Pillar 3 Disclosures
31 December 2021

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1. Introduction

This report provides an overview of the regulatory capital and risk management practices and exposures of APS Bank and its subsidiaries (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) II No. 2019/876. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published guidelines on disclosure requirements under Part Eight of the CRR.

The Group has in place a Pillar 3 Disclosures Policy which sets out the approach to be adopted to ensure that the Group complies with the disclosure requirements set out in the CRR and respective EBA Guidelines. The Policy outlines the roles and responsibilities, the basis of preparation of the report and the verification and approval process.

This report is not subject to external audit, with the exception of any disclosures that are equivalent to those made in the 2021 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 as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Risk Committee and Audit Committee and has been approved by the Group's 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 the Financial Statements. 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 Group's management, including key function holders, contribute to the internal communication of core values and expectations to staff. Staff are expected to be risk-aware and act in accordance with the Group's Code of Conduct, all applicable laws and regulations and the Group's policies, 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 assets to meet its financial obligations as they fall due.

As at end of December 2021, 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 arrangements 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 overseen and monitored by the second line of defence, namely the Risk, Legal and Compliance Departments. The Internal Audit Department, as the third line of defence, provides independent and objective assurance on the adequacy and effectiveness of governance and risk management to the Board.

The Risk, Legal and Compliance functions are led 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 2021, the Risk Committee met seven (7) times.

Risk Management Function

The Risk Management function 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 function 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 operate 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 function operates independently of the Bank's business activities, which are vested in the first line of defence. The Risk function is made up of three Units:

- Credit Risk Management (CRM): The CRM is responsible for the oversight of the Bank's credit risk exposure and management thereof. The Department 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 CRM provides independent evaluation and recommendations (from a second line of defence perspective) on credit proposals presented by the first line of defence which either exceed a certain monetary threshold or are not in line with the Bank's Policy, Lending Parameters or procedures The Department also ensures that lending practices and new or revamped lending products are both 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 CRM. The oversight on the identification and monitoring of Non-Performing Loans and relative provisioning falls under the remit of this function. The ongoing monitoring of NPEs, through regular reporting from the first line of defence, also falls under the responsibility of the CRM. 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 being overseen by the CRM.

- Enterprise Risk Management (ERM): The ERM'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 (like training sessions and workshops) which are considered a key element of an effective risk management function. The ongoing update of the Risk Register resides with the ERM through the collaboration with other Departments within the Bank. The compilation and submission of the regulatory Internal Capital and Liquidity Adequacy Assessment Process Report and Recovery and Resolution Planning falls under the remit of this function. The ERM performs regular sensitivity analyses and stress testing encompassing all material risks facing the Bank and periodical risk assessments reporting to the Board of Directors, Risk Committee and ALCO. The management of credit risk within the investment's portfolio, liquidity and funding risk and market risk are also the responsibility of the ERM.

- Operational Risk and Security Governance (ORSG): The main areas of focus of the ORSG are IT and Cyber Risk, Operational Risk Governance, Business Continuity Management, Security Governance, Outsourcing 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. The Department is responsible for the framework for real time reporting of operational loss events and provides immediate response as required, as well as maintaining a database of operational losses and compiling and presenting a quarterly report to the Executive Committee and the Risk Committee. 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 Unit and Human Resources related insurance coverage is vested in the Human Capital Department). As from August 2021, ORSG is also responsible for overseeing the risks of outsourcing arrangements as part of the Bank's operational risk management framework.

Compliance functions

From an internal governance perspective, the Compliance Departments are overseen by the Compliance Committee, a management committee, which meets on a regular basis and is chaired by the Chief Risk Officer. 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 by the following Units:

- Regulatory Compliance: This Unit covers all licensable activities including: Banking, Investment Services and Insurance Intermediation. Its responsibilities are managed by two Units, the Regulatory Developments Unit and the Regulatory Compliance Unit.
  The Regulatory Development function is tasked with researching and keeping abreast with regulatory developments. These developments are analysed and communicated to the respective departments within the Bank, through internal Briefing Notes for implementation in the Banks' policies and procedures. The Department owning the implementation of such regulation carries out a gap analysis and the Regulatory Development Unit ensures that the implementation is concluded in a timely manner and that any policies and procedures adopted are in line with current regulation.
  The Regulatory Compliance function is responsible for conducting oversight monitoring on the various functions within the Bank to ensure that the operational procedures are in line with the regulatory requirements. This function is also in charge of providing assistance and advise when it comes to new Projects, Product Launches and Complaints Management and is also responsible for Regulatory Reporting and Tax Compliance.
  Both Units are interdependent and provide support to each other on an ongoing basis. The Data Protection Officer is another member of the Regulatory Compliance Unit and is responsible for managing the Bank's obligations from a data protection perspective.
- Financial Crime Compliance: This Unit 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 Department 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 Unit is also the Money Laundering Reporting Officer (MLRO) of the Group, reporting to the CRO from an operational standpoint, but also enjoying direct and unhindered access to the Board for any reporting or consultation required in respect of AML risks.

Legal Counsel

The Legal Counsel 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 Counsel'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 includes drafting legal policy, procedures and guidelines; providing legal advice to all business lines and support functions of the Group; drafting 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, providing legal advice with regards to closure of bank accounts of deceased customers and collaborating with the Recoveries Unit with regard to litigation involving defaulting customers.

4. Key Risks

Below 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 which carry a dual reporting line to both the CRO and to the Managing Director of ReAPS Asset Management Limited.

