APS Bank plc

ANNUAL REPORT & FINANCIAL STATEMENTS 2021

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CHAIRMAN'S STATEMENT

Dear Shareholders

It gives me immense pride to be addressing you for the first time following the handover from the previous Chair Mr Frederick Mifsud Bonnici who served faithfully on the Board of Directors for 4 years. I would like to thank the Bank's Shareholders for placing their collective trust in me when appointing me to the Chair role late in 2021. I recognise and acknowledge the Shareholders' support provided during this period and commit to discharging my duties to the very best of my abilities. I am delighted to advise that the transition of the Board leadership was very smooth with the support and cooperation of the members of the Board, the Chief Executive Officer ("CEO") and the Regulatory Authorities.

Context and Background of current year

Following on from the global shocks that the Pandemic wreaked in 2020, with an unprecedented pull-back in global growth of -3.2%, we were relieved that the introduction of new vaccines and an improvement in preventive measures in 2021 enabled us to have a modicum of recovery. Though the onset of new variants led to soaring infection rates, with some 10 million new cases globally in the last week of the year, the impact on mortality rates and health systems was more subdued and prospects increased of a gradual return to normality in economic and social life. Whilst we continue to be guided by public health advice, the effects of the Pandemic on the financial ecosystem remains a top-of-mind concern. Vaccination rates in Malta and in the main trading partners and tourism markets continue to be positive determining factors in stabilising economic well-being in Malta.

As a service and people-focused industry, individual and public safety concerns are a primary consideration for APS Bank and we have taken all and any steps to protect our employees and our customers. Over the last few years, we have continued to see fundamental and long-term changes in work patterns and, maybe more importantly, significant developments in how purchasing decisions are made, including in financial services. The Bank is aware and sensitive to these far-reaching societal changes.

A financial performance that adds value to all Stakeholders

With an APS Group Profit Before Tax figure of €24.1 million, the current year's performance bears testimony to the strength of the business strategy and the commitment to the transformation journey that the Bank has embarked upon. Despite the unprecedented economic and societal challenges posed by the pandemic, the Bank has continued to respond with agility and understanding to the needs of all its customers. In the Commercial sector, the Bank has supported closely the categories that make up the country's economic framework. This was achieved through the intimate understanding of our customers' businesses with bespoke and tailor-made solutions, in addition to the National support programmes made available by Government. In the Retail area, the investment in technology and digital solutions, coupled with a significant effort to keep our branches open have continued to be the hallmark of our commitment to serve customers uninterruptedly despite the significant challenges that we face. The track record of the Bank's credit losses is a positive one. The CEO's report will address the Group's performance in more detail.

The Board of Directors focuses strongly on the adequacy of the Group's capital position that underpins our moderate to low risk profile. With Tier 1 capital at a level of 13.0% and a Total Capital of €235,597K, the Board believes that the Group's return on average equity, of 7.1% for 2021, (Bank 7.7%) is a result that evidences the strength and sustainability of a robust business model and that permits us to grow our core business and support our cash dividend policy. For, whilst a strong capital position is important from a Regulatory and from a financial stability point of view, dividends payable represent the reward to the shareholders for opting to invest in a particular industry and company. Therefore, with recent lifting of the Regulatory constraints on dividend distribution, the Board will work closely with the Regulator to aim for an equitable distribution of profits that also respects financial stability. The Bank will be recommending a dividend to shareholders of €4,615,385 equating to 1.85 cents per share.

The Board of Directors

I am delighted to welcome Prof Juanito Camilleri to the Board of APS Bank plc. Prof Camilleri brings a wealth of entrepreneurial, academic, governance and scientific skills to the Board of Directors. He will complement the collective skills and competences of the Board thus ensuring that the Bank and the Shareholders continue to benefit from the combined strengths of the senior-most Governing body. Throughout the year, the Board has continued to meet regularly with a strong delegated reliance on a fit-for-purpose Board Committee structure. Board Committees are chaired by Directors that conduct appropriate groundwork and make recommendations for Board approval. The Governance review in these Financial Statements provides more detail in this respect. I am also very pleased to share the appointment of Dr Laragh Cassar, a current Non-Executive Director as the Senior Independent Director. This appointment will bring a new dimension to corporate governance in APS Bank. Whilst recognising that the Bank displays a very strong Management Body, succession plans are in place to ensure that the Bank can continue to meet challenges not only from a business point of view, but also in terms of a robust Governance structure. I reiterate my sincere thanks to my fellow Directors for their contributions.

