

This report is not subject to external audit, with the exception of any disclosures that are equivalent to those made in the 2020 Financial Statements, which adhere to International Financial Reporting Standards as adopted by the European Union (EU IFRSs). However, this report has undergone comprehensive internal review and has been approved by the Group's Risk Committee and the Board of Directors (hereafter referred to as 'the Board'). A reference has been added in cases where additional information addressing Pillar 3 requirements is included in other parts of the Annual Report. The Board is satisfied that the internal controls implemented around the preparation of these Additional Regulatory Disclosures are adequate and such disclosures present a fair and accurate picture of the Group's risk profile and capital position.

2. RISK MANAGEMENT FRAMEWORK

The Group's Risk Appetite Statement is reviewed and approved by the Board and captures and describes the most significant risks to which the Bank is exposed and sets guidance on the types and maximum amount of risk that the Board considers acceptable (the risk capacity). It forms an integral part of the Bank's overall Risk Management Framework and contributes to aligning strategy and business objectives with the mission, vision and core values of the Bank.

The Risk Appetite Statement sets the tone at the top and is cascaded down to the tactical and operational levels through risk policies, key risk indicators, limits and established processes and controls. This statement is supported by a Risk Appetite Dashboard, which sets out risk limits and triggers to benchmark the Bank's risk profile with its risk appetite (through a 'traffic lights approach').

Risk culture influences the decisions of Management and employees during the day-to-day activities of the Group and has an impact on the risks the Group assumes. The Bank's Management, including key function holders, contribute to the internal communication of core values and expectations to staff. Staff are expected to act in accordance with all applicable laws and regulations and promptly escalate observed non-compliance within or outside the institution. To create an environment of trust and maximum protection that makes it easier for all employees to report any improper practice, the Group has a Whistleblowing Policy approved by the Board of Directors.

The management body on an ongoing basis promote, monitor and assess the risk culture of the Group; they consider the impact of the risk culture on the financial stability, risk profile and robust governance of the Group; and make changes where necessary and align risk-taking behaviour with the Group's risk profile and long-term objectives.

The Group's risk profile is managed within the risk appetite set by the Board, and this is supported by a strong capital base and an adequate portfolio of highly liquid asset to meet its financial obligations as they fall due.

As at end of December 2020, the Board declares that the Group's risk profile remained well within its risk appetite and tolerance limits as set by the Board. This is supported by adequate risk management arrangement in relation to the overall risk profile and business model.

3. RISK GOVERNANCE

Responsibility for risk management lies at all levels within the Group through the adoption of a three lines of defence model. Business Units, as the first line of defence, are responsible for identifying, assessing and managing the risks to which the Group is exposed in the respective operating units. The management of the various forms of risk is then co-ordinated and monitored by the second line of defence, namely the Risk, Legal, Financial Crime Compliance and Regulatory Compliance Departments. The Internal Audit Department, as the third line of defence, provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management to the Board.

The Risk, Legal, Financial Crime Compliance and Regulatory Compliance Departments are headed by the Chief Risk Officer who reports directly to the Risk Committee. The Risk Committee establishes and ensures the implementation of the Group's risk management and compliance strategy, systems and policies. The Risk Committee meets regularly to monitor the assessment and management of the risk profile of the Group and ensures that policies are in place in line with the Group's risk appetite, as set by the Board. During 2020, the Risk Committee met eight times.

3. RISK GOVERNANCE (CONTINUED)

3.1 Risk department

The Risk Department maintains a comprehensive enterprise-wide view of the risks facing the Group and ensures that these are within the Risk Appetite set by the Board. The Group's Risk Appetite is reviewed and approved by the Board through the annual review of its Risk Appetite Statement. The Risk Department is responsible for bringing to the attention of the Risk Committee emerging risks and material changes to existing risks within the Group's risk profile, including as part of the business planning process, to ensure that Management operates within the risk appetite approved by the Board. Subsequently, it is the role of the Chair of the Risk Committee to report to the Board on such developments. As the second line of defence, the Risk Department operates independently of the Bank's business activities, which are vested in the first line of defence. The Department comprises:

- *Credit Risk Management Unit (CRMU):* The CRMU is responsible for the oversight of the Bank's credit risk exposure and management thereof. The Unit is responsible for reviewing the Credit Risk Policy, duly supported by Credit KRIs and the underlying procedures, in line with the Bank's Risk Appetite. The CRMU provides independent evaluation/recommendation of credit proposals, exceeding a given threshold or not in line with the Policy, presented by the first line of defence. The CRMU monitors key credit risk indicators, and pursues escalation procedures when appropriate, to ensure that the Bank's credit risk exposure is within the corresponding risk appetite set by the Board. The Unit also ensures that lending practices are consistent with the applicable regulations, as well as the Bank's credit risk appetite. Ensuring compliance with the credit regulatory reporting framework is also the responsibility of the CRMU. The identification and monitoring of Non-Performing Loans and relative provisioning falls under the remit of this function. The development, updating and adherence to the Non-Performing Loan Reduction Plan falls under the responsibility of the Recoveries and Rehabilitation Units of the Bank, both within the CRMU.
- *Enterprise Risk Management Unit (ERMU):* The ERMU's objective is to articulate and champion the Risk Appetite set by the Board and ensure that business functions operate within this framework. The Unit continuously seeks to enhance the Bank's risk culture through risk-awareness initiatives which are considered a key element of an effective risk management function. The ongoing update of the Risk Register resides with the ERMU through the collaboration with other Departments within the Bank. The compilation and submission of the regulatory Internal Capital and Liquidity Adequacy Assessment Process and Recovery Planning Process falls under the remit of this function, in addition to co-operating with the MFSA in the Resolution Planning Process. The ERMU performs regular sensitivity analyses and stress testing encompassing all material risks facing the Bank and periodical risk assessment reporting to the Board of Directors, Risk Committee and ALCO. The management of credit risk within the investments portfolio, liquidity and funding risk and market risk are also the responsibility of the ERMU.
- *Operational Risk and Security Governance Department (ORSG):* As of May 2020, the Operational and IT/Cyber Risk Management functions were transferred to a newly constituted Operational Risk and Security Governance Department (ORSG). The main areas of focus of the ORSG are IT and Cyber Risk, Operational Risk Governance, Business Continuity Management, Security Governance and Bank Insurance Cover. The ORSG is responsible for independently monitoring, measuring and reporting on the Group's exposure to IT and Cyber risks in coordination with the first line of defence. This Department is responsible for monitoring and reporting on the Group's operational risk profile and its management within the corresponding appetite threshold, maintaining a database of operational losses and compiling and presenting to the Risk Committee the quarterly operational losses and near-misses report. Maintaining, testing and regularly updating the Group's Business Continuity Plan (BCP) falls under the responsibility of the ORSG, as well as providing bank-wide business continuity awareness. The ORSG maintains a comprehensive and effective insurance cover for all insurable bank risks (responsibility for insurance coverage related to specific products is vested in the Strategy and Propositions Department and Human Resources related insurance coverage is vested in the Human Capital Department).

3.2 Regulatory and financial crime compliance departments

From an internal governance perspective, the Compliance Departments are overseen by the Compliance Committee, a management committee, which meets on a regular basis. The purpose of this Committee is to ensure that prescribed regulations, rules, policies, guidelines and procedures are being followed and anticipated. The Compliance Committee acts as a decision point for business acceptance, on-boarding and exit of customer relationships, in line with the Bank's on-boarding and exit policies.

The Compliance function is constituted as follows:

- *Regulatory Compliance Department:* This Department covers all licensable activities including: Banking, Investment Services and Insurance Intermediation. Its responsibilities are managed by two functions, the Regulatory Developments function and the Regulatory Compliance function. The Regulatory Developments function is tasked with researching and keeping abreast with all local and EU based regulatory developments and with assessing the potential impact of such developments on the Group's daily activities. The Regulatory Compliance function is responsible for conducting oversight monitoring on the various functions within the Group to ensure that its operational procedures are in line with the regulatory requirements. Both functions are interdependent and provide support to each other on an ongoing basis. In addition to regulatory development and compliance, the Department provides assistance and advise when it comes to new Projects and Product Launches – as articulated in the Group's Go-to-Market Policy - and is responsible for regulatory reporting. The Data Protection Officer is another member of the Regulatory Compliance Department and is responsible for managing the Bank's obligations from a data protection perspective. Finally, the Department's remit includes the management of all customer complaints which are referred to the appropriate regulatory body i.e. the Office of the Arbiter for Financial Services (OAFS).
- *Financial Crime Compliance Department:* This Department is responsible for effective risk management in the context of the prevention and detection of financial crimes through the implementation of a robust Financial Crime framework. The unit covers Anti-Money Laundering (AML), Countering Funding of Terrorism, Sanctions, Bribery & Corruption and Anti-Fraud. It also acts as the Subject Matter Expert for the branch network, back office functions and Senior Management on AML risks. The Head of the Financial Crime Compliance Department is also the Money Laundering Reporting Officer (MLRO) of the Group, reporting to the CRO, but also enjoying direct and unhindered access to the Board for any reporting or consultation required in respect of AML risks.

3. RISK GOVERNANCE (CONTINUED)

3.3 Legal department

The Legal Department is responsible for the identification and management of Legal Risks that arise out of the business activities and operations of the Bank, and those which arise due to external factors. The Legal Department's primary role is to act as the legal guardian of these risks by identifying, analysing, evaluating, monitoring, mitigating and controlling such risks, and by communicating the legal strategy to the management body (in its supervisory and executive function) as well as to members of staff. It is comprised of three separate Units:

- The *Legal Services Unit* whose main function is to formulate and draft legal policy, procedures and guidelines; provide legal advice to all business lines and support functions of the Group; draft legal documentation as is required from time to time;
- The *Advances Legal Unit,* which is responsible for review of all legal documentation relating to property being hypothecated in favour of the Bank on deeds of loans and overdraft, the provision of legal advice and all administrative work, which is connected to the signing of such deeds and the periodical monitoring of the security interest in the immovable assets hypothecated to the Bank;
- The *Court Management Services Unit,* which is responsible for the receipt of all Court orders and their enforcement and implementation in so far as they affect customers' bank accounts; providing evidence in Court proceedings and providing legal advice with regards to closure of bank accounts of deceased customers.

4. KEY RISKS

The following is a list of the material risks to which the Group is exposed. The subsequent sections (as indicated below) provide an overview of each material risk, including the management of each risk and capital allocation techniques adopted. The Bank considers the risk of its subsidiary, ReAPS Asset Management Limited, to the extent that this constitutes a material impact on the Group's risk profile. The subsidiary has its own Risk Management and Compliance policies and documented procedures that delineate the risk management and compliance processes, which facilitate reporting to the Risk Committee on the assessment of the subsidiary's risk profile, carried out by the Risk and Compliance personnel engaged with the entity.

Credit Risk	The risk that a borrower or counterparty fails to meet the respective obligations in accordance with, or performing according to, agreed terms. The Bank does not engage in derivative exposures and, therefore, is not subject to counterparty credit risk. *Capital Adequacy and Risk Disclosures Report Section 6; and Note 44.2 to the Financial Statements.*
Market Risk	The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. The Group's exposure through its trading portfolio is minimal, as well as its exposure to equities. Thus, the Group's exposure to market risk is limited to interest rate risk, foreign exchange risk and other price risk. *Capital Adequacy and Risk Disclosures Report Section 7; and Note 44.4 to the Financial Statements.*
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. *Capital Adequacy and Risk Disclosures Report Section 8; and Note 44.5 to the Financial Statements.*
Liquidity and Funding Risk	Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due in the short term and medium term, either at all or without incurring unacceptable losses. Funding risk is the risk that the Group cannot meet its financial obligations as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably. *Capital Adequacy and Risk Disclosures Report Section 9; and Note 44.3 to the Financial Statements.*

The ERMU, within the Risk Department, performs regular risk assessments and stress testing exercises, the results of which are presented to the Board of Directors, Risk Committee and other committees as may be required, including the ALCO and the Executive Committee. The Risk Appetite Dashboard, which complements the Risk Appetite Statement, is presented to the Board of Directors on a quarterly basis. These reports provide insight on the Group's risk profile and benchmarks this with the Group's risk appetite and internal limits. Risk reports are presented using a RAG (also known as "traffic lights") approach. Early warning signals and excesses are escalated to the Chief Risk Officer, followed by the Risk Committee and the Board of Directors, as deemed applicable, to ensure that the necessary corrective actions are implemented.

5. SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK

The accounting framework used in preparing the consolidation of the Group's financial statements is IFRS as adopted by the EU, whereas the prudential consolidation in the statement of capital is based on CRR 575/2013. Thus, consolidation under prudential requirements may differ from consolidation under the accounting standards depending on the purpose for which they are being calculated.

The following two tables highlight the main differences between the figures reported in the financial statements in accordance with IFRS and the figures reported for the risk categories in line with the CRR. The differences between the carrying values reported in the financial statements and those reported under the regulatory risk categories pertain mainly to the differences in the accounting and regulatory consolidation methods.

5. SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK (CONTINUED)

EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories:

		Carrying values of items:					
	Carrying values as reported in published financial statements	Under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Assets							
Cash and balances with Central Bank of Malta	108,330	108,330	108,330	-	-	472	-
Cheques in course of collection	103	103	103	-	-	3	-
Loans and advances to banks	51,068	46,281	46,281	-	-	28,432	-
Loans and advances to customers	1,689,003	1,689,003	1,689,003	-	-	4,732	-
Syndicated loans	113,152	113,152	113,152	-	-	17,289	-
Derivative financial instruments	499	499	-	-	-	-	499
Financial assets at FVTPL	50,636	251	251	-	-	28	-
Other debt and fixed income instruments	315,983	315,983	315,983	-	-	39,161	-
Equity and other non-fixed income instruments	303	303	303	-	-	76	-
Investment in Subsidiaries	-	45,250	45,250	-	-	-	-
Investment in associates	18,641	15,262	15,262	-	-	-	-
Investment properties	1,830	1,830	1,830	-	-	-	-
Property and equipment	46,180	46,180	46,180	-	-	-	-
Intangible assets	8,848	8,848	8,848	-	-	-	-
Right-of-use assets	5,235	5,235	5,235	-	-	-	-
Deferred tax assets	2,553	2,553	2,553	-	-	(165)	-
Other receivables	8,619	7,974	7,974	-	-	550	-
Total assets	**2,420,983**	**2,407,037**	**2,406,538**	**-**	**-**	**90,578**	**499**

5. SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK (CONTINUED)

	Carrying values as reported in published financial statements	Carrying values of items:					
		Under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
	€000	€000	€000	€000	€000	€000	€000
Liabilities							
Amounts owed to banks	9,304	9,304	-	-	-	-	9,304
Derivative financial instruments	499	499	-	-	-	-	499
Amounts owed to customers	2,123,446	2,124,149	-	-	-	89,345	2,052,445
Debt securities in issue	54,558	54,558	-	-	-	-	54,558
Current tax	1,399	1,354	-	-	-	-	1,354
Lease liabilities	5,365	5,365	-	-	-	-	5,365
Other liabilities	10,090	10,090	-	-	-	115	10,090
Accruals	10,103	10,031	-	-	-	241	-
Total liabilities	**2,214,764**	**2,215,350**	**-**	**-**	**-**	**89,701**	**2,133,615**
Equity							
Share capital	62,255	62,255	-	-	-	-	-
Share premium account	10,140	10,140	-	-	-	-	-
Revaluation reserve	32,260	32,260	-	-	-	691	-
Retained earnings	91,736	87,032	-	-	-	-	7,650
Total equity	**196,391**	**191,687**	**-**	**-**	**-**	**691**	**7,650**

5. SCOPE OF APPLICATION OF THE REGULATORY FRAMEWORK (CONTINUED)

EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
		€000	€000	€000	€000	€000
1	Asset carrying value amount under scope of regulatory consolidation (as per Template LI1)	2,497,116	2,406,538	-	-	90,578
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)	(89,701)	-	-	-	(89,701)
3	Total net amount under regulatory scope of consolidation (Row 1 – Row 2)	2,407,415	2,406,538	-	-	877
4	Off-balance sheet amounts	809,555	93,915	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**3,216,970**	**2,500,453**	**-**	**-**	**877**

The following table provides an overview of the accounting and regulatory consolidation methods for each entity within the Group. The Group's investment in its associates is accounted for using the equity method. Further information on the Group's subsidiaries and associates is included in Notes 21 and 22 to the Financial Statements, respectively.

EU LI3 - Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
APS Bank plc	Full Consolidation	Full Consolidation	Credit institution
ReAPS Asset Management Limited	Full Consolidation	Full Consolidation	UCITS Management Company
APS Diversified Bond Fund	Full Consolidation	Full Consolidation	UCITS Collective Investment Scheme
APS Global Equity Fund	Full Consolidation	Full Consolidation	UCITS Collective Investment Scheme
IVALIFE Limited	Equity method of accounting	Neither consolidated nor deducted	Insurance
APS Income Fund	Equity method of accounting	Neither consolidated nor deducted	UCITS Collective Investment Scheme
APS Regular Income Ethical Fund	Equity method of accounting	Neither consolidated nor deducted	UCITS Collective Investment Scheme

6. CREDIT RISK

Credit Risk is the possibility that a borrower or counterparty fails to meet the respective obligations in accordance with, or performing according to, agreed terms. Alternatively, losses may result from reduction in asset value arising from actual or perceived deterioration in credit quality. The Bank's exposure to credit risk is diversified by maximum single exposure, by sector, by geography, by tenor and by product, through its engagement in Retail Lending, Commercial Lending, Trade Finance and selected participations in Syndicated Lending. In view of the nature of its business, the Group's financial assets are inherently and predominantly subject to credit risk. Thus, Management has put in place internal control systems to evaluate, approve and monitor credit risks relating to both the investments and the lending portfolios.

The Group has a detailed Credit Risk Policy in support of the Bank's Credit Risk Appetite, which lays down the principles for the management of credit risk within each business area mentioned above. In response to the pandemic, the Bank revisited its appetite for credit risk and revised its lending strategy to reflect the economic environment, which prevailed following the onset of COVID-19.

Credit and financial institutions licensed by the Malta Financial Services Authority have been directed to offer a moratorium on repayments on capital and interest for borrowers who have been negatively affected by COVID-19. Central Bank of Malta ("CBM") has issued Directive 18 for Moratoria on Credit Facilities in Exceptional Circumstances to which the Group has abided. Further information on the loan balances, which have been granted a temporary moratorium on capital and/or interest payments is provided in Note 2 to the Financial Statements.

As part of the assessment of the potential impact of the pandemic on the Group's credit portfolio, the said portfolio was grouped by perceived macro-economic risk of the underlying economic sectors, with those sectors least impacted by the pandemic categorised as 'Low risk sectors' and those deemed to be mostly impacted by the pandemic categorised as 'High risk sectors'. Further information on the Group's credit portfolio grouped by industry risk is provided in Note 2 to the Financial Statements.

In response to the COVID-19 pandemic, the Group offered a loan product named "APS Jet Pack" to its customers. The "APS Jet Pack" benefits from the support of the Malta Development Bank's COVID-19 Guarantee Scheme to support businesses through the provision of a Guarantee for a maximum amount of €350,000,000, covered by a Government guarantee issued by the Ministry of Finance. Further information on the MDB COVID-19 Guarantee Scheme is included in Note 2 to the Financial Statements.

The following sections provide a brief outline of the main elements of the Group's credit risk management framework.

6.1 Credit approval

The Group has a process in place for the approval of new credit facilities, as well as the amendment, renewal and review of existing credit facilities. The Group's credit approval process establishes delegated authority and corresponding accountability for decisions taken. It designates different levels of authority to approve credits or changes in credit terms as approved by the Risk Committee and the Board of Directors.

Credit applications above a certain threshold are reviewed by the Board Credit Committee (BCC) and Management Credit Committee (MCC), within the parameters set by the Board of Directors. Further information on the role of these Committees and the Members who sit on these Committees is provided in the 'Statement of Compliance with the Code of Principles of Good Corporate Governance'.

Proposals for credit facilities are issued by Business Units (the first line of defence) and escalated to higher levels for approval, depending on various lending criteria and types of limits. Credit facilities above a certain threshold, or which do not fall under the Bank's lending policies, are proposed to the CRMU for evaluation and recommended to the MCC, BCC and Board depending on the exposure involved or the relative terms and conditions.

Syndicated loan proposals are evaluated by the Syndications and Trade Finance Unit, reviewed by the Head of Asset Liability Management (ALM) and recommended by the CRMU. These are then approved by the respective delegated Management authority or MCC/BCC.

The Assets-Liabilities Committee (ALCO) is generally responsible for the asset liability management strategy and optimisation of capital allocation in terms of ALM strategy and regulatory requirements. New investment products are proposed by the Investment Management Department to ALCO, who is responsible for pricing decisions on all of the Bank's products and are approved by the Executive Committee (EXCO). Counterparty exposures and credit limits with correspondent banks are recommended by the Group's ALM function to ALCO for approval.

6.2 Credit analysis

The Group has detailed credit granting processes and criteria to evaluate the credit risk inherent in a borrowing application. Current lending procedures in place comply with current banking regulations identifying situations where, in considering an advance, it is appropriate to classify a group of borrowers as connected counterparties and are thus treated as being a single exposure in line with CRR. The Group takes into consideration the total credit facilities at the disposal of connected customers before considering extending further facilities to one of the members forming part of a group of connected customers.

Monitoring and control processes are considered to be of critical importance during the life cycle of a credit facility and contribute towards the maintenance of a sound lending portfolio. To ascertain the current financial conditions of the borrower or counterparty, as well as to keep track of decisions made and the history of the credit, the Group maintains electronic credit profiles and physical dossiers with all the relevant information and documentation supporting credit decisions made. The Group applies an automated proprietary credit rating system to differentiate the degree of credit risk inherent in advances extended to its customers. Internal ratings are used to grade loans and advances with a view to assess the repayment ability of the borrower and to assist in the monitoring and control of credit risk. The credit rating process also provides a basis for the recognition of any under- performing or non-performing credit facilities and for the assessment of expected credit losses in line with IFRS9 regulations. Further information on the credit risk grading system applied by the Group is provided in Note 44.2.1.1 ('Credit Risk Grading') to the Financial Statements

In line with IFRS 9, the Group calculates the Expected Credit Loss (ECL) in respect of financial instruments, which is based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of each exposure. The Risk Committee is responsible to certify to the Bank's Board that the provisioning methodology recommended by Management is adequate and in line with the regulatory requirements and the related financial reporting standards. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition:

6.2 Credit analysis (Continued)

- Stage 1: performing exposures which are not credit impaired;
- Stage 2: underperforming exposures where a significant increase in credit risk has occurred since initial recognition; and
- Stage 3: non-performing exposures which are credit impaired.

Further information on the calculation of the ECL is provided in Note 44.2.2 ('Expected credit loss measurement') to the Financial Statements.

6.3 Credit and concentration risk limits

The Risk Department monitors the Group's exposure to credit risk to ensure that this remains within the Group's risk appetite. The Group has in place credit risk metrics, and associated risk appetite limits, which are reported to Executive Management, ALCO, Risk Committee and the Board. These include, inter alia, the Value-at-Risk of the Group's Investments, Credit Growth, Expected Credit Loss, Non-performing Exposures and credit risk weighted assets.

The Group is exposed to concentration risk within its advances and investments portfolios (as well as within its deposits portfolios[1]). Concentration risk arises when the Group has significant exposures to a single counterparty, groups of connected counterparties, and counterparties in the same geographic region or from the same sector of activity.

To manage its exposure to concentration risk across its portfolios, the Group adopts an exposure limits system by individual and connected exposures, sector and geography. The Risk Committee and the Board are regularly informed about the exposure of the Group against such limits.

In terms of the CRR, an exposure to a customer or group of connected customers is considered to be a large exposure where its value, before the deduction of eligible credit risk mitigation, is equal to or exceeds 10% of the Group's Own Funds. Large exposures are reported both internally and to the Authority and are monitored continuously to ensure that these do not exceed the regulatory threshold of 25% of the Bank's Own Funds.