Capital Adequacy	The risk that the own funds held by the Bank are not sufficient and/or adequate to provide sound coverage of the risks to which it is, or might be, exposed. *Pillar 3 Disclosures Report Section 6; and Note 46.6 to the Financial Statements.*
Leverage	The risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures of its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets. *Pillar 3 Disclosures Report Section 6.4*
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. *Pillar 3 Disclosures Report Section 7; and Note 46.2 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. *Pillar 3 Disclosures Report Section 8; and Note 46.4 to the Financial Statements.*
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. *Pillar 3 Disclosures Report Section 10; and Note 46.5 to the Financial Statements.*
IT and Cyber Risk	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. *Pillar 3 Disclosures Report Section 10; and Note 46.5 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. *Pillar 3 Disclosures Report Section 9; and Note 46.3 to the Financial Statements.*
Environmental, Social and Governance Risk	Environmental, Social and Governance risks are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of ESG factors on the Group, its counterparties or its invested assets. *Pillar 3 Disclosures Report Section 11.*

4.1. Key Risk Indicators

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.

EU KM1 - Key metrics

		Dec-21	Sep-21	Jun-21	Mar-21	Dec-20
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	176,723	174,623	176,878	172,142	174,915
2	Tier 1 capital	176,723	174,623	176,878	172,142	174,915
3	Total capital	231,320	229,208	231,452	226,705	229,473
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,379,783	1,342,428	1,339,304	1,256,854	1,241,291
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	12.81%	13.00%	13.21%	13.70%	14.09%
6	Tier 1 ratio (%)	12.81%	13.00%	13.21%	13.70%	14.09%
7	Total capital ratio (%)	16.76%	17.06%	17.28%	18.04%	18.49%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.70%	3.70%	3.70%	3.70%	3.70%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2.08%	2.08%	2.08%	2.08%	2.08%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.78%	2.78%	2.78%	2.78%	2.78%
EU 7d	Total SREP own funds requirements (%)	11.70%	11.70%	11.70%	11.70%	11.70%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.5%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.06%	0.06%	0.06%	0.06%	0.06%
11	Combined buffer requirement (%)	2.56%	2.56%	2.56%	2.56%	2.56%
EU 11a	Overall capital requirements (%)	14.26%	14.26%	14.26%	14.26%	14.26%
12	CET1 available after meeting the total SREP own funds requirements (%)	1.11%	1.30%	1.51%	2.00%	2.39%
	Leverage ratio					
13	Total exposure measure	2,871,279	2,777,939	2,715,917	2,597,965	2,491,603
14	Leverage ratio (%)	6.15%	6.29%	6.51%	6.63%	7.02%

	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14c	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	443,370	432,858	409,288	384,824	358,015
EU 16a	Cash outflows - Total weighted value	359,090	351,705	344,096	336,901	329,145
EU 16b	Cash inflows - Total weighted value	56,904	58,957	57,640	56,505	63,272
16	Total net cash outflows (adjusted value)	302,185	292,749	286,456	280,396	265,873
17	Liquidity coverage ratio (%)	147.28%	148.05%	142.63%	137.24%	135.10%
	Net Stable Funding Ratio					
18	Total available stable funding	2,288,589	2,241,123	2,202,904		
19	Total required stable funding	1,682,802	1,637,977	1,584,417		
20	NSFR ratio (%)	136.00%	136.82%	139.04%		

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 2019/876. 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.

EU LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Carrying value of items:				
			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	207,723	207,723	207,723	-	-	534	-
Cheques in course of collection	2,881	2,881	2,881	-	-	3	-
Loans and advances to banks	30,831	30,831	30,831	-	-	15,075	-
Loans and advances to customers	1,932,044	1,932,044	1,932,044	-	-	651	-
Syndicated loans	134,262	134,262	134,262	-	-	49,122	-
Derivative financial instruments	552	-	-	-	-	-	-
Other debt and fixed income instruments	328,041	328,041	328,041	-	-	42,070	-
Equity and other non-fixed income instruments	307	307	307	-	-	80	-
Investment in subsidiaries	45,250	45,250	45,250	-	-	-	-

Investment in associates	16,762	16,762	16,762	-	-	-	-
Investment properties	6,053	6,053	6,053	-	-	-	-
Property and equipment	40,998	40,998	40,998	-	-	-	-
Intangible assets	11,746	11,746	11,746	-	-	-	11,746
Right-of-use assets	5,051	5,051	5,051	-	-	-	-
Deferred tax assets	2,249	2,249	2,249	-	-	(135)	-
Other receivables	8,303	8,303	8,303	-	-	868	-
Total assets	**2,773,053**	**2,772,501**	**2,772,501**	-	-	**108,268**	**11,746**
Liabilities							
Derivative financial instruments	552	552	-	-	-	-	552
Amounts owed to banks	57,208	57,208	-	-	-	34,477	57,208
Amounts owed to customers	2,433,073	2,433,073	-	-	-	72,885	2,433,073
Debt securities in issue	54,597	54,597	-	-	-	-	54,597
Current tax	758	758	-	-	-	-	758
Lease liabilities	5,348	5,348	-	-	-	-	5,348
Other liabilities	10,404	10,404	-	-	-	97	10,404
Accruals	13,224	13,224	-	-	-	222	13,224
Total liabilities	**2,575,164**	**2,575,164**	-	-	-	**107,680**	**2,575,164**
Equity							
Share capital	62,429	62,429	-	-	-	-	62,429
Share premium	10,453	10,453	-	-	-	-	10,453
Revaluation reserve	25,334	25,334	-	-	-	462	25,334
Retained earnings	99,673	90,542	-	-	-	-	90,542
Total equity	**197,889**	**188,758**	-	-	-	**462**	**188,758**

EU LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		Total	Items subject to: 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)**	2,880,769	2,772,501	-	-	108,268
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)	(107,680)	-	-	-	(107,680)
3	Total net amount under regulatory scope of consolidation (Row 1 – Row 2)	2,773,089	2,772,501	-	-	588
4	Off-balance sheet amounts	827,928	827,928	-	-	
9	Differences due to credit conversion factors	717,405	717,405	-	-	
12	**Exposure amounts considered for regulatory purposes**	3,601,017	3,600,429	-	-	588

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. Capital Management

The Group continuously aims at building and sustaining a strong capital base and at applying it efficiently throughout its activities to reach 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.