Recognising leadership, talent, effort and competence

The Bank's human resources, most ably led by the CEO Marcel Cassar, reflect a diverse and experienced team of individual strengths and competences that is focused on attaining strong and sustainable business results. The depth and range of skills and competences in the senior Management team provide the robustness required by an organisation that is focused on growth in a highly competitive market. This within the context of very high aspirational customer service excellence standards underpinned by a strong culture and values set. It is my privilege to be part of the APS family and to recognise the qualities, output and values of my fellow Directors, the Management and all employees of the Bank. The culture of the institution and the values that drive behaviour contribute very strongly to the ethical character of APS Bank, its actions, business plans and consequent contribution to the development of economic well-being in Malta and Gozo. I sincerely thank each and every colleague for their valued contributions.

Strategic Thinking and Sustainable Growth

The work of the Board is attuned to the specific objective of maximising long-term value, in a compliant manner having due regard to all the different stakeholders involved. Additionally, the Board is committed to continue to support business and economic growth mindful of the fact that existential issues such as climate-change need to be prioritised if we are to make meaningful inroads into the sustainability of our lives and that of our descendants. To this end, the Environmental, Social and Governance ("ESG") Board committee brings together Non-Executive Directors and senior Managers to map a sustainable component for the Bank's initiatives in the ESG space. The Bank also started incorporating ESG considerations in the review of its lending activities and in its own operations. The Board of Directors' meeting agenda is driven by fundamental principles of Creating Long-Term Value, Responsibility to Stakeholders, Instilling Values and Shaping Culture, Setting Strategy, Exercising Accountability and Scrutinising Performance.

Relationship with Shareholders

A primary responsibility of any Chair is to ensure that the linkage between the organisation and its Shareholders is current, transparent and value adding. During the year under review the Board and the undersigned had several opportunities to exchange and agree with the Shareholders on matters of mutual interest. Significant progress has been achieved in preparing the Bank for the next phase of the capital development plan. This would not have been possible without the full support and cooperation of all the Shareholders.

Outlook

The next and following years will continue to provide challenges in many ways and forms. From an economic point of view, supply chain disruption, potential inflation and the monetary policy developments in the Eurozone and indeed in the various economic blocs will shape the financial landscape that we operate in. Legacy issues arising from the Pandemic and increasing geopolitical tensions also need to be monitored. The evolving conflict in Ukraine – if protracted – might exacerbate commodity and energy price pressures and weaken the landscape in terms of global trade relations, adding to existing uncertainty. We cannot mention outlook considerations without referring to the difficulties that we as a sovereign country are facing with the decision by the Financial Action Task Force to categorise Malta as a Jurisdiction Under Increased Monitoring (i.e., Grey listed). This aspect of country reputation requires continuous and long-term action by Government, Authorities, Regulators, Banks, Warranted professionals and all other market operators. APS Bank is committed to uphold all laws and regulations, local and international to ensure that the country regains its standing as a reputable financial jurisdiction.

It is also evident that Cyber risks will continue to be a very real threat to the integrity of financial systems globally. The proliferation of digital activity by vast numbers of consumers across the globe, and also in Malta and Gozo, and our dependence on technology calls for the highest level of cyber security standards and vigilance. Moreover, we all have a collective responsibility to address and commit to Climate actions so that we can aim for a sustainable future for our planet.

The Board of Directors and the Management team of APS Bank are confident that business and other plans are in place to address, mitigate and in some cases take advantage of market risks and opportunities. An important capital development plan is in the final stages of implementation, allowing the Bank to strengthen its capital base and place itself in a position that it can continue to grow sustainably.