The Group also monitors the individual/connected counterparties, sectoral concentration and country concentration within both its advances and investments portfolios and translates this into an economic capital figure for the purposes of capital allocation (Pillar 2) as part of its ICAAP, using the Herfindahl-Hirschman Index (HHI).

6.4 Collateral

The Group generally takes collateral against its loans and advances portfolio, most of which consists of tangible assets. These are taken by the Group as a fall-back, hence acting as a secondary source of repayment should the primary source of repayment fail. The security provided does not form the main basis of the lending decision. The Group has to be satisfied, amongst other things, that the primary source of repayment will be reliable and robust. In this spirit, the taking of collateral is neither considered a substitute for a comprehensive assessment of the credit application and the corresponding borrower or counterparty, nor can it compensate for insufficient information or deficient primary source of repayment. The Credit Risk Policy of the Bank stipulates inter alia the types of collateral and valuations to be carried out.

Other collateral, which is not tangible, is sought to ensure that the borrowing customer will abide by the terms and conditions of sanction, thereby reducing the default risk associated with the borrowing customer. The value and type of collateral required depends on an assessment of the credit risk of the counterparty.

The Credit Risk Policy sets out the process in respect of the selection of the Bank's appraisers to perform valuation of immovable properties and establishes an internal quality assurance process to monitor and review the performance of the selected appraisers. The Bank reviews the valuations received from the valuer, in particular focusing on aspects such as whether the approaches and assumptions are appropriate, clear and transparent, the prudence of such assumptions and the clear and reasonable identification of comparable properties used as a benchmark.

The table below shows the amount of the Bank's on-balance sheet exposure value (net) as at 31 December 2020 that is unsecured and the amount that is covered by eligible collateral in line with the CRR:

EU CR3 - CRM techniques – Overview (by Exposure Class)

		Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by immovable property	Exposures secured by Government guarantees	Other collateral
		€000	€000	€000	€000	€000
1	Loans	297,234	1,504,921	1,441,357	32,965	30,599
2	Debt securities	311,617	4,617	4,617	-	-
3	**Total**	**608,851**	**1,509,538**	**1,445,974**	**32,965**	**30,599**
4	Of which defaulted	-	29,247	29,138	29	80

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds which are typically secured by residential mortgages.

1 Information on the Group's concentration within its deposits portfolio is provided in Section 9 of this Report

6.5 Related parties

The Group has in place a Related Party Transactions Approval Framework, which sets out the safeguards that are to be applied to transactions and arrangements between the Group and a Related Party, which transactions must be entered into at arm's length and on a normal, commercial basis.

Approval by the Audit Committee is specifically required if the transaction/s which the Group intends to make with a Related Party fall/s within the scope of the requirements of Listing Rules dealing with Related Party Transactions. Otherwise, such transactions are to be brought to the attention of the Audit Committee solely for notification and monitoring process.

As part of its duties, the Audit Committee ensures that transactions with related parties are adequately assessed, reviewed and reported to ensure approval at arm's length.

6.6 Quantitative disclosures on credit risk

The disclosures in this section are in line with Part Eight of the CRR, which is further supplemented by EBA Guidelines (EBA/GL/2016/11) on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 which aim to enhance the comparability and consistency of institutions' Pillar 3 disclosures, as explained in Section 1 of this Report.

6.6.1 Credit and concentration risk exposures

The table below provides the net value of the Bank's exposures as at 31 December 2020 and the average net exposures for 2020[2] classified by exposure class.

In accordance with Article 111 of the CRR, for on-balance sheet exposures the net exposure is the accounting value remaining after deducting the ECLS (also referred to as 'specific credit risk adjustments' in line with the EBA Guidelines referred to in Section 6.6 above). Further information on the calculation of expected credit losses is provided in Section 6.2 above. The exposure value of off-balance sheet items is the value remaining after applying the respective percentage listed in Article 111 of the CRR to the nominal value. The net exposure value is applied when calculating risk weighted assets.

EU CRB-B – Total and average net amount of exposures

		Net value of exposures at the end of the period €000	Average net exposures over the period €000
16	Central governments or central banks	243,390	223,250
17	Regional governments or local authorities	-	-
18	Public sector entities	-	-
19	Multilateral development banks	18,046	13,656
20	International organisations	-	-
21	Institutions	90,279	93,465
22	Corporates	550,156	535,626
23	*- of which: SME*	*391,380*	*386,242*
24	Retail	72,463	70,879
25	*- of which: SME*	*47,408*	*46,370*
26	Secured by mortgages on immovable property	1,142,069	1,079,022
27	*- of which: SME*	-	-
28	Exposures in default	25,378	24,361
29	Items associated with particularly high risk	68,399	70,836
30	Covered bonds	4,617	5,321
31	Claims on institutions and corporates with a short-term credit assessment	-	-
32	Collective investments undertakings	59,886	56,136
33	Equity exposures	326	467
34	Other exposures	216,594	213,624
35	**Total standardised approach**	**2,491,603**	**2,386,643**
36	**Total**	**2,491,603**	**2,386,643**

2 Based on the net exposure values observed at the end of each quarter during 2020

6.6 Quantitative disclosures on credit risk (Continued)

6.6.1 Credit and concentration risk exposures (Continued)

The following tables show the Bank's net exposures by geographical areas ('CRB-C'), industry ('CRB-D') and residual maturity ('CRB-E') broken down by exposure classes:

EU CRB-C – Geographical breakdown of exposures

		Malta €000	United Kingdom €000	France €000	Germany €000	Netherlands €000	United States €000	Belgium €000	Austria €000	Canada €000	Ireland €000	Other countries €000	Total €000
7	Central governments or central banks	130,824	-	22,899	-	7,374	11,477	6,932	7,924	10,888	12,280	32,792	243,390
8	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	18,046	18,046
11	International organisations	-	-	-	-	-	-	-	-	-	-	-	-
12	Institutions	1,494	26,610	2,388	19,442	10,221	5,817	-	-	-	-	24,307	90,279
13	Corporates	405,534	29,393	18,406	10,541	12,539	10,125	8,446	7,495	1,327	1,572	44,778	550,156
14	Retail	72,413	14	-	29	-	-	3	-	4	-	-	72,463
15	Secured by mortgages on immovable property	1,139,223	1,326	120	648	55	125	270	-	302	-	-	1,142,069
16	Exposures in default	25,378	-	-	-	-	-	-	-	-	-	-	25,378
17	Items associated with particularly high risk	68,399	-	-	-	-	-	-	-	-	-	-	68,399
18	Covered bonds	-	1,154	507	-	-	-	-	-	1,680	-	1,276	4,617
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
20	Collective investments undertakings	59,886	-	-	-	-	-	-	-	-	-	-	59,886
21	Equity exposures	250	-	-	-	-	-	-	-	-	-	76	326
22	Other exposures	216,579	12	-	-	-	-	-	-	3	-	-	216,594
23	**Total standardised approach**	**2,119,980**	**58,509**	**44,320**	**30,660**	**30,189**	**27,544**	**15,651**	**15,419**	**14,204**	**13,852**	**121,275**	**2,491,603**
24	**Total**	**2,119,980**	**58,509**	**44,320**	**30,660**	**30,189**	**27,544**	**15,651**	**15,419**	**14,204**	**13,852**	**121,275**	**2,491,603**

The countries disclosed separately represent countries to which the Bank's exposure exceeds €10 million. 'Other countries' account for circa 5% of the total net exposure value and is made up of 38 countries with the main ones being Mexico, Spain and Egypt.

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.1 Credit and concentration risk exposures (Continued)

EU CRB-D – Concentration of exposures by industry or counterparty types

		Manufacturing	Wholesale and retail trade	Real estate activities	Public administration and defence, compulsory social security	Households and individuals	Financial institutions	Other industries	Total
		€000	€000	€000	€000	€000	€000	€000	€000
7	Central governments or central banks	-	-	-	212,407	-	24,473	6,510	243,390
8	Regional governments or local authorities	-	-	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-	-	-
10	Multilateral development banks	-	-	-	-	-	-	18,046	18,046
11	International organisations	-	-	-	-	-	-	-	-
12	Institutions	2,402	-	-	-	-	81,645	6,232	90,279
13	Corporates	70,782	37,070	84,792	-	30	86,704	270,778	550,156
14	Retail	863	8,057	18,782	-	25,277	-	19,484	72,463
15	Secured by mortgages on immovable property	-	-	178	-	1,141,859	-	32	1,142,069
16	Exposures in default	7,738	1,980	2,191	-	7,932	2,822	2,715	25,378
17	Items associated with particularly high risk	-	-	-	-	-	-	68,399	68,399
18	Covered bonds	-	-	-	-	-	4,617	-	4,617
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	-	59,886	-	59,886
21	Equity exposures	-	-	-	-	-	326	-	326
22	Other exposures	799	4,605	6,905	11,276	14,442	99,423	79,144	216,594
23	**Total standardised approach**	**82,584**	**51,712**	**112,848**	**223,683**	**1,189,540**	**359,896**	**471,340**	**2,491,603**
24	**Total**	**82,584**	**51,712**	**112,848**	**223,683**	**1,189,540**	**359,896**	**471,340**	**2,491,603**

6.6 Quantitative disclosures on credit risk (Continued)

6.6.1 Credit and concentration risk exposures (Continued)

EU CRB-E – Maturity of exposures

		On demand	<= 1 year	>1 year< = 5 years	> 5 years	No stated maturity	Total
		€000	€000	€000	€000	€000	€000
7	Central governments or central banks	-	20,075	71,315	149,447	2,553	243,390
8	Regional governments or local authorities	-	-	-	-	-	-
9	Public sector entities	-	-	-	-	-	-
10	Multilateral development banks	-	-	13,051	4,995	-	18,046
11	International organisations	-	-	-	-	-	-
12	Institutions	-	72,163	16,019	2,097	-	90,279
13	Corporates	-	112,791	171,090	266,275	-	550,156
14	Retail	-	10,065	13,327	49,071	-	72,463
15	Secured by mortgages on immovable property	-	74,352	3,467	1,064,250	-	1,142,069
16	Exposures in default	-	14,998	1,252	9,128	-	25,378
17	Items associated with particularly high risk	-	15,866	24,647	27,886	-	68,399
18	Covered bonds	-	2,187	2,430	-	-	4,617
19	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
20	Collective investments undertakings	-	-	-	-	59,886	59,886
21	Equity exposures	-	-	-	-	326	326
22	Other exposures	-	108,048	8,753	45,946	53,847	216,594
23	**Total standardised approach**	**-**	**430,545**	**325,351**	**1,619,095**	**116,612**	**2,491,603**
24	**Total**	**-**	**430,545**	**325,351**	**1,619,095**	**116,612**	**2,491,603**

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality

The table below shows the on-balance sheet and off-balance sheet exposures before and after the application of the credit risk mitigation (CRM) and credit conversion factors (CCF) in accordance with the CRR. The risk weighted amount for each exposure class is also presented below. The Bank applies the standardised approach for the purposes of calculating the risk weighted exposure amounts for credit risk in accordance with Part Three, Title II, Chapter 2 of the CRR.

EU CR4 – Standardised approach – Credit risk exposure and credit risk mitigation effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
		€000	€000	€000	€000	€000	%
1	Central governments or central banks	335,099	933	243,390	-	10,145	4
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	18,046	-	18,046	-	424	2
5	International organisations	-	-	-	-	-	-
6	Institutions	89,904	-	90,279	-	28,942	32
7	Corporates	530,303	297,918	530,531	19,625	348,970	63
8	Retail	69,500	48,301	69,500	2,963	54,347	75
9	Secured by mortgages on immovable property	1,070,743	463,871	1,070,743	71,326	450,689	39
10	Exposures in default	25,378	-	25,378	-	31,939	126
11	Higher-risk categories	68,399	-	68,399	-	102,598	150
12	Covered bonds	4,617	-	4,617	-	462	10
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Claims in CIU	59,886	-	59,886	-	42,251	71
15	Equity	929	-	326	-	326	100
16	Other assets	124,885	-	216,594	-	69,054	32
17	**Total**	**2,397,689**	**811,023**	**2,397,689**	**93,914**	**1,140,147**	**-**

The table on the next page presents a breakdown of credit risk exposures under the standardised approach by exposure class and risk weight. The risk weights correspond to the riskiness attributed to the exposure according to standardised approach. The risk weight is based on the credit quality step of each exposures as outlined in Articles 113 to Article 134 in Part Three, Title II, Chapter 2 of the CRR. For this purpose, under the Standardised Approach, the Bank refers to credit assessments published by External Credit Assessment Institutions (ECAIs), in accordance with the CRR.