In response to the COVID-19 pandemic, European and national authorities took swift measures to address the impact on the financial sector. 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 anticipated relief in the composition of capital for Pillar 2 requirements.

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 Enterprise Risk Management Unit 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.

6.1. 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 ranks 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 46.6 appended to the 2021 Financial Statements which are available on the Bank's website.

6.2. Capital Requirements

In accordance with 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.

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 methods outlined above. The difference between the capital requirement of the Bank and the Group is immaterial.

EU OV1 – Overview of total risk exposure amounts

		RWA		Minimum Capital requirements
		Dec-21 €000	Sep-21 €000	Dec-21 €000
1	**Credit risk (excluding counterparty credit risk)**	**1,273,347**	**1,248,990**	**101,867**
2	Of which: standardised approach	1,273,347	1,248,990	101,867
	Central government or central banks	12,692	13,295	1,015
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	2,202	2,452	176
	International organisations	-	-	-
	Institutions	25,821	28,866	2,066
	Corporates	362,774	338,474	29,022
	Retail	54,379	54,485	4,350
	Secured by mortgages on immovable property	552,970	528,647	44,238
	Exposures in default	78,461	79,673	6,277
	Items associated with particular high risk	73,633	88,710	5,891
	Covered bonds	247	419	20
	Claims in the form of CIU	40,250	41,085	3,220
	Equity exposures	330	329	26
	Other Assets	69,588	72,555	5,567
19	**Market risk**	**129**	**161**	**10**
20	Of which: standardised approach	-	-	-
23	**Operational risk**	**106,307**	**94,277**	**8,505**
24	Of which basic indicator approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	**Total**	**1,379,783**	**1,343,428**	**110,381**

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 (P2R). In line with the Capital Requirement Directive (CRD V), which came into force in June 2021, banks may partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R.

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), a Countercyclical Capital Buffer (CCyB) and an 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 might be subject to capital distribution constraints. Further information on the Group's capital buffer requirements is provided in tables 'EU CC1' and 'EU CCyB1' below.

As at 31 December 2021, the Bank's Tier 1 and Total Capital Ratios stood at 12.81% and 16.76%, respectively. Further information is provided in the table below.

EU CC1 - Composition of regulatory own funds

		€000
1	Capital instruments and the related share premium accounts	72,882
2	Retained earnings	88,842
3	Accumulated other comprehensive income (and other reserves)	25,336
EU-3a	Funds for general banking risk	1,700
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**188,760**
7	Additional value adjustments (negative amount)	
8	Intangible assets (net of related tax liability) (negative amount)	(11,746)
27a	Other regulatory adjustment – prudent valuation adjustment	(291)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(12,037)
29	**Common Equity Tier 1 (CET1) capital**	**176,723**
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	**Additional Tier 1 (AT1) capital**	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**176,723**
46	Capital instruments and the related share premium accounts	54,597
51	**Tier 2 (T2) capital before regulatory adjustments**	**54,597**
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	**54,597**
59	**Total capital (TC = T1 + T2)**	**231,320**
60	**Total risk exposure amount**	**1,379,783**
61	Common Equity Tier 1 capital	12.81%
62	Tier 1 capital	12.81%
63	Total capital	16.76%
64	Institution CET1 overall capital requirements	9.15%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical capital buffer requirement	0.0014%
EU-67a	of which: Other Systemically Important Institution (O-SII) buffer requirement	0.0625%
68	**Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements**	**8.31%**

Note 46.6 appended to the Financial Statements includes a reconciliation of regulatory own funds to the statement of financial position within the audited financial statements.

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 Bank's credit exposures relevant for the calculation of the institution-specific CCyB and the amount of the institution specific CCyB.

EU CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the counter-cyclical buffer

Country	Exposure value under the standardised approach	Total exposure value	Own Funds Requirement	Risk-weighted exposure amounts	Own fund requirements weights	Counter-cyclical buffer rate
	€000	€000	€000	€000	%	%
Bulgaria	226	226	18	108	0.01	0.50
Czech Republic	207	207	17	-	0.01	0.50
Norway	1,163	1,163	93	604	0.04	1.00
Slovakia	2,719	2,719	217	-	0.09	1.00
Others	2,866,964	2,866,964	229,357	1,272,635	99.85	0.00
Total	2,871,279	2,871,279	229,702	1,273,347		

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

Total Risk Exposure Amount (€000)	2,871,279
Institution Specific Countercyclical Buffer Rate	0.0014272%
Institution Specific Countercyclical Buffer Requirement (€000)	3

6.3. Internal Capital Adequacy Assessment Process

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) in compliance with the Pillar II requirements of Banking Rule BR/12/2022 – 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 Enterprise Risk Management Unit, taking into consideration the Bank's Risk Appetite and underlying risk profile, business model, 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, including interest rate risk in the banking book, IT and cyber risks, reputation risk and other key 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.

6.4. Leverage Ratio

The Leverage Ratio measures the relationship between the Group's Tier 1 Capital and its on- and off-balance sheet exposures. Under the CRR, the Group is required to maintain a minimum Leverage Ratio of 3%.

The Board approves 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 Bank's leverage ratio is regularly reported to and monitored by the Executive Management, Risk Committee and Board. As at 31 December 2021 the Bank's leverage ratio stood at 6.15%. This represents a decrease of 36 basis points, when compared to 6.51% as at 31 December 2020.