Our focus on people, be they employees, customers, Shareholders or society at large, will continue to be the driving force of our competitive advantage and will be guided by the highest principles of ethical behaviour and robust governance and transparency, and of sustainable growth.

Martin Scicluna

10 March 2022

If 2020 brought about unprecedented challenges to humankind because of a virus that took over our lives and threatened our general well-being, 2021 dawned with new hope as the rollout of a vaccine promised the return of some normality. As we continued to work relentlessly to support all our staff, customers, their families and the community at large in every way possible, the year under review enabled us to continue making progress in our services and product lines, in the transformation of the Bank and the implementation of our strategic projects. Above all, it created the opportunity to show agility and resilience in producing once again excellent results while capturing market share and taking the lead at courageously facing the new normal.

But 2021 too offered us its perfect storm of challenges. A grounded interest rate environment, heavy reputational issues hanging over Malta's financial services industry and pandemic disruptions only added to the pressures which regulatory demands, technology requirements and talent availability make on margins and operating costs. Nevertheless, we delivered the best results in the circumstances and the strongest ever Bank solo performance. Critical to this success is a curated business planning process based on a 3-year horizon, rolled over annually to remain responsive to emerging trends and changes in the business and market environment. While a comprehensive strategic cycle review is carried out every third year, COVID-19 accelerated this exercise and drove us to revisit our key drivers to ensure they remained relevant priorities.

Apart from looking at the financial and operating performance of 2021, this Review will touch briefly on how we tackled our strategic objectives to deliver these successful results.

Excellent financial results driven by strong operating fundamentals

In 2021, Group Operating Income grew by 14.5% to €63.1 million (Bank: by 14.0% to €61.9 million) reflecting a rebound from the main revenue sources despite continuing uncertainty in market conditions. Net Interest Income is up by 13.3% to €55.4 million (Bank: by 12.9% to €53.9 million), mainly deriving from the retail and commercial lending books, with a smaller contribution from the Bank's international syndicated loan and treasury portfolios. It is satisfying to note that in the tight interest rate environment and uncertain economic conditions which characterized most of the year, commercial lending remained subdued while in contrast home finance again reached record levels. As various fiscal incentives, particularly those aimed at first-time buyers, sustained a buoyant property market, the Bank continued to grow its share of the home loan sector despite consistent, stiff competition. Net Fee and Commission income increased on 2020 by 34.3% (Group) and 18.8% (Bank), respectively, as income on transactional banking, investment and insurance services bounced back on stronger activity.

Despite the challenges and uncertainties which the pandemic continued to bring about, the Bank's strategy of diversification again saw a healthy domestic loan book spread across varied economic segments. For the retail portfolio, mainly comprising home loans and making up 65% of the entire loan book, all moratoria originated in 2020 expired with no defaults, evincing not only the quality but also the resilience of the typical, Maltese homeowner. Commercial lending is a different story as some borrowers commenced repayments and servicing of their borrowings while others, especially those exposed to tourism and related sectors such as hospitality, leisure, entertainment and accommodation, remained challenged by the pandemic. These industries continued to benefit from moratoria arrangements and the emergency financial support of the APS Jet Pack, introduced in 2020 in collaboration with the Malta Development Bank to help local businesses experiencing cash flow problems. However, the book remains well collateralised and we are confident that the Bank's forbearance measures, accompanied by the acumen and adaptability of our commercial borrowers, will reap the desired results with no defaults in sight. Once again, we are gratified to see APS Bank supporting the widest possible community spectrum, from young couples at the start of their life's travels to the more established corporate names as they journey across their business cycle.

Another source of diversification is our book of international loan participations, which exposes the Bank to different geographies, industries and shorter maturities than our domestic corporate book. After the more guarded approach taken in 2020 due to the risk and volatility which the virus outbreak spread cross-border, we resumed growth of the book selectively in 2021 as appetite started to return for a number of segments.