In order to calculate the risk weighted exposure under the Standardised Approach, the Bank refers to credit assessments issued by ECAIs, in line with Part Three, Title II, Chapter 2 of the CRR. During the financial year ended 31 December 2020, the Bank referred to credit assessment issued by Moody's Fitch and S&P. The ratings were mapped to the credit quality steps as outlined in Regulation (EU) 2016/1800 which lays down the implementing technical standards with regards to the allocation of credit assessments of ECAIs to an objective scale of credit quality steps.

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

EU CR5 – Standardised approach – exposures by asset classes and risk weights

		Risk Weights									
	Exposure Classes	0% €000	10% €000	20% €000	35% €000	50% €000	75% €000	100% €000	150% €000	Others €000	Total Credit Exposure amount €000
1	Central governments or central banks	229,106	-	1,010	-	6,661	-	6,613	-	-	243,390
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	15,929	-	2,117	-	-	-	-	-	-	18,046
5	International organisa-tions	-	-	-	-	-	-	-	-	-	-
6	Institutions	-	-	54,691	-	35,191	-	375	22	-	90,279
7	Corporates	-	-	4,162	64,733	311,563	-	169,698	-	-	550,156
8	Retail	-	-	-	-	-	72,463	-	-	-	72,463
9	Secured by mortgages on immovable property	-	-	-	1,012,119	4,061	125,889	-	-	-	1,142,069
10	Exposures in default	-	-	-	-	-	-	12,256	13,122	-	25,378
11	Higher-risk categories	-	-	-	-	-	-	-	68,399	-	68,399
12	Covered bonds	-	4,617	-	-	-	-	-	-	-	4,617
13	Institutions and corpo-rates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
14	Claims in CIU	9,720	-	7,268	-	4,932	-	37,234	732	-	59,886
15	Equity	-	-	-	-	-	-	326	-	-	326
16	Other assets	142,671	-	105	-	53	-	68,530	-	5,235	216,594
17	**Total**	**397,426**	**4,617**	**69,353**	**1,076,852**	**362,461**	**198,352**	**295,032**	**82,275**	**5,235**	**2,491,603**

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

The table below shows the credit quality of the Bank's loans portfolio, debt securities and off-balance sheet exposures. In line with Article 178 of the CRR, an exposure is considered to have defaulted when either or both of the following conditions have occurred: (i) the obligor is unlikely to pay its credit obligations in full without recourse by the Group to remedial actions such as realising security; and/or (ii) the obligor is past due more than 90 days. Further information on Defaulted exposures is provided in Note 44.2.2.2 (Definition of Default and Credit Impaired).

EU CR1 – Credit quality of assets

		Gross carrying values of			Of which ECL accounting provisions for credit losses on standardised approach exposures	
		Defaulted exposures	Non-defaulted exposures	Allowances / impairments	Allocated in regulatory category of Specific	Net values
		€000	€000	€000	€000	€000
1	Loans	45,528	1,783,030	(22,271)	(22,271)	1,806,287
2	Debt securities	-	318,486	(75)	(75)	318,411
3	Off-Balance sheet exposures	2,877	808,145	-	-	811,022
4	**Total**	**48,405**	**2,909,661**	**(22,346)**	**(22,346)**	**2,935,720**

The table below provides an ageing analysis of gross on-balance-sheet past-due exposures regardless of their impairment status as at 31 December 2020 (in line with the definitions as per Commission Implementing Regulation (EU) No 680/2014). As at 31 December 2020, none of the Bank's holdings of debt securities were past due.

EU CR1-D – Ageing of past-due exposures

		≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
		€000	€000	€000	€000	€000	€000
1	Loans	4,331	355,787	1,563	1,373	1,951	35,354
2	Debt securities	-	-	-	-	-	-
3	**Total exposures**	**4,331**	**355,787**	**1,563**	**1,373**	**1,951**	**35,354**

The following table shows the changes in the Bank's stock of defaulted loans during the financial year ending 31 December 2020. None of the Bank's holdings of debt securities defaulted during this period.

EU CR2-A – Changes in the stock of general and specific credit risk adjustments

		Accumulated specific credit risk adjustment
		€000
1	**Opening balance**	**15,049**
2	Increases due to amounts set aside for estimated loan losses during the period	1,349
3	Decreases due to amounts reversed for estimated loan losses during the period	(410)
4	Decreases due to amounts taken against accumulated credit risk adjustments	(215)
5	Transfers between credit risk adjustments	(49)
6	Impact of exchange rate differences	-
7	Business combinations, including acquisitions and disposals of subsidiaries	-
8	Other adjustments	515
9	**Closing balance**	**16,239**
10	Recoveries on credit risk adjustments recorded directly to the statements of profit or loss	-
11	Specific credit risk adjustments directly recorded to the statements of profit or loss	-

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

CR2-B – Changes in stock of defaulted loans and debt securities

		€000
1	**Defaulted loans and debt securities at end of the previous reporting period**	**41,569**
2	Loans and debt securities that have defaulted since the last reporting period	208
3	Returned to non-defaulted status	(12)
4	Amounts written off	(215)
5	Other changes	3,936
6	**Defaulted loans and debt securities at end of the reporting period**	**45,486**

The Group renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance') to maximise collection opportunities and minimise the risk of default. Further information on the Group's forbearance policy is provided in Note 44.2.6 ('Modification of Financial Assets). The table below shows the gross carrying amount of forborne exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, and collateral and financial guarantees received (as per Commission Implementing Regulation (EU) No 680/2014).

EBA-NPL 1 – Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		€000	€000	€000	€000	€000	€000	€000	€000
1	**Loans and advances**	**74,795**	**15,257**	**-**	**15,257**	**(436)**	**(4,836)**	**80,508**	**9,600**
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	-	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	8,111	2,276	-	2,276	-	(444)	8,886	1,832
6	Non-financial corporations	48,057	9,795	-	9,795	(314)	(3,026)	52,524	6,087
7	Households	18,627	3,186	-	3,186	(122)	(1,366)	19,098	1,681
8	Debt securities	-	-	-	-	-	-	-	-
9	Loan commitments given	-	-	-	-	-	-	-	-
10	**Total**	**74,795**	**15,257**	**-**	**15,257**	**(436)**	**(4,836)**	**80,508**	**9,600**

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

The table below shows the credit quality of performing and non-performing exposures by past due days (as per Commission Implementing Regulation (EU) No 680/2014). The Bank's Non-Performing Loans (NPL) ratio stood at 2.6% as at 31 December 2020.

EBA-NPL 3 - Credit quality of performing and non-performing exposures by past due days.

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due> 90 days≤ 180 days	Past due> 180 days≤ 1 year	Past due> 1 year ≤ 2 years	Past due> 2 years ≤ 5 years	Past due> 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	**Loans and advances**	**1,783,030**	**1,389,706**	**393,324**	**45,528**	**6,851**	**1,373**	**1,950**	**10,682**	**14,570**	**1,008**	**9,094**	**-**
2	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
3	General governments	13,970	11,525	2,445	-	-	-	-	-	-	-	-	-
4	Credit institutions	10,024	5,913	4,111	-	-	-	-	-	-	-	-	-
5	Other financial corporations	82,354	64,083	18,271	4,086	-	-	-	28	4,058	-	-	-
6	Non-financial corporations	485,559	271,245	214,314	27,607	3,016	-	971	9,164	6,913	888	6,655	-
7	*Of which SMEs*	*397,453*	*222,922*	*174,531*	*27,607*	*3,016*	-	*971*	*9,164*	*6,913*	*888*	*6,655*	-
8	Households	1,191,123	1,036,940	154,183	13,835	3,835	1,373	979	1,490	3,599	120	2,439	-
9	**Debt securities**	**318,485**	**318,485**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
10	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
11	General governments	240,800	240,800	-	-	-	-	-	-	-	-	-	-
12	Credit institutions	22,869	22,869	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	13,689	13,689	-	-	-	-	-	-	-	-	-	-
14	Non-financial corporations	41,127	41,127	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**808,145**			**2,877**								**2,872**
16	Central banks	-			-								-
17	General governments	1,546			-								-
18	Credit institutions	1,253			-								-
19	Other financial corporations	37,070			1								-
20	Non-financial corporations	253,921			2,496								2,496
21	Households	514,355			380								376
22	**Total**	**2,909,660**	**1,708,191**	**393,324**	**48,405**	**6,851**	**1,373**	**1,950**	**10,682**	**14,570**	**1,008**	**9,094**	**2,872**

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

The following table provides an overview of the credit quality of non-performing exposures and related impairments, provisions and valuation adjustments by portfolio and exposure class.

EBA-NPL 4 – Performing and non-performing exposures and related provisions.

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accumulated partial write-off	On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	**Loans and advances**	**1,783,030**	**1,389,706**	**393,324**	**45,528**	-	**45,528**	**(6,032)**	**(1,254)**	**(4,778)**	**(16,239)**	-	**(16,239)**	**(22,257)**	**88**	-
2	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	88	-
3	General governments	13,970	11,525	2,445	-	-	-	(17)	-	(17)	-	-	-	(17)	-	-
4	Credit institutions	10,024	5,913	4,111	-	-	-	(59)	(41)	(18)	-	-	-	(59)	-	-
5	Other financial corporations	82,354	64,083	18,271	4,086	-	4,086	(125)	(120)	(5)	(1,264)	-	(1,264)	(1,390)	-	-
6	Non-financial corporations	485,559	271,245	214,314	27,607	-	27,607	(2,318)	(780)	(1,538)	(10,281)	-	(10,281)	(12,584)	-	-
7	*Of which SMEs*	*397,453*	*222,922*	*174,531*	*27,607*	-	*27,607*	*(1,029)*	*(183)*	*(846)*	*(10,281)*	-	*(10,281)*	*(11,295)*	-	-
8	Households	1,191,123	1,036,940	154,183	13,835	-	13,835	(3,513)	(313)	(3,200)	(4,694)	-	(4,694)	(8,207)	-	-
9	**Debt securities**	**318,485**	**318,485**	-	-	-	-	**(75)**	**(75)**	-	-	-	-	**(75)**	-	-
10	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	General governments	240,800	240,800	-	-	-	-	(66)	(66)	-	-	-	-	(66)	-	-
12	Credit institutions	22,869	22,869	-	-	-	-	-	-	-	-	-	-	-	-	-
13	Other financial corporations	13,689	13,689	-	-	-	-	(9)	(9)	-	-	-	-	(9)	-	-
14	Non-financial corporations	41,127	41,127	-	-	-	-	-	-	-	-	-	-	-	-	-
15	**Off-balance-sheet exposures**	**808,145**	**773,627**	**34,518**	**2,877**	-	**2,877**	-	-	-	-	-	-		-	-
16	Central banks	-	-	-	-	-	-	-	-	-	-	-	-		-	-
17	General governments	1,546	1,546	-	-	-	-	-	-	-	-	-	-		-	-
18	Credit institutions	1,253	1,253	-	-	-	-	-	-	-	-	-	-		-	-
19	Other financial corporations	37,070	35,082	1,987	1	-	1	-	-	-	-	-	-		-	-
20	Non-financial corporations	253,921	234,888	19,034	2,496	-	2,496	-	-	-	-	-	-		-	-
21	Households	514,355	500,858	13,497	380	-	380	-	-	-	-	-	-		-	-
22	**Total**	**2,909,660**	**2,481,818**	**427,842**	**48,405**	-	**48,405**	**(6,107)**	**(1,329)**	**(4,778)**	**(16,239)**	-	**(16,239)**	**(22,332)**	**88**	-

6. CREDIT RISK (CONTINUED)

6.6 Quantitative disclosures on credit risk (Continued)

6.6.2 Credit quality (Continued)

The table below shows the collateral obtained by taking possession and execution processes. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. No new properties have been repossessed as at end of December 2020. Further information is provided in Note 44.2.3.8 ('Collateral and other credit enhancements').