The Leverage Ratio is reported to the Board of Directors as part of the Risk Appetite Dashboard and an assessment of the ratio is carried out as part of the risk report presented to the Risk Committee, Executive Committee and Assets and Liabilities Committee. During 2021, the Bank's leverage ratio remained well above the regulatory minimum requirement of 3% and within the risk appetite set by the Board.

EU LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		€000
1	Total assets as per published financial statements	2,773,053
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	110,523
12	Other adjustments	(12,297)
13	**Total exposure measure**	**2,871,279**

EU LR2 - LRCom: Leverage ratio common disclosure

		€000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,772,501
6	Asset amounts deducted in determining Tier 1 capital	(11,746)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**2,760,755**
19	Off-balance sheet exposures at gross notional amount	25,356
20	Adjustments for conversion to credit equivalent amounts	85,167
22	**Total off-balance sheet exposures**	**110,523**
23	**Tier 1 capital**	**176,723**
24	**Total Exposures**	**2,871,279**
25	**Leverage Ratio**	**6.15%**

EU LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		€000
EU-1	**Total on-balance sheet exposures (excluding derivatives and SFTs), of which:**	**2,871,279**
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	2,871,279
EU-4	Covered bonds	2,469
EU-5	Exposures treated as sovereigns	250,238
EU-6	Exposures to regional governments, MDBs, international organisations and PSE NOT treated as sovereigns	29,742
EU-7	Institutions	89,817
EU-8	Secured by mortgages of immovable properties	1,399,183
EU-9	Retail exposures	72,505
EU10	Corporate exposures	550,836
EU-11	Exposures in default	56,875
EU12	Other exposures	419,614

7. 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") 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.

During the year under review, the CBM has deemed it appropriate to extend the applicability of Directive 18 by reactivating the application period for moratoria until the 31 March 2021. Directive-18 has been extended with targeted conditions according to which an applicant can benefit from, either an extension of an existing moratorium or else a completely new moratorium.

Following the expiry of CBM Directive-18 on 31 March 2021, the Bank decided to continue supporting its clients by extending the moratorium on a case-by-case basis. All the Bank's total lending under moratoria represent the moratorium which was extended by the Bank. Further information on the moratorium 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.

7.1. 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 CRM Unit for evaluation and recommended to the MCC, BCC and Board depending on the exposure involved or the relative terms and conditions. Credit facilities cannot be presented for approval without a recommendation from the CRM Unit.

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 CRM Unit. 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.

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 Capital Market 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.

7.2. 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 46.2.1.1 ('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:

- 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.

In accordance with Article 111 of the CRR, for on-balance sheet exposures the net exposure is the accounting value remaining after deducting the expected credit losses (also referred to as 'specific credit risk adjustments' in line with the EBA Guidelines referred to in Section 7 above). Further information on the calculation of expected credit losses is provided in Section 7.2 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.

Further information on the calculation of the ECL is provided in Note 46.2.2 ('Expected Credit Loss Measurement') to the Financial Statements.

7.3. 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). 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 Tier 1 Capital. 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 Tier 1 Capital.

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).

7.4. 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/ITS/2020/04) on disclosure requirements

7.4.1. Credit Quality

The following table provides an overview of the gross carrying amount, related accumulated impairments, and collateral and financial guarantees received for performing and non-performing exposures classified by counterparty sector. Furthermore, table 'EU CR1-A' classifies the exposures (net values) by residual maturity.

EU CR1 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						Accumulated partial write-off	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				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
010	**Loans and advances**	2,012,354	1,861,981	150,373	78,503	0	78,503	(2,520)	(1,526)	(994)	(17,797)	-	(17,797)	(20,317)	231	0
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	8,755	6,099	2,656	-	-	-	(21)	-	(21)	-	-	-	(21)	-	-
040	*Credit institutions*	31,346	31,346	-	-	-	-	(110)	(110)	-	-	-	-	(110)	-	-
050	*Other financial corporations*	97,620	90,349	7,271	4,086	-	4,086	(96)	(95)	(1)	(986)	-	(986)	(1,082)	231	-
060	*Non-financial corporations*	449,037	339,309	109,728	62,082	-	62,082	(1,654)	(964)	(690)	(12,219)	-	(12,219)	(13,873)	-	-
070	*Of which SMEs*	349,751	255,112	94,639	59,618	-	59,618	(788)	(219)	(569)	(12,219)	-	(12,219)	(13,007)	-	-
080	*Households*	1,425,596	1,394,878	30,718	12,335	-	12,335	(639)	(357)	(282)	(4,592)	-	(4,592)	(5,231)	-	-
090	**Debt securities**	330,356	330,356	-	-	-	-	(62)	(62)	-	-		-	(62)	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General governments*	254,440	254,440	-	-	-	-	(54)	(54)	-	-	-	-	(54)	-	-

120	*Credit institutions*	22,870	22,870	-	-	-	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	15,208	15,208	-	-	-	-	(8)	(8)	-	-	-	-	(8)	-	-
140	*Non-financial corporations*	37,838	37,838	-	-	-	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	824,926	812,119	12,807	3,002	-	3,002	-	-	-	-	-	-		-	-
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	*General governments*	5,305	5,305	-	-	-	-	-	-	-	-	-	-		-	-
180	*Credit institutions*	1,287	1,287	-	-	-	-	-	-	-	-	-	-		-	-
190	*Other financial corporations*	17,001	15,782	1,219	1	-	1	-	-	-	-	-	-		-	-
200	*Non-financial corporations*	271,196	260,753	10,443	2,847	-	2,847	-	-	-	-	-	-		-	-
210	*Households*	530,137	528,992	1,145	154	-	154	-	-	-	-	-	-		-	-
220	Total	3,167,636	3,004,457	163,180	81,505	-	81,505	(2,582)	(1,588)	(994)	(17,797)	-	(17,797)	(20,379)	231	-

EU CR1-A – Maturity of exposures

		On-demand	<= 1 year	>1 year< = 5 years	> 5 years	Total
		€000	€000	€000	€000	€000
1	Loans and advances	66,438	110,888	162,287	1,730,713	2,070,326
2	Debt Securities	5,109	40,927	148,452	133,552	328,041
3	**Total**	**71,548**	**151,816**	**310,739**	**1,864,264**	**2,398,367**

The following table shows the changes in the Group's stock of defaulted loans during the six months ending 31 December 2021. None of the Group's holdings of debt securities defaulted during this period.