All this put together in the circumstances, we look at our loan book as diversified and robust. As we continue to take a prudent view on credit quality, including a client-by-client approach insofar as commercial overlay is concerned, we see performance migration out of Stage 2 leading to a release of €1.5 million from our Expected Credit Loss (ECL) provision compared to 2020's increase of €5.5 million. We are also pleased to see the Bank persisting in recovering legacy loan loss provisions and to make improvements in collateral positions, in spite of the challenging conditions.

Excellent financial results driven by strong operating fundamentals (continued)

In terms of cost-efficiency, 2021 saw both the Group and Bank Cost/Income ratios deteriorate slightly on 2020, from 60.8% to 64.3% and from 61.2% to 64.1%, respectively. These ratios, which compare well with the core domestic banking segment and are below the average EU ranges, are in line with expectations and reflect the Group's and Bank's stage of their journey. There is continued growth in our organisation and personnel, technology, risk and security infrastructure and network transformation. During the year under review, significant resources were invested in compliance and digitisation projects, improving considerably the quality and accessibility of the Bank's data. 2021 also brought its fair share of overheads associated with COVID-19, as the Bank spared no expense in ensuring the continuity of business operations and the wellbeing of staff and customers alike throughout the various phases of the outbreak. The changing realities brought about by the pandemic also have their silver lining, as we continued to fine-tune our 'ways of work', implementing modern, hybrid models of working which lead to greater staff engagement as well as more efficiency.

It is with great satisfaction that we are able to report an increase in pre-tax profit of 52.4% for the Group, from €15.8 million to €24.1 million, and of 52.9% for the Bank, €15.5 million to €23.7 million, making our bank once again a leading player in the domestic market and across a range of performance indicators.

Behind these results is the well-curated strategy developed around a simple model built on the three lines of Personal, Commercial and Investment business. Not only does this model produce diversification but it also allows the Bank to generate sources of income in a way that makes the most efficient use of funding, assets and capital. In the year under review, we saw healthy growth in domestic deposits and lending activity both of which increased by 14%. Supported by robust increases in our syndicated loan portfolio and liquidity stock, total assets grew by 15.4% year-on-year to approach €2.8 billion. Against this supply of financial resources, our return on average equity (ROAE) gains more significance; in fact, Group ROAE increased to 7.1% in 2021 from 5.1% in 2020 (Bank: 7.7%, up from 5.3% in 2020).

Against this profile of greater systemic relevance and contribution to the nation's economic activity, the Group Total Capital ratio, comprising Tier 1 and 2 elements, stood at 16.9% (2020: 18.8%) while for the Bank this corresponds to 16.8% (2020: 18.6%). After the heavily oversubscribed issue of Unsecured Subordinated Bonds 2025-2030 late in 2020 which brought in €55 million of Tier 2 capital and a first-time listing of capital instruments on the Malta Stock Exchange, the second half of 2021 saw preparations picking up in earnest for the last phase of our 2018-2022 Capital Development Plan. This will see the Bank going to the market issuing equity securities and seeking admissibility to listing, paving the way to a new era which should see a more diversified shareholder base providing more capacity for future growth.

More numbers and statistics can be found in the 'Financial Statements' section of the Annual Report. This Review does not delve into performance indicators in any detail however it presents the picture of a Bank that showed resilience and rebounded strongly in a year of continued disruption, stiff competition and challenges of all shapes and forms. Above all, these excellent results would not have been possible were it not for the close collaboration within the Management body and the focus we place on carefully formulated strategic objectives. These were the objectives we set for 2021 and how we worked to achieve them.

Attention to all stakeholders, enriching their experience to build long term relationships

Being preoccupied with keeping the customer central to our business model, we embarked on various initiatives aimed at enlarging and enriching the mutual relationship. In Q1 we launched the APS Check-In, a friendly online tool to ensure that customer data is kept up-to-date and accurate while facilitating the on-boarding process. We also maintained regular campaigns to keep our customers informed on new offers, with the emphasis being placed on our Personal Pension Plans and the APS Funds SICAV, complemented by the highly successful series of APS Investment Chats broadcast online to a wide audience. And we also improved our customer intelligence and data surveys as these are at the basis of our product proposition strategy. In 2021 we invested time and resources in sharpening our understanding of how customers are responding to developing market conditions, including competition, and how their behaviour should cause us to react effectively on our offerings, whether core products like home loans or our investment and wealth management recommendations. This was also a year when we saw our affiliated undertakings accelerate their rhythm of activity. On 1 February 2021, IVALIFE Insurance Limited received its authorisation to write long-term business in relation to Class I (Life and Annuity) and Class III (Linked long-term) risks under the Insurance Business Act. With our partners Atlas Insurance PCC Limited, GasanMamo Insurance Limited and MaltaPost plc, we are