EBA-NPL 9 – Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition €000	Accumulated negative changes €000
1	Property, plant and equipment (PPE)	-	-
2	Other than PPE	-	-
3	Residential immovable property	331	-
4	Commercial immovable property	1,000	-
5	Movable property	-	-
6	Equity and debt instruments	-	-
7	Other	-	-
8	**Total**	**1,331**	**-**

6.7 Capital Allocation

The Group adopts the Standardised Approach (as per Regulation No. 575/2013 - Capital Requirements Regulation (CRR)) for the purposes of calculating the risk-weighted exposures to credit risk. For rated investments within its investment portfolio, the Group adopts credit ratings assigned by reputable credit rating agencies to establish the credit quality of all exposure classes, that is, institutions, government and corporate debt securities. For unrated investments and exposures within the advances portfolio, risk weights are assigned in accordance with the CRR. The Standardised Approach is based on the assumption that the Group's portfolio is sufficiently granular, as this methodology has been calibrated for internationally active banks. For this reason, the Group also allocates additional capital to cover concentration risk under Pillar 2 (Section 6.3). Further information on the Bank's risk-weighted exposure to credit risk is provided in Section 12.3.

7. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and prices of equities, bonds and commodities.

The Group's exposure to market risk is limited since its trading portfolio is minimal. This is consistent with the Group's Risk Appetite. In accordance with Article 94 of the CRR, the Group is exempted from the trading book capital requirements.

The Group's exposure to market risk is mainly related to:

- Interest rate risk – the risk that the Group's financial position and cash flow is exposed to unfavourable movements in interest rates;
- Foreign exchange risk – the risk that the Group's financial position and cash flow are exposed to unfavourable movements in foreign exchange rates.

The Group had an investment of €303k in equities at the end of 2020. The risk associated with this exposure is therefore not considered to be material.

The ALCO is primarily responsible for balance sheet management and pricing policies. Towards this, it reviews financial information and assesses the impact of various types of risks—related to changes in interest rates, exchange rates and the market—on the Bank's profitability and financial position.

7.1 Interest rate risk in the banking book

The Group is mainly exposed to interest rate risk in the banking book (IRRBB), which arises from the Bank's non-trading activities. The Group has an Interest Rate Risk Policy approved by the Board, which sets out a comprehensive risk management process that identifies, measures, monitors and controls interest rate risk exposures, whilst also ensuring appropriate oversight by Senior Management, Board-appointed committees and ultimately the Board, to confirm that this risk is consistent with the Group's risk appetite.

The Group's interest rate risk management framework is in line with the relevant guidelines issued by the EBA, which came into force as from 30 June 2019. The Group's exposure to interest rate risk is monitored on a monthly basis by the Enterprise Risk Management Unit (ERMU) and verified by Asset Liability Management, and is reported to Executive Committee, ALCO and Risk Committee on a quarterly basis. Further information on the role and composition of each of these Committees in the management of interest rate risk is provided in the 'Corporate Governance Statement' within the Annual Report.

7.1.1 The measurement of interest rate risk

Interest rate risk is measured from two perspectives – the economic value of equity (EVE) and the earnings-based approach. Both of these perspectives are complementary in understanding and assessing IRRBB. Earnings measures capture the short-term effect of interest rate changes on the Group's earnings. On the other hand, economic value measures capture the long-term effect of interest rate changes, which is a key aspect in defining a business strategy and keeping an adequate level of capitalisation in the long term.

7.1.2 The management of interest rate risk through the earnings perspective

The ALCO is responsible to ensure that there exists an appropriate margin between interest receivable and interest payable. Consequently, ALCO must ensure that the pricing of assets and liabilities supports an adequate Net Interest Margin. In pricing commercial facilities Management is guided by the Bank's Credit Pricing Model, which takes into consideration loan characteristics, such as, the loan term, amount, capital requirement and collateral.

The ERMU monitors on a monthly basis the sensitivity of financial assets and liabilities to parallel shifts in the yield curve of 200 basis points over a time horizon of one year. Sensitivity of the net interest income as at December 2020 was within the Group's Risk Appetite. Further disclosures are found in Note 44.4 appended to the Financial Statements.

7.1.3 The management of interest rate risk through the economic value perspective

Modelling of non-maturity deposits (NMDs) forms an integral part of the management of IRRBB. A NMD is, as the name suggests, a deposit that does not have a predetermined maturity, i.e. the deposit can be withdrawn at any time. However, even though NMDs can be withdrawn at any time, the volumes of NMDs have historically been relatively stable. Through a historical analysis of customer deposits, the Group identifies the proportion of core deposits, these being NMDs which are unlikely to reprice even under significant changes in interest rates. Non-core deposits are considered as overnight deposits and placed into the overnight time bucket. Core deposits are slotted into the appropriate time bucket, up to a maximum average maturity of five years.

Other products with behavioural optionality include fixed rate loans subject to pre-payment risk. The Group monitors the nature of pre-payment risk on fixed rate loans and assesses the average pre-payment rates. During 2020 the potential impact of pre-payment risk on the Group's exposure to IRRBB was not considered to be material.

On a monthly basis, the ERM monitors the impact of six pre-defined shock scenarios, where the maximum change in EVE is expressed as a percentage of Tier 1 Capital. In line with the EBA guidelines, the Bank's economic value must not decline by more than 15% of Tier 1 Capital. In the event that the decline in economic value exceeds the applicable threshold, the Bank is required to inform the regulator. During 2020, the resulting impact on the Group's economic value was at all times well within the established regulatory requirement and within the Group's risk appetite. Further disclosures are found in Note 44.4 appended to the Financial Statements.

7.2 Foreign exchange risk

The Group's financial assets and liabilities are predominantly denominated in Euro. The Foreign Exchange Risk Policy articulates a framework for identifying, measuring, managing and reporting on the Bank's exposure to this risk. The Policy clearly outlines the structure, responsibilities and controls for the management of foreign exchange risk and sets limits, on the level of exposure by currency and in total, which are monitored regularly. The ERMU is responsible for carrying out sensitivity analyses showing the impact on the Bank's financial position as a result of an adverse/favourable movement in all currencies against the Euro.

7.3 Capital allocation

The Group allocates internal capital, under Pillar 2, commensurate with its exposure to IRRBB, taking into account the impact of potential changes in its economic value and future earnings resulting from changes in interest rates.

Capital is allocated for the Bank's exposure to foreign exchange risk in line with the Basic Method stipulated by the CRR. Further information on the Bank's risk-weighted exposure to foreign exchange risk is provided in Section 12.3.

8. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. The Operational Risk Policy sets forth a framework for the identification, management, monitoring and reporting on the Group's exposure to this risk. The Policy also seeks to continuously enhance and disseminate amongst Staff Members the Group's operational risk management culture.

When internal controls fail, operational risk can adversely affect the Bank's reputation, have legal or regulatory implications, and/or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, it is able to manage operational risks effectively. Controls include appropriate segregation of duties, ensuring that Staff Members have appropriate expertise and training and regular verification and reconciliation of transactions and accounts.

The Policy clearly sets out the responsibilities for the management of operational risk, as well as the operational risk management process to ensure that the operational risk level is aligned with the Group's risk appetite.

The Group maintains a database to regularly quantify and record operational losses and near miss events, reported electronically by the first line of defence and co-ordinated and analysed by the ORSG department, in order to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses. Operational risk assessments are carried out in order to facilitate the identification and evaluation of operational risk through process and risk mapping, with a view to assess inherent operational risks and residual operational risks after the application of the relevant mitigating actions and controls. These assessments act as an independent means of capturing operational risks not originally identified by the first line of defence.

The Group also has a BCP in place, which is regularly updated and tested and provides a standard procedure that must be followed in the eventuality that a disruption affects its operations, to ensure that resumption of core services and critical functions is carried out in an efficient and prioritised manner. The likelihood and/or impact of particular events may also be mitigated through the Group's comprehensive insurance coverage strategy which is monitored and renewed yearly by the ORSG department.

The Group's BCP includes a pandemic plan. Early in 2020, with the first signs that the spread of the COVID-19 virus might be turning into a pandemic, the Bank triggered the pandemic plan's first level (planning and preparedness) that involved:

a. Setting up the control structures – the pandemic and the decision-making teams;
b. Establishing relationship with suppliers for premise disinfection (for when this may be required) and procurement of personal protective equipment;
c. Keeping members of staff informed on health best practices; and
d. Introducing policies in line with health authorities' guidelines.

The Group had already in place a remote working policy and related technical infrastructure. The pandemic expedited the roll-out of laptops to all members of staff as well as the fine-tuning of tools, techniques and processes to monitor the Group's cyber security ecosystem. With the first national cases of COVID-19 being reported, the pandemic plan's second level (national outbreak) was triggered) and involved:

a. Reducing office occupancy and promoting remote working;
b. Providing work flexibility to members of staff; and
c. Introducing measures to safeguard Bank customers, especially in promoting use of electronic channels and minimizing the need for in-person interaction with the bank for customers' banking needs.

The Group's pandemic plan's third level (organisational outbreak) includes a set of pre-planned activities when members of staff are confirmed positive. The preparations that the Group took to prevent and react to COVID-19 instances minimized the impact on the Group's operations, contained any transmission within Bank premises to other members of staff and continued safeguarding the well-being of customers.

8.1 IT and cyber risk

The Group continues to capitalise on IT within its activities and strengthen its online presence, whilst cognisant of the evolving cyber threats landscape. The Group maintains zero tolerance to events that could compromise the confidentiality and integrity of data, as well as the availability of its IT systems.

IT and Cyber risk refers to the impact (financial, reputational, technical and regulatory) to the confidentiality and/or integrity and/or availability of Bank information system (including data managed by these systems) stemming from attempt, successful or otherwise, unauthorized individual/stakeholder/systems/entities.

The Technology and Innovation Committee (TAIC) is mandated by the Bank's Board to provide oversight and direction over the Bank's Information, Communications and Technology programmes including innovation initiatives.

In this complex operating environment, in recent years the Bank has embarked on an extensive programme to update its information and cyber security operating frameworks, continue implementation of avant-garde information security tools, partnering with industry specialists to be fully equipped to prevent information security and cyber threats and to be agile to respond to security threats with minimal disruption on the Bank's operations. The Group also has an IT/cyber insurance policy in place to safeguard its interests. The Group recognised that the COVID-19 pandemic has further increased the Bank's dependency on IT systems to enable remote working and the offering of digital products. This new norm for working brought about new challenges and risks that were contained through multiple initiatives tackling technical, procedural and awareness elements.

The ORSG Department, as the second line of defence, includes dedicated functions for Information Security Governance, IT and Cyber Risk oversight. The Information Security Governance function established an IT policies working group (ITPWG). Its mission is to align the Bank's IT policies with international/industry best practices, the Bank's IT strategy with the Bank's Risk Appetite as set by the Board. This function regularly carries out specialised security threats assessments with the aim of assessing the Bank's IT resiliency against the evolving threat landscape. More specialised security training was provided across all areas of the Bank's organisational structure, including the carrying out of social engineering simulation exercises.

8.2 Capital allocation

The Group allocates capital for operational risk in line with the Basic Indicator Approach as regulated by the CRR. Further information on the Bank's risk-weighted exposure to operational risk is provided in Section 12.3. In addition to this, the Bank also sets aside capital for IT/Cyber risks as part of its Pillar 2 capital allocation.

9. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due in the short term and medium term, either at all or without incurring unacceptable losses.

Funding risk is the risk that the Group cannot meet its financial obligations as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably. Funding risk can also be seen as the risk that its assets are not stably funded in the medium and long term.

The Group manages this risk by seeking to match the maturities of assets and liabilities in its balance-sheet. The management of liquidity and funding is governed by a detailed Liquidity and Funding Risk Policy. This Policy establishes clear lines of responsibility, limits and guidance on the measurement and monitoring of the Group's net funding requirements. The Asset Liability Management Unit is responsible for implementing the Policy; whereas ALCO is responsible for monitoring and ensuring the implementation of and adherence with the Policy, as well as ensuring consistency with the Bank's Risk Appetite. It also ensures that adequate liquidity is held to meet both expected and unexpected commitments. This Policy includes a detailed Liquidity Contingency Plan, which addresses the strategy for handling liquidity crises and includes procedures for covering cash flow shortfalls in emergency situations.