EU CR2: Changes in the stock of non-performing loans and advances

		Gross carrying amount
		€000
1	**Initial stock of non-performing loans and advances**	45,528
2	Inflows to non-performing portfolios	37,618
3	Outflows from non-performing portfolios	(926)
4	Outflows due to write-offs	(521)
5	Outflows due to other situations	(3,196)
6	**Final stock of non-performing loans and advances**	78,503

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. 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).

EU CQ1 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			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
		€000	€000	€000	€000	€000	€000	€000	€000
1	**Loans and advances**	106,750	49,347	-	49,347	(173)	(5,625)	144,443	42,693
2	Central banks	-	-	-	-	-	-	-	-
3	General governments	-	-	-	-	-	-	-	-
4	Credit institutions	-	-	-	-	-	-	-	-
5	Other financial corporations	1,572	2,634	-	2,634	-	(247)	3,958	2,387
6	Non-financial corporations	92,734	42,618	-	42,618	(140)	(3,722)	126,611	37,973
7	Households	12,444	4,095	-	4,095	(33)	(1,656)	13,874	2,333
8	**Debt Securities**	-	-	-	-	-	-	-	-
9	Loan commitments given	-	-	-	-	-	-	-	-
10	**Total**	106,750	49,347	-	49,347	(173)	(5,625)	144,443	42,693

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).

EU CQ3 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
010	**Loans and advances**	**2,012,354**	**1,861,981**	**150,373**	**78,503**	**37,735**	**924**	**3,462**	**2,068**	**17,160**	**8,549**	**8,605**	-
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	8,755	6,099	2,656	8,755	-	-	-	-	-	-	-	-
040	Credit institutions	31,346	31,346	0	31,346	-	-	-	-	-	-	-	-
050	Other financial corporations	97,620	90,349	7,271	4,086	608	-	-	-	2,944	534	-	-
060	Non-financial corporations	449,037	339,309	109,728	62,082	33,593	73	3,058	1,112	11,511	6,195	6,540	-
070	Of which SMEs	349,751	255,112	94,639	59,618	31,129	73	3,058	1,112	11,511	6,195	6,540	-
080	Households	1,425,596	1,394,878	30,718	12,335	3,534	851	404	956	2,705	1,820	2,065	-
090	**Debt securities**	**315,361**	**315,361**	-	-	-	-	-	-	-	-	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	254,440	254,440	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	22,870	22,870	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	15,208	15,208	-	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	37,838	37,838	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**824,926**			**3,002**	-	-	-	-	-	-	-	**239**

160	Central banks	-			-	-	-	-	-	-	-	-	-
170	General governments	5,305			-	-	-	-	-	-	-	-	-
180	Credit institutions	1,287			-	-	-	-	-	-	-	-	-
190	Other financial corporations	17,001			1	-	-	-	-	-	-	-	-
200	Non-financial corporations	271,196			2,847	-	-	-	-	-	-	-	107
210	Households	530,137			154	-	-	-	-	-	-	-	132
220	**Total**	**3,167,636**	**2,192,338**	**150,373**	**81,505**	**37,735**	**924**	**3,462**	**2,068**	**17,160**	**8,549**	**8,605**	**239**

The table below shows the geographical distribution of the Bank's non-performing exposures. Exposures to countries other than Malta are considered to be material where these are equal to, or higher than, 10% of the Bank's total exposures (both domestic and non-domestic). Exposures to countries other than Malta, represent 11% of the Bank's total exposures, with the top three exposures being United Kingdom, France and Germany.

EU CQ4: Quality of non-performing exposures by geography

		Not past due or past due ≤ 30 days				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		€000	€000	€000		€000	€000	€000
010	**On-balance-sheet exposures**	**2,709,848**		**-**		**-**	**(20,421)**	**-**
020	Malta	2,313,902		-			(19,341)	-
030	Other countries	395,946		-		-	(1,080)	-
040	**Off-balance-sheet exposures**	**827,928**		**239**		**-**	**-**	**-**
050	Malta	825,414		239		-	-	-
060	Other countries	2,514		-		-	-	-
070	**Total**	**3,537,777**		**239**		**-**	**(20,421)**	**-**

EU CQ5: Credit quality of loans and advances to non-financial corporations by industry

		Not past due or past due ≤ 30 days			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which loans and advances subject to impairment		
		€000	€000	€000	€000	€000
010	Agriculture, forestry and fishing	21,449			(56)	-
020	Mining and quarrying	-			-	-
030	Manufacturing	83,089			(3,314)	-
040	Electricity, gas, steam and air conditioning supply	3,094			(17)	-
050	Water supply	568			-	-
060	Construction	69,849			(5,059)	-
070	Wholesale and retail trade	32,105			(1,644)	-
080	Transport and storage	20,831			(2)	-
090	Accommodation and food service activities	129,071			(351)	-
100	Information and communication	7,540			(9)	-
110	Financial and insurance actvities	-			-	-
120	Real estate activities	97,824			(2,202)	-
130	Professional, scientific and technical activities	10,388			(186)	-
140	Administrative and support service activities	10,605			(149)	-
150	Public administration and defense, compulsory social security	-			-	-
160	Education	292			-	-
170	Human health services and social work activities	22,714			(64)	-
180	Arts, entertainment and recreation	407			-	-
190	Other services	1,294			(820)	-
200	***Total***	**511,120**			**(13,873)**	**-**

The table below shows the collateral obtained by taking possession and execution processes. 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. No new properties have been repossessed during the financial year ending 31 December 2021.