Attention to all stakeholders, enriching their experience to build long term relationships (continued)

working to grow this venture into a strong player that will create value to the market and benefit the community at large. The results from its first months of operations have been very positive and APS Bank is now a Tied Insurance Intermediary of IVALIFE. 2021 was also a year of sustained growth for ReAPS Asset Management Limited, our wholly-owned UCITS fund management subsidiary licensed for investment management services by the MFSA. The company's organisation was further strengthened in line with the business plan and the scaling-up of its product and distribution range. During Q3 Ms Elizabeth Carbonaro received MFSA approval to join the ReAPS Board as Non-Executive Director. Another aspect of stakeholder engagement was the Bank's decision to start publishing quarterly financial information about its performance through official company announcements to the market.

Ensure employee engagement and having the right talent to reinforce brand value

We maintained our engagement with our 'family' during another year which again presented many challenges. In an environment that can be best described as a 'war for talent', we succeeded in attracting staff to strengthen various functions and positions, supporting growth and bringing in specialist skills in various areas, not least technology and compliance. Our plans ultimately depend on having the best talent possible, while offering a well-defined vision, common culture and excellent employment conditions. We also continued to provide very generous programmes to promote the wholesome development of all staff, including coaching, training and education opportunities, family-friendly work arrangements and incentives that go beyond your normal reward structures. It is satisfying to note that the year under review saw almost 5,400 applications being received for 126 job offers that were published, which attests to our slogan of being an 'employer of choice'! 2021 also saw significant investment poured into the continuous development of our staff, with more than 20,000 training hours delivered. There was also the further strengthening of our management team which is now practically at its full complement. Of particular note was the holding of three Staff Townhalls, a residential Senior Management Offsite in Gozo on 'The Future of Work', further Peakon Staff Surveys, which serve to give a 360º view of many aspects of staff engagement, as well as the introduction of 'Training Tuesdays', allowing branches to open late permitting staff to receive structured training on a regular basis. Sadly, it was again a quiet year for the normally busy Social Activities Committee and Sports Committee, although staff meetings and other in-person events were resumed to the extent permitted by the regulations issued from the Malta Health Authorities.

Embrace the digital and technology evolution to further accelerate transformation

The year under review saw a never-ending pipeline of projects that are driving the Bank's digital transformation across many areas, from the backbone technology infrastructure to the more visible, customer interfacing channels. The multi-million euro investment goes into new solutions as well as upgrades to existing systems, creating pressure on human resources management. As anticipated last year, 'myAPS Business' was rolled out successfully permitting business customers more convenience and versatility to carry out transactions seamlessly over the internet and mobile banking. The Bank remained at the forefront in the use of virtual technology that now drives the new ways of working and communicating, responding to the needs of both staff and customers. 2021 also saw the introduction of Robotic Process Automation ("RPA") in various areas of operations, facilitating the automation of routine tasks and improving efficiency. And particular attention was given to the implementation of more stringent measures across the Bank's channels in the face of increased risk of cyber-attacks and threats to information security. In this connection, Q1 also saw the introduction of Strong Customer Authentication ("SCA"), a process that makes online purchases safer and more secure.

Unleash and optimize Corporate Social Responsibility ("CSR") power as part of a dynamic ESG agenda

Whereas many corporations tend to look at CSR expenses, typically classified as discretionary, as the first to get slashed in times of challenge, we see it as an opportunity to put ourselves at the service of our community with even greater enthusiasm. The year under review was another example in this regard, with increased focus on