Through the Internal Liquidity Adequacy Assessment Process (ILAAP), the Group ensures that it maintains, at all times, liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. Thus, the ILAAP serves as a key decision-making tool in liquidity and funding management. The latest ILAAP, compiled in line with EBA Guidelines, concluded that the Bank maintains adequate levels of liquidity buffers and adequate funding. The document is reviewed in detail by the Bank's Internal Audit Department and Risk Committee and subsequently presented to the Board for approval. Following Board approval, the ILAAP Report is submitted to the MFSA.

The Group funds loans primarily by sourcing retail deposits. As at 31 December 2020, the Group's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 96.4%, which is in line with the Bank's risk appetite. Moreover, the Group has a high level of stable deposits, which acts as a virtually permanent source of liquidity. The Group also has a portfolio of highly marketable assets that can be easily liquidated in the event of any unforeseen cash flow requirements. Further information on the Group's encumbered and unencumbered assets is included in Note 44.3 to the Financial Statements.

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar days stress period. The Group reports this ratio to the MFSA on a monthly basis. During 2020 the Group's LCR fluctuated consistently above the applicable minimum requirement of 100% and, as at 31 December 2020, stood at 138.0%.

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters for financial year ending 31 December 2020. The figures are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. The difference between the Group and the Bank's LCR is immaterial.

9. LIQUIDITY AND FUNDING RISK (CONTINUED)

EU LIQ1 - Liquidity Coverage Ratio (LCR)

		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		31-Mar 20	30-Jun 20	30-Sep 20	31-Dec 20	31-Mar-20	30-Jun 20	30-Sep 20	31-Dec 20
		€000	€000	€000	€000	€000	€000	€000	€000
Number of data points used in the calculation of average		12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total HQLA					324,065	334,477	345,271	358,015
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	785,906	833,484	878,600	924,784	54,178	57,766	61,047	64,536
3	Stable deposits	581,304	614,072	646,090	678,459	29,065	30,704	32,305	33,923
4	Less stable deposits	204,602	219,412	232,510	246,325	25,113	27,062	28,742	30,613
5	Unsecured wholesale funding, of which:	310,349	325,645	344,126	360,038	178,631	185,869	194,553	201,515
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-	-	-	-	-	-	-
7	Non-operational deposits (all counterparties)	310,349	325,645	344,126	360,038	178,631	185,869	194,553	201,515
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding	-	-	-	-	-	-	-	-
10	Additional requirements, of which:	752,806	757,951	756,473	763,157	61,988	60,827	61,025	61,342
11	Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	752,806	757,951	756,473	763,157	61,988	60,827	61,025	61,342
14	Other contractual funding obligations	2,509	2,892	3,078	3,167	1,703	1,734	1,752	1,753
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	Total Cash Outflows					296,500	306,196	318,377	329,146
Cash Inflows									
17	Secured lending	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	68,894	69,025	67,297	68,812	62,086	62,248	60,072	60,974
19	Other cash inflows	1,715	2,082	2,233	2,298	1,715	2,082	2,233	2,298
20	Total Cash Inflows	70,609	71,107	69,530	71,110	63,801	64,330	62,305	63,272
Total adjusted value									
21	Total HQLA					324,065	334,477	345,271	358,015
22	Total net cash outflows					232,699	241,866	256,072	265,874
23	Liquidity Coverage Ratio (%)					139.68%	138.84%	135.42%	135.10%

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. The NSFR is subject to an observation period until a binding minimum standard is introduced by the Authorities. The Bank officially reports information on its funding structure to the MFSA on a quarterly basis. In addition, the Bank monitors its NSFR in line with Basel III rules. During 2020, the NSFR stood above the minimum requirement of 100%.

10. REPUTATION RISK

Reputation is considered by the Group to be its most valuable intangible asset and is governed by a suitable Reputational Risk Policy, which is approved by the Board. The Bank has zero appetite to maximising profitability to the detriment of its reputation and standing, within the market and the local community.

Moreover, the Group has a number of systems and techniques in place to mitigate reputational risk; including a Board succession policy, a detailed risk management framework, a business continuity plan, the Code of Conduct, established credit granting criteria, sound investment parameters and comprehensive anti-money laundering procedures. During 2020, as part of the Group's commitment to uphold the highest standards of corporate governance, the Board of Directors revised its structure of Board and Management Committees. Other actions aimed at strengthening further its governance framework include the introduction and updating of various policies. These include, inter alia, the Remuneration Policy, Outsourcing Policy, Anti-Money Laundering and Combating the Funding of Terrorism Policy, Systemic Risk Policy, Information Classification and Ownership Policy, Information Security Policy and Personal Dealing Policy.

11. OTHER RISKS

The Group has a detailed risk management system, which covers other risks not mentioned above; such as legal, strategic, residual and systemic risks. The Group has established risk management policies governing the management and mitigation of these risks, which policies are approved by the Board of Directors, unless the Board has assigned particular responsibilities to delegated Committees.

11.1 Environmental, social and governance risk

Transitioning to a low-carbon and more circular economy entails both risks and opportunities for the economy and financial institutions, while physical damage caused by climate change and environmental degradation can have a significant impact on the real economy and the financial system. For the second year in a row, the European Central Bank (ECB) has identified climate-related risks as a key risk driver for European banks.

The Group takes part in various Corporate Social Responsibility programmes and seeks to enhance awareness of Environmental, Social and Governance (ESG) factors among its employees and as part of its business decisions. The Bank has also established an ESG Committee during 2020, which first meeting took place in January 2021. The Risk Department is following closely regulatory expectation on ESG risks, particular climate change risk and shall focus on enhancing its climate risk management framework during 2021.

12. CAPITAL MANAGEMENT

12.1 Capital adequacy

The Group continuously aims at building and sustaining a strong capital base and at applying it efficiently throughout its activities to attain its strategic objectives, optimise shareholder value whilst ensuring the sustainability of the Bank's business model and risk profile. A strong and prudent capital base is one of the pillars of the Group's business model, and maintaining adequate capital ratios will continue being key to enable the Group to steer through currently challenging economic conditions.

During the year under review, European and national authorities took swift measures to address the impact on the financial sector of the COVID-19 pandemic. In March 2020, the ECB Banking Supervision Unit announced a number of temporary capital and operational relief measures to ensure that banks could continue to fulfil their role in funding the real economy amidst the impact of COVID-19. Banks were allowed, amongst other measures, to fully use capital and liquidity buffers, including Pillar 2 Guidance (P2G). Banks also benefited from relief in the composition of capital for Pillar 2 requirements.

Notwithstanding the above measures, during 2020 the Group operated at all times above the level of capital defined by the capital buffers, as explained further in Section 12.3 below.

Further to the above, the ECB recommended that banks exercise extreme prudence on dividends and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions to the recommended prudent amounts, until 30 September 2021.

Capital planning is a crucial pillar of the Group's business planning process. The Group examines both the current and future capital requirements in line with its Risk Appetite and strategic business objectives, in order to establish its near and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels and potential sources of capital. Capital planning is the responsibility of the ALCO.

As an integral part of the Group's business planning process, the Risk Department performs a detailed analysis of the capital requirements over the medium- and long-term, which are part of the Internal Capital Adequacy Assessment Process (ICAAP). This involves compiling scenario analysis and stress testing exercises to evaluate the impact of the Bank's strategic growth on its risk profile, whilst also taking into consideration regulatory requirements. The impact of business objectives on the Group's risk profile is also evaluated as part of the annual budgeting process.

12.2 Capital instruments

The Group' capital is composed of Common Equity Tier 1 (CET 1) and Tier 2 capital instruments, as defined by the CRR. CET 1 capital is the highest quality capital and, therefore, the most effective in absorbing losses. The Group's capital is mainly composed of CET 1 capital, which primarily consists of ordinary share capital and retained earnings.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange with the listing of the EUR55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. The subordinated bond qualifies as Tier 2 Capital, which rank after the claims of all depositors (including financial institutions) and all other creditors.

Further information on the main features and terms and conditions of the Group's capital instruments is provided in Note 44.6 appended to the Financial Statements.

12.3 Capital requirements

In accordance with Banking Rule BR/08/2012 – *Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994* and the CRR, the Group calculates its capital requirements for Pillar 1 risks using the following approaches:

- The Standardised Approach for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is calculated at 8% of the credit risk-weighted exposures.
- The Standardised Approach for the purposes of calculating its risk-weighted exposure to foreign exchange risk. The capital allocation for foreign exchange risk is therefore equal to 8% of the higher of the sum of the Group's net short or net long positions.
- The Basic Indicator Approach for the purposes of calculating its risk-weighted exposure to operational risk. Under this approach a 15% capital charge is applied on the average operating income for the previous three financial years.

12. CAPITAL MANAGEMENT (CONTINUED)

12.3 Capital requirements (Continued)

Banking Rule BR/15/2015 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994* requires institutions to maintain capital buffers over and above the Pillar 1 requirements. In accordance with this Rule, the Group maintains a Capital Conservation Buffer (CCB), Countercyclical Capital Buffer (CCyB) and Other-Systemically Important Institutions (O-SII) buffer. The capital buffers (collectively referred to as the Combined Buffer Requirement) are to be met from Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, the Group will be subject to capital distribution constraints.

The CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions to which the Bank has a credit exposure. The following table discloses the geographical distribution of the Group's credit exposures relevant for the calculation of the institution-specific CCyB and the amount of the institution specific CCyB.

Institution Specific CCYB

Country	Credit Exposure €000	RWA €000	Own Funds €000	CCyB Rate €000	CCyB Capital Charge €000
Czech Republic	215	-	-	0.5%	-
Norway	1,182	613	1	1.0%	-
Slovakia	2,795	-	2	1.0%	-
Others	2,487,411	-	-	0%	-
Total	**2,491,603**	**613**	**3**	**-**	**-**

Total Risk Exposure Amount €000	1,240,383
Institution Specific Countercyclical Buffer Rate	0.0002634%
Institution Specific Countercyclical Buffer Requirement €000	3

The Group's capital ratios are regularly monitored and reported to the Board of Directors, Risk Committee, ALCO and Executive Management. The following table discloses the Group's capital position as at 31 December 2020. The book values, risk-weighted exposures and capital requirements by exposure class have been provided for the Group only, as the difference between the capital requirement of the Bank and the Group is immaterial. Capital allocation is based on the methods highlighted above.

The Bank is required to meet a total SREP capital requirement (TSCR) of 11.7%, consisting of 8.0% minimum Pillar 1 requirement and a 3.7% Pillar 2 requirement. As at 31 December 2020, the Bank's CET 1 Capital and Total Capital Ratios stood at 14.09% and 18.49%,respectively. The table below shows the Bank's risk weighted exposure for each exposure class in line with the CRR, and the respective Pillar 1 capital requirement based on the methodology outlines above. Further information on both the Group's and the Bank's capital position is provided in Note 44.6 to the Financial Statements.

12. CAPITAL MANAGEMENT (CONTINUED)

12.3 Capital requirements (Continued)

EU OV1 – Overview of RWA

		RWA		Minimum Capital requirements
		T	T-1	T
		€000	€000	€000
1	**Credit risk (excluding counterparty credit risk)**	**1,140,147**	**1,016,425**	**91,212**
2	Of which: standardised approach	1,140,147	1,016,425	91,212
	Central government or central banks	10,145	8,401	812
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	424	-	34
	International organisations	-	-	-
	Institutions	28,942	32,638	2,315
	Corporates	348,970	327,487	27,918
	Retail	54,347	53,051	4,348
	Secured by mortgages on immovable property	450,689	377,139	36,055
	Exposures in default	31,939	27,628	2,555
	Items associated with particular high risk	102,598	103,450	8,208
	Covered bonds	462	949	37
	Claims in the form of CIU	42,251	32,270	3,380
	Equity exposures	326	934	26
	Other Assets	69,054	52,478	5,524
19	**Market risk**	**187**	**563**	**15**
20	Of which: standardised approach	187	-	15
23	**Operational risk**	**100,956**	**84,207**	**8,077**
24	Of which basic indicator approach	100,956	84,207	8,077
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	**Total**	**1,241,290**	**1,101,195**	**99,304**

12. CAPITAL MANAGEMENT (CONTINUED)

12.3 Capital requirements (Continued)

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) in compliance with the Pillar II requirements of Banking Rule BR/12/2014 – *The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994* and the CRR. This key decision-making tool is of utmost importance for keeping the Board of Directors informed about the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

The Bank's ICAAP is based on the principle of proportionality set out in the above-mentioned Banking Rule, and adopts a combination of quantitative capital and adequate systems and controls in fulfilment of these requirements. The production of the ICAAP is led by the Risk Department, taking into consideration the Bank's Risk Appetite and underlying risk profile, as well as the external environment.