EU CQ7 Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		€000	€000
1	Property, plant and equipment (PP&E)	-	
2	Other than PP&E	-	-
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**	**-**

7.5. Credit Risk Mitigation

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 on them.

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 2021 that is fully unsecured and the amount that is covered, either partly or in full, by eligible collateral, including all types of collateral and financial guarantees:

EU CR3 - CRM techniques – Overview: Disclosure of the use of credit risk mitigation techniques

		Exposures unsecured: carrying amount	Secured Carrying Amount			
				Of which: Secured by Collateral	Of which: Secured by financial guarantees	Of which: Secured by credit derivatives
		€000	€000	€000	€000	€000
1	Loans and advances	192,858	1,704,970	1,638,256	58,555	-
2	Debt securities	325,571	2,469	-	2,469	
3	**Total**	**518,429**	**1,707,439**	**1,638,256**	**61,024**	-
4	*Of which non-Performing*	1,706	58,606	53,154	562	
EU-5	*Of which defaulted*	1,706	58,606			

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.

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 Group 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 €000	Off-balance sheet amount €000	On-balance sheet amount €000	Off-balance sheet amount €000	RWA €000	RWA Density %
1	Central governments or central banks	438,445	7,296	250,220	18	12,692	5%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	29,742	-	29,742	-	2,202	7%
5	International organisations	-					
6	Institutions	87,942	-	89,817	-	25,821	29%
7	Corporates	529,081	292,219	529,309	21,526	362,774	66%
8	Retail	69,494	35,476	69,494	3,011	54,379	75%
9	Secured by mortgages on immovable property	1,313,215	492,937	1,313,215	85,968	552,970	40%
10	Exposures in default	56,875	-	56,875	-	78,461	138%
11	Higher-risk categories	49,088	-	49,088	-	73,633	150%
12	Covered bonds	2,469	-	2,469	-	247	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Claims in CIU	59,886	-	59,886	-	40,250	67%
15	Equity	2,433	-	330	-	330	100%
16	Other assets	122,085	-	310,310	-	69,588	22%
17	**Total**	2,760,755	827,928	2,760,755	110,523	1,273,347	

The table below presents a breakdown of credit risk exposures under the standardised approach by exposure class and risk weight. The risk weights correspond to the relative riskiness attributed to the exposure according to the standardised approach outlined by the CRR. The risk weight is based on the credit quality step of each exposure as outlined in Part Three, Title II, Chapter 2 of the CRR.

To calculate the risk weighted exposure under the Standardised Approach, the Group refers to credit assessments issued by External Credit Assessment Institutions (ECAIs), in line with the CRR. The ratings are 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. For unrated exposures, 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 6.2 (template OV1).

EU CR5: Standardised approach – exposures by asset classes and risk weights

		Risk Weights									
		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total Credit Exposure amount
	Exposure Classes	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Central governments or central banks	230,223	-	1,865	-	11,662	-	6,488	-	-	250,238
4	Multilateral development banks	18,730	-	11,012	-	-	-	-	-	-	29,742
6	Institutions	-	-	66,751	-	21,191	-	1,875	-	-	89,817
7	Corporates	-	-	6,867	39,426	313,882	-	190,661	-	-	550,836
8	Retail	-	-	-	-	-	72,505	-	-	-	72,505
9	Secured by mortgages on immovable property	-	-	-	1,238,315	4,364	156,504	-	-	-	1,399,183
10	Exposures in default	-	-	-	-	-	-	13,706	43,173	-	56,875
11	Higher-risk categories	-	-	-	-	-	-	-	49,088	-	49,088
12	Covered bonds	-	2,469	-	-	-	-	-	-	-	2,469
14	Claims in CIU	14,446	-	4,216	-	4,654	-	35,551	1,019	-	59,886
15	Equity	-	-	-	-	-	-	330	-	-	330
16	Other assets	233,712	-	2,883	-	316	-	68,347	1	5,051	310,310
17	**Total**	**497,111**	**2,469**	**93,594**	**1,227,741**	**356,069**	**229,009**	**316,954**	**93,281**	**5,052**	**2,871,279**

8. 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:

i. Interest rate risk – the risk that the Group's financial position and cash flow is exposed to unfavourable movements in interest rates;
ii. 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 €307k in equities at the end of 2021. 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.

8.1. 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. The Group's exposure to interest rate risk is monitored on a monthly basis by the Enterprise Risk Management Department and verified by the Asset Liability Management Department, and is reported to Executive Committee, ALCO and Risk Committee on a quarterly basis. Further information on the role of each of these Committees in the management of interest rate risk is provided in the 'Corporate Governance Statement of Compliance' within the Annual Report.

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.

8.1.1. 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.

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 ERM 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 2021, as reported in Table 'EU IRRBB1', was within the Group's Risk Appetite.

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 2021 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. The potential change in the EVE under each of the six scenarios is included in Table 'EU IRRBB1'. During 2021, 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.

EU IRRBB1 - Interest rate risks of non-trading book activities

		Changes of the economic value of equity		Changes of the net interest income	
		Dec-21	Dec-20	Dec-21	Dec-20
		€000	€000	€000	€000
1	Parallel up	4,412	9,234	1,473	1,463
2	Parallel down	1,095	(3,446)	(221)	(391)
3	Steepener	(20,292)	(16,574)		
4	Flattener	22,187	17,434		
5	Short rates up	21,670	21,332		
6	Short rates down	(6,706)	(3,737)		

8.2. 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 ERM 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. Further information on the Group's aggregate amount of assets and liabilities denominated in foreign currencies is included in Note 46.4.2 appended to the Financial Statements.

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 6.2.

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 the Group's 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 2021, the Group's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 95.7%, 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 46.3 to the Financial Statements.

9.1. Liquidity Coverage Ratio

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. The Group's LCR fluctuated consistently above the applicable minimum requirement of 100% and in line with its risk appetite. As at 31 December 2021, the LCR stood at 140%.

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting March 2021 and ending December 2021. 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.

EU LIQ1 - Quantitative information of Liquidity Coverage Ratio (LCR)

		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		Dec-21 €000	Sep-21 €000	Jun-21 €000	Mar-21 €000	Dec-21 €000	Sep-21 €000	Jun-21 €000	Mar-21 €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					443,370	432,858	409,288	384,824
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	1,117,192	1,067,032	1,014,424	968,671	77,874	74,189	70,179	66,836
3	*Stable deposits*	822,731	788,786	753,277	720,666	41,137	39,439	37,664	36,033
4	*Less Stable deposits*	294,461	278,246	261,147	248,005	36,738	34,750	32,515	30,803
5	Unsecured wholesale funding, of which:	409,523	396,439	388,014	374,478	213,426	209,870	207,960	205,356
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	0	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	409,523	396,439	388,014	374,478	213,426	209,870	207,960	205,356
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	826,770	822,165	803,818	782,349	61,944	63,068	63,027	62,721
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*	826,770	822,165	803,818	782,349	61,944	63,068	63,027	62,721
14	Other contractual funding obligations	6,564	5,700	4,445	3,582	5,846	4,578	2,930	1,988
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	**Total Cash Outflows**					**359,090**	**351,705**	**344,096**	**336,901**
Cash Inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	64,441	66,507	63,958	62,588	54,855	57,368	55,641	54,621
19	Other cash inflows	2,050	1,589	1,999	1,884	2,050	1,589	1,999	1,884
20	**Total Cash Inflows**	**66,491**	**68,096**	**65,957**	**64,472**	**56,904**	**58,957**	**57,640**	**56,505**
Total Adjusted Value									
21	**Total HQLA**					**443,370**	**432,858**	**409,288**	**384,824**
22	**Total net cash outflows**					**302,185**	**292,748**	**286,456**	**280,396**
23	**Liquidity Coverage Ratio (%)**					**147%**	**148%**	**143%**	**137%**

9.2. Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. Under CRR, institutions are required to maintain a NSFR of at least 100%. The Group's NSFR fluctuated consistently above the 100% regulatory minimum and in line with its risk appetite. As at 31 December 2021, the NSFR stood at 136%. The difference between the Group and the Bank's NSFR is immaterial.

EU LIQ2: Net Stable Funding Ratio

		Unweighted value by residual maturity				
		No Maturity	< 6 months	6 months to <1 year	> 1 year	Weighted Value
		€000	€000	€000	€000	€000
Available stable funding (ASF) Items						
1	Capital items and instruments	-	-	-	252,488	252,488
2	*Own funds*	-	-	-	252,488	252,488
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		1,362,420	105,634	344,882	1,715,081
5	*Stable deposits*		925,651	53,348	223,612	1,153,661
6	*Less stable deposits*		436,769	52,286	121,270	561,420
7	Wholesale funding		573,476	39,991	64,475	303,007
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		573,476	39,991	64,475	303,007
10	Interdependent liabilities		-	-	-	-
11	Other liabilities	-	10,852	538	17,744	18,013
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above categories*		10,852	538	17,744	18,013
14	**Total available stable funding (ASF)**					**2,288,589**
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					30,462
17	Performing loans and securities:		*98,208*	*89,375*	*1,849,243*	*1,401,104*
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		48,190	14,717	73,492	85,669

20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		14,312	56,564	554,854	499,893
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		429	3,813	35,851	25,424
22	*Performing residential mortgages, of which:*		4,187	13,812	1,220,897	810,247
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		1,216	8,785	1,182,573	773,673
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		31,519	4,282	-	5,293
26	Other assets:	-	31,743	12,462	176,233	208,397
27	*Physical traded commodities*				-	-
31	*All other assets not included in the above categories*		31,743	12,462	176,233	208,397
32	Off-balance sheet items		2,653	83,086	716,833	42,839
33	**Total RSF**					1,682,802
34	Net Stable Funding Ratio (%)					136.00%

9.3. Asset Encumbrance

BR 07/2014 on the *"Publication of Annual Report and Audited Financial Statements of Credit Institutions"* and EBA Guidelines on disclosures under Part Eight of the CRR require institutions to disclose information on the level of encumbrance of all on-balance sheet assets and all off-balance sheet items.

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The Treasury Unit seeks to obtain funding from the ECB through the relevant monetary policy tools. This facility id dependent on pledging high-quality collateral in the form of bonds to the ECB. For this purpose, the Treasury Unit maintains a stock of eligible collateral that can be used to obtain secured funding. These investments are of sufficient quality to be acceptable as collateral by major institutions.

As at end December 2021, the Group's encumbered assets related exclusively to debt securities which are pledged with the ECB for the purpose of existing and potential long-term re-financing operations and cash in favour of the Depositor Compensation Scheme.

Template AE1 discloses the Group's encumbered assets and unencumbered assets classified by asset type, while Template AE3 discloses the carrying amount of financial liabilities associated with the encumbered assets. The figures represent the median values of the figures reported to the MFSA in the preceding four quarters[1].