In this exercise, the Bank's capital requirements are set at a starting point of zero. A structured and comprehensive assessment and quantification of all the material risks are performed. This involves an analysis to determine whether the minimum regulatory requirements for Pillar I risks are sufficient to cover the Bank's credit, operational and market risk. In addition, the ICAAP includes an assessment of other risks not covered by Pillar 1 risks and which are referred to as Pillar 2 risks. This includes capital for concentration risk. Since the minimum regulatory requirement for credit risk was calibrated for internationally diversified banks and the Bank's operations are concentrated locally, additional capital is allocated to account for individual, geography and sectoral concentration. This capital allocation is based on the results of an index-based model. The Bank also assesses and measures other risks to determine its capital requirements, namely:

- Interest rate risk in the banking book using the economic value approach; and
- A detailed analysis of controls and mitigation techniques for other risks, particularly reputation, legal, strategic, systemic and residual risks.

The Bank's stress testing framework forms an integral part of the ICAAP. A number of severe but plausible scenarios are developed which test the resilience of the Bank's business model and risk profile.

The latest ICAAP, which concluded that the Bank is adequately capitalised, was reviewed in detail by the Bank's Internal Audit Department and by the Risk Committee, and subsequently presented to the Board of Directors for approval. Following Board approval, the ICAAP Report was submitted to the MFSA.

13. LEVERAGE RATIO

The CRR introduced the Leverage Ratio, which measures the relationship between the Bank's Tier 1 Capital and its on- and off-balance sheet exposures.

The Board approved the Group's Leverage Risk Policy, the purpose of which is to set forth a framework for comprehensively identifying, managing, monitoring and reporting on leverage and the risk of excessive leverage. The Group's leverage ratio is regularly reported to and monitored by the Executive Management, Risk Committee and Board. During 2020 the Group's leverage ratio remained well above the regulatory minimum requirement of 3% and within the Bank's risk appetite. As at 31 December 2020 the Group's leverage ratio stood at 7.56%.

CRR Leverage Ratio

		€000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,420,485
2	Asset amounts deducted in determining Tier 1 capital	(8,850)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,411,635**
17	Off-balance sheet exposures at gross notional amount	23,128
18	Adjustments for conversion to credit equivalent amounts	70,786
19	**Total off-balance sheet exposures**	**93,914**
20	**Tier 1 capital**	**189,437**
21	**Total Exposures**	**2,505,549**
22	**Leverage Ratio**	**7.56%**

Summary reconciliation of accounting assets and leverage ratio exposures

		€000
1	Total assets as per published financial statements	2,420,983
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	93,914
7	Other adjustments	(9,348)
8	**Leverage ratio exposure**	**2,505,549**

13. LEVERAGE RATIO (CONTINUED)

Table LRSPL – Split-up of on balance sheet exposures (excluding derivatives and SFTS)

		€000
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	2,505,549
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,505,549
EU-4	Covered bonds	4,617
EU-5	Exposures treated as sovereigns	358,100
EU-6	Exposures to regional governments, MDBs, international organisations and PSE NOT treated as sovereigns	18,046
EU-7	Institutions	98,061
EU-8	Secured by mortgages of immovable properties	1,152,821
EU-9	Retail exposures	78,549
EU-10	Corporate	611,020
EU-11	Exposures in default	25,487
EU-12	Other exposures	158,848

14. CRR REFERENCES

CRR Article		Title	Reference
Article	435	Risk management objectives and policies	Sections 2, 3 and 4
Article	436	Scope of application	Section 5
Article	437	Own funds	Section 12 and Note 44.6 to the Financial Statements
Article	438	Capital requirements	Section 12 and Note 44.6 to the Financial Statements
Article	439	Exposure to counterparty credit risk	Not applicable
Article	440	Capital buffers	Section 12
Article	441	Indicators of global systemic importance	Not applicable
Article	442	Credit risk adjustments	Section 6
Article	443	Unencumbered assets	Note 44.3 to the Financial Statements
Article	444	Use of ECAIs	Section 6.6.2
Article	445	Exposure to market risk	Section 7
Article	446	Operational risk	Section 8
Article	447	Exposures in equities not included in the trading book	Section 7
Article	448	Exposure to interest rate risk on positions not included in the trading book	Section 7.1
Article	449	Exposure to securitisation positions	Not applicable
Article	450	Remuneration policy	Remuneration Report
Article	451	Leverage	Section 13
Article	452	Use of the IRB Approach to credit risk	Not applicable
Article	453	Use of credit risk mitigation techniques	Sections 6.4 and 6.6
Article	454	Use of the Advanced Measurement Approaches to operational risk	Not applicable
Article	455	Use of Internal Market Risk Models	Not applicable

Five-Year Summaries

STATEMENTS OF PROFIT OR LOSS

The Group	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Interest receivable and similar income	**62,280**	58,021	49,963	42,396	38,867
Interest payable	**(13,434)**	(13,379)	(12,149)	(9,592)	(10,865)
Net interest income	**48,846**	44,642	37,814	32,804	28,002
Other operating income	**7,898**	12,039	6,905	9,946	6,894
Total operating income	**56,744**	56,681	44,719	42,750	34,896
Other operating charges	**(35,151)**	(30,354)	(24,575)	(22,363)	(18,972)
Share of results of associate, net of tax	**(258)**	1,585	38	441	828
Net impairment losses	**(5,538)**	(1,074)	(1,555)	(2,470)	(988)
Profit before tax	**15,797**	26,838	18,627	18,358	15,764
Income tax expense	**(5,707)**	(7,268)	(6,043)	(5,250)	(4,820)
Profit for the year	**10,090**	19,570	12,584	13,108	10,944

The Bank	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Interest receivable and similar income	**61,140**	56,674	48,958	42,284	38,867
Interest payable	**(13,434)**	(13,379)	(12,182)	(9,592)	(10,865)
Net interest income	**47,706**	43,295	36,776	32,692	28,002
Other operating income	**8,200**	9,586	8,888	10,256	7,393
Total operating income	**55,906**	52,881	45,664	42,948	35,395
Other operating charges	**(34,846)**	(30,163)	(24,427)	(22,200)	(18,961)
Net impairment losses	**(5,538)**	(1,074)	(1,555)	(2,470)	(988)
Profit before tax	**15,522**	21,644	19,682	18,278	15,446
Income tax expense	**(5,589)**	(7,182)	(5,974)	(5,190)	(4,820)
Profit for the year	**9,933**	14,462	13,708	13,088	10,626

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances					
with Central Bank of Malta	**15,064**	11,225	10,387	13,089	6,464
Balances with Central Bank of Malta	**93,266**	151,178	165,021	76,450	29,956
Cheques in course of collection	**103**	128	69	39	42
Loans and advances to banks	**51,068**	59,840	50,384	33,246	60,162
Loans and advances to customers	**1,689,003**	1,458,144	1,253,883	998,377	806,011
Syndicated loans	**113,152**	125,953	61,610	26,213	-
Derivative financial instruments	**499**	721	822	3,008	3,164
Financial assets at FVTPL	**50,636**	41,478	36,241	37,045	3,321
Other debt and fixed income instruments	**315,983**	238,166	251,040	252,324	322,844
Equity and other non-fixed income instruments	**303**	308	1,272	1,793	4,119
Investment in associates	**18,641**	19,257	17,748	18,224	18,256
Intangible assets	**8,848**	7,320	5,861	5,093	4,061
Investment properties	**1,830**	1,830	1,860	4,203	3,793
Non-current assets held-for-sale	**-**	-	2,600	-	-
Property and equipment	**46,180**	43,851	22,286	17,706	14,147
Current tax	**-**	-	-	-	39
Right-of-use assets	**5,235**	2,592	-	-	-
Deferred tax assets	**2,553**	460	3,853	2,985	1,502
Other receivables	**8,619**	6,478	6,293	6,650	6,673
TOTAL ASSETS	**2,420,983**	2,168,929	1,891,230	1,496,445	1,284,554
LIABILITIES					
Derivative financial instruments	**499**	721	822	3,008	3,164
Amounts owed to banks	**9,304**	24,512	74,473	111,132	36,204
Amounts owed to customers	**2,123,446**	1,928,971	1,650,308	1,225,576	1,099,115
Debt securities in issue	**54,558**	-	-	-	-
Current tax	**1,399**	463	1,389	198	-
Lease liabilities	**5,365**	2,629	-	-	-
Other liabilities	**10,090**	10,966	11,892	9,530	8,418
Accruals	**10,103**	8,752	10,102	10,598	8,265
TOTAL LIABILITIES	**2,214,764**	1,977,014	1,748,986	1,360,042	1,155,166
EQUITY					
Share capital	**62,255**	62,255	57,605	57,605	57,605
Share premium	**10,140**	10,140	1,770	1,770	1,770
Revaluation reserve	**32,260**	30,706	12,398	15,896	21,177
Retained earnings	**91,736**	82,785	68,478	60,032	47,648
Dividend reserve	**-**	-	-	-	1,188
Non-controlling interest	**9,828**	6,029	1,993	1,100	-
TOTAL EQUITY	**206,219**	191,915	142,244	136,403	129,388
TOTAL LIABILITIES AND EQUITY	**2,420,983**	2,168,929	1,891,230	1,496,445	1,284,554
MEMORANDUM ITEMS					
Contingent liabilities	**23,128**	22,855	23,269	10,834	6,112
Commitments	**786,427**	757,638	711,160	552,000	379,078

THE BANK'S STATEMENTS OF FINANCIAL POSITION

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances					
with Central Bank of Malta	**15,064**	11,225	9,490	9,999	6,464
Balances with Central Bank of Malta	**93,266**	151,178	165,021	76,450	29,956
Cheques in course of collection	**103**	128	69	39	42
Loans and advances to banks	**46,281**	54,841	49,384	32,246	60,162
Loans and advances to customers	**1,689,003**	1,458,144	1,253,883	998,377	806,011
Syndicated loans	**113,152**	125,953	61,610	26,213	-
Derivative financial instruments	**499**	721	822	3,008	3,164
Financial assets at FVTPL	**251**	464	879	942	3,321
Other debt and fixed income instruments	**315,983**	238,166	251,040	252,324	322,844
Equity and other non-fixed income instruments	**303**	308	1,272	1,793	4,119
Investment in subsidiaries	**45,250**	40,250	40,250	40,250	305
Investment in associate	**15,262**	15,262	14,887	14,887	14,887
Intangible assets	**8,848**	7,318	5,858	5,089	4,061
Investment properties	**1,830**	1,830	1,860	4,203	3,793
Non-current assets held-for-sale	**-**	-	2,600	-	-
Property and equipment	**46,180**	43,851	22,286	17,706	14,147
Current Tax	**-**	-	-	-	39
Right-of-use assets	**5,235**	2,592	-	-	-
Deferred tax assets	**2,553**	460	3,853	2,985	1,502
Other receivables	**7,974**	5,907	5,845	6,122	6,690
TOTAL ASSETS	**2,407,037**	2,158,598	1,890,909	1,492,633	1,281,507
LIABILITIES					
Derivative financial instruments	**499**	721	822	3,008	3,164
Amounts owed to banks	**9,304**	24,512	74,473	111,132	36,204
Amounts owed to customers	**2,124,149**	1,929,504	1,653,309	1,226,382	1,099,406
Debt securities in issue	**54,558**	-	-	-	-
Current Tax	**1,354**	452	1,321	138	-
Lease liabilities	**5,365**	2,629	-	-	-
Other liabilities	**10,090**	10,966	11,892	9,530	8,415
Accruals	**10,031**	8,712	10,077	10,533	8,265
TOTAL LIABILITIES	**2,215,350**	1,977,496	1,751,894	1,360,723	1,155,454
EQUITY					
Issued capital	**62,255**	62,255	57,605	57,605	57,605
Share premium	**10,140**	10,140	1,770	1,770	1,770
Revaluation reserve	**32,260**	30,706	12,398	15,896	21,177
Retained earnings	**87,032**	78,001	67,242	56,639	44,470
Dividend reserve	**-**	-	-	-	1,031
TOTAL EQUITY	**191,687**	181,102	139,015	131,910	126,053
TOTAL LIABILITIES AND EQUITY	**2,407,037**	2,158,598	1,890,909	1,492,633	1,281,507
MEMORANDUM ITEMS					
Contingent liabilities	**23,128**	22,855	23,269	10,834	6,112
Commitments	**786,427**	757,638	711,160	552,000	379,078