EU AE1 - Encumbered and unencumbered assets

		Carrying amount of encumbered assets €000	**Fair value of encumbered assets €000**	**Carrying amount of unencumbered assets €000**	**Fair value of unencumbered assets €000**
010	**Assets of the disclosing institution**	-		-	
030	Equity instruments	-	-	62,317	62,317
040	Debt securities	148,552	155,222	171,295	171,752
050	of which: covered bonds	-	-	3,542	3,501
070	of which: issued by general governments	145,742	152,412	93,023	97,724
080	of which: issued by financial corporations	2,041	2,041	35,472	34,268
090	of which: issued by non-financial corporations	769	769	42,800	39,760
120	Other assets	2,281		156,617	
	Total	**150,833**	**155,222**	**390,229**	**234,069**

[1] The figures will not match the figures reported in Note 46.3 appended to the Financial Statements

EU AE3 - Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received, and own debt securities issued other than covered bonds and securitisations encumbered
		€000	€000
010	Carrying amount of selected financial liabilities	1,108,909	150,833

10. Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk. Operational risk is inherent in the Bank's products, services and activities. The Group's operational risk management framework and governance are fully integrated into the Group's Operational Risk Policy. The 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 Group'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 ORSG Unit aims to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses. The Department is responsible for the framework of real time reporting of operational loss events and provides immediate response as required, as well as maintaining a database of operational losses and compiling and presenting a quarterly report to the Executive Committee and the Risk Committee.

Operational risk assessments are carried out 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.

The ORSG Unit is tasked with the management of the Group's insurance programme covering its insurable risks. Apart from providing a mechanism for effective risk transfer, the purchase of insurance for operational risk coverage acts as an external check (carried out by the broker and insurers) on the quality of operational risk management of the Group, and is a demonstration that the Group has an effective risk management framework and risk transfer strategy.

The Group triggered its Pandemic Plan in early 2020 in response to the COVID-19 outbreak. The preparations that the Group took to prevent and react to COVID-19 instances continued in 2021 which helped in minimising the impact on the Group's operations, containing any transmission within Bank premises to other members of staff whilst continuing to safeguard the well-being of customers.

As part of the ORSG department, the Outsourcing Risk Officer has oversight of risks emanating from arrangements with third parties and maintains ongoing communication with the Business Process Owners who in turn are responsible for the identification and management of each specific risk within third party arrangements. The Outsourcing Risk Officer maintains an Outsourcing Register with details of all outsourcing arrangements and consults with Regulatory Compliance in the assessment of the criticality of these arrangements.

The Bank 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 6.2. In addition to this, the Bank also sets aside capital for IT/Cyber risks as part of its Pillar 2 capital allocation (Section 6.3).

EU OR1: Operational risk own funds requirements and risk-weighted exposure amounts

		Relevant Indicator			Own Funds Requirement	Risk exposures amount
		Year 3	Year 2	Last year		
		€000	€000	€000	€000	€000
1	Banking activities subject to basic indicator approach (BIA)	51,699	54,589	63,804	8,505	106,307
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	*Subject to TSA:*	-	-	-		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

11. 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 Unit, 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.

12. 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.

During 2021, the Group articulated its risk appetite for climate change and related risks within its Risk Appetite Statement. A risk indicator which measures the Bank's exposure to ESG risk within its loans and securities portfolios was introduced. The Group plans to enhance the integration of climate change risk into its risk management framework during 2022.

The regulatory framework on ESG, including climate change risk, is evolving. The Bank is following closely regulatory guidelines, developments and supervisory expectations.

During 2021, the EBA issued a 'Report on Management and Supervision of ESG Risks for Credit Institutions and Investment Firms'. This report assesses the potential inclusion of ESG risks into the three pillars of the banking prudential framework. In this regard, the EBA has recently issued standards on Pillar 3 disclosures on ESG risks, in accordance with Article 449a of the CRR.

Stress testing is considered a useful tool for modelling climate risk impacts on the risk profile of a bank. In the above-mentioned report, the EBA acknowledges that "the design of climate stress tests is very complex and faces several issues". Such challenges include assumptions made about the different climate scenarios, uncertainties about climate developments themselves, environmental policies adopted by national and international government bodies, among others. Nevertheless, understanding the impacts of climate on a portfolio's risk parameters is a crucial input for portfolio monitoring and capital allocation.

In its 2022 Annual Work Programme, the EBA indicated that "An EU-wide stress test will be carried out by the EBA in 2023, relying on methodologies, scenarios and key assumptions to be developed with the ESRB, the CAs and the Commission in 2022."

The Bank is following closely these developments through meetings of its ESG Committee, an "ESG Action Tracker" (the Bank's internal dashboard to track its progress on all ESG-related activities) and ESG workshops involving the various internal stakeholders.

13. Reputational 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 2021, as part of the Group's commitment to uphold the highest standards of corporate governance, the Board of Directors reviewed the Memberships 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 Treasury Policy, Interest Rate Risk in the Banking Book Policy, Cloud Computing Policy, Conflicts of Interest Policy, Remuneration Policy and Best Execution Policy.

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.

14. CRR II 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 6 and Note 46.6 to the Financial Statements
Article	438	Capital requirements	Section 6 and Note 46.6 to the Financial Statements
Article	439	Exposure to counterparty credit risk	Not applicable
Article	440	Capital buffers	Section 6
Article	441	Indicators of global systemic importance	Not applicable
Article	442	Credit risk adjustments	Section 7
Article	443	Unencumbered assets	Section 9.3
Article	444	Use of ECAIs	Section 7.5
Article	445	Exposure to market risk	Section 8
Article	446	Operational risk	Section 10
Article	447	Exposures in equities not included in the trading book	Section 8
Article	448	Exposure to interest rate risk on positions not included in the trading book	Section 8
Article	449	Exposure to securitisation positions	Not applicable
Article	450	Remuneration policy	Remuneration Report
Article	451	Leverage	Section 6.4
Article	452	Use of the IRB Approach to credit risk	Not applicable
Article	453	Use of credit risk mitigation techniques	Section 7.5
Article	454	Use of the Advanced Measurement Approaches to operational risk	Not applicable
Article	455	Use of Internal Market Risk Models	Not applicable