THE GROUP'S STATEMENTS OF CASH FLOWS

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Net cash flows (used in) / from operating activities	**(12,347)**	(57,230)	141,844	(6,037)	45,742
Investing activities					
Dividends received	**544**	195	596	126	211
Interest income from debt securities	**6,684**	7,811	9,546	12,074	13,121
Purchase of debt and other fixed income instruments	**(134,778)**	(26,435)	(45,614)	(12,739)	(72,594)
Proceeds on maturity and disposal of debt and other fixed income instruments	**55,957**	40,490	41,197	79,412	50,630
Purchase of financial assets at FVTPL	**(39,165)**	(34,520)	(30,124)	(38,595)	(2,582)
Proceeds on disposal of financial assets at FVTPL	**31,496**	34,224	26,741	2,766	3,041
Purchase of equity and other fixed income instruments	**(950)**	(375)	-	-	(807)
Proceeds on disposal of equity and other non-fixed income instruments	**1,000**	880	397	2,055	169
Purchase of property and equipment	**(6,034)**	(6,781)	(7,543)	(4,064)	(3,413)
Proceeds on disposal of property and equipment	**-**	-	7	31	17
Net cash flows (used in) / from investing activities	**(85,246)**	15,489	(4,797)	41,066	(12,207)
Financing activities					
Dividends paid	**(91)**	(3,171)	(2,135)	(1,478)	(1,294)
Amounts received on creation of units in subsidiary	**4,207**	3,865	-	-	-
Amounts paid on redemption of units in subsidiary	**(535)**	(228)	(64)	(50)	-
Net proceeds from issue from debt securities in issue	**55,000**	-	-	-	-
Net proceeds from issue of units in subsidiary	**-**	-	1,017	1,152	-
Proceeds from issue of share capital	**-**	13,020	-	-	-
Cash payment for the principal portion of lease liability	**(496)**	(394)	-	-	-
Net cash flows from / (used in) financing activities	**58,085**	13,092	(1,182)	(376)	(1,294)
Net increase in cash and cash equivalents	**(39,508)**	(28,649)	135,865	34,653	32,241
Cash and cash equivalents at 1 January	**182,329**	210,978	75,113	40,460	8,219
Cash and cash equivalents at 31 December	**142,821**	182,329	210,978	75,113	40,460

THE BANK'S STATEMENTS OF CASH FLOWS

	2020	2019	2018	2017	2016
	€000	€000	€000	€000	€000
Net cash flows (used in) / from operating activities	**(13,136)**	(58,177)	141,044	(5,697)	45,742
Investing activities					
Dividends received	**1,236**	1,572	1,604	588	710
Interest income from debt securities	**6,684**	7,811	9,546	12,074	13,121
Purchase of debt and other fixed income instruments	**(134,778)**	(26,435)	(45,614)	(12,739)	(72,594)
Proceeds on maturity and disposal of debt and other fixed income instruments	**55,957**	40,490	41,197	79,412	50,630
Purchase of equity and other non-fixed income instruments	**(950)**	(375)	-	-	(807)
Proceeds on disposal of equity and other non-fixed income instruments	**1,000**	880	397	2,055	169
Purchase of financial assets at FVTPL	**-**	-	(184)	(502)	(2,582)
Proceeds on disposal of financial assets at FVTPL	**221**	213	221	2,350	3,041
Purchase of property and equipment	**(6,034)**	(6,781)	(7,543)	(4,059)	(3,413)
Proceeds on disposal of property and equipment	**-**	-	7	31	17
Investment in subsidiaries	**(5,000)**	-	-	(40,000)	-
Net cash flows (used in) / from investing activities	**(81,664)**	17,375	(369)	39,210	(11,708)
Financing activities					
Dividends paid	**-**	(3,575)	(2,617)	(1,950)	(1,793)
Proceeds from issue of debt securities in issue	**55,000**	-	-	-	-
Proceeds from issue of share capital	**-**	13,020	-	-	-
Cash payment for the principal portion of lease liability	**(496)**	(394)	-	-	-
Net cash flows from / (used in) financing activities	**54,504**	9,051	(2,617)	(1,950)	(1,793)
Net increase in cash and cash equivalents	**(40,296)**	(31,751)	138,058	31,563	32,241
Cash and cash equivalents at 1 January	**178,330**	210,081	72,023	40,460	8,219
Cash and cash equivalents at 31 December	**138,034**	178,330	210,081	72,023	40,460

THE GROUP'S ACCOUNTING RATIOS

	2020 **%**	2019 %	2018 %	2017 %	2016 %
Net interest income and other operating income to total assets	**2.3**	2.6	2.4	2.9	2.7
Operating expenses to total assets	**1.5**	1.4	1.3	1.5	1.5
Cost to income ratio	**61.9**	53.6	55.0	52.3	54.4
Profit before tax to total assets	**0.7**	1.2	1.0	1.2	1.2
Return on average capital employed after tax *	**5.5**	12.7	10.1	11.5	10.6
Profit after tax to equity *	**5.3**	11.0	9.7	10.9	10.1

	2020	2019	2018	2017	2016
Shares in issue (thousands)**	**249,019**	249,019	249,019	249,019	249,019
Net assets per share *	**76c**	71c	52c	48c	43c

THE BANK'S ACCOUNTING RATIOS

	2020 **%**	2019 %	2018 %	2017 %	2016 %
Net interest income and other operating income to total assets	**2.3**	2.4	2.4	2.9	2.8
Operating expenses to total assets	**1.4**	1.4	1.3	1.5	1.5
Cost to income ratio	**62.3**	57.0	53.5	51.7	53.6
Profit before tax to total assets	**0.6**	1.0	1.0	1.2	1.2
Return on average capital employed after tax *	**5.7**	10.2	11.2	11.8	10.6
Profit after tax to equity *	**5.7**	8.7	10.8	11.3	10.1

	2020	2019	2018	2017	2016
Shares in issue (thousands)	**249,019**	249,019	249,019	249,019	249,019
Net assets per share *	**70c**	67c	51c	47c	42c

*Return on average capital employed, profit after tax to equity and net assets per share are calculated on equity excluding the revaluation reserve on fair value movements on debt instruments.

** Number of shares in issue and the net assets per share for 2016 to 2019 have been restated to reflect the number of shares in issue as a result of the 2020 re-designation of the ordinary shares.

Return on average capital employed before tax of the Bank is calculated as the return as a percentage of the 12 months ending equity balances. The average capital employed of the Group is calculated as the average of the opening and closing equity balances.

Our Presence

HEAD OFFICE

APS Centre
Tower Street, Birkirkara BKR 4012

COMMERCIAL BUSINESS

APS Centre
Tower Street, Birkirkara BKR 4012

LEGEND

- **T** Teller Service
- **A** Automated Teller Machine (ATM)
- **B** Bulk Deposit Machine

RETAIL BRANCHES

1. ATTARD T A B
St Catherine's Street, Attard ATD 2609

2. BIRKIRKARA (SWATAR) T A B
APS Centre
Tower Street, Birkirkara BKR 4012

3. MOSTA T A B
9, Rotunda Square, Mosta MST 9042

4. PAOLA T A B
146 / 147, Antoine De Paule Square, Paola
PLA 1260

5. QORMI A B
70 - 72, St Sebastian Street, Qormi,
QRM 2335

6. RABAT A B
25, Saqqajja Street, Rabat RBT 1192

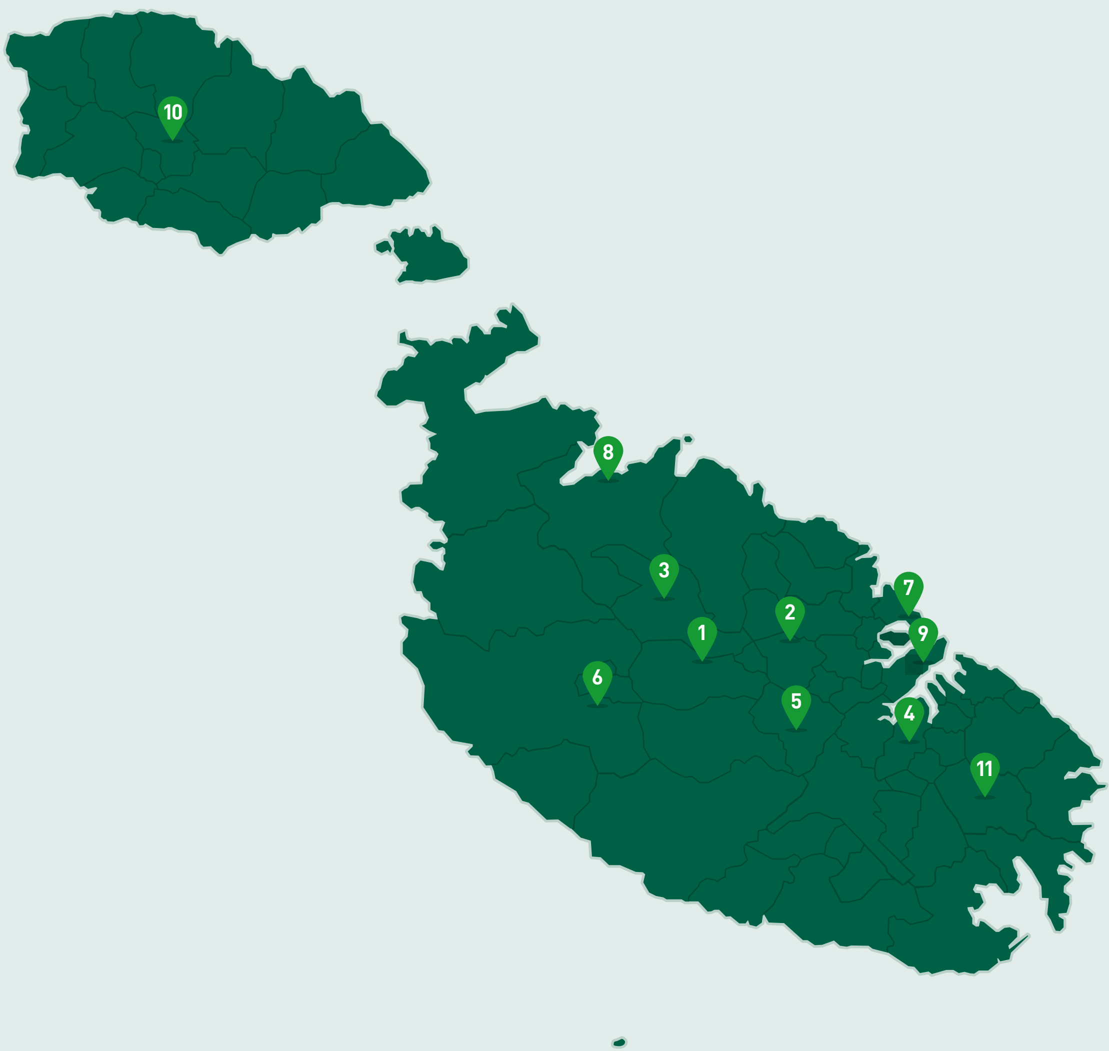
7. SLIEMA T A B
226, Tower Road, Sliema SLM 1600

8. ST. PAUL'S BAY A B
Mosta Road, St Paul's Bay SPB 3115

9. VALLETTA T A B
17 / 18, Republic Street, Valletta VLT 1111

10. VICTORIA (GOZO) T A B
10, Main Gate Street, Victoria VCT 1341

11. ŻEJTUN A B
12, Republic Square, Żejtun ZTN 1011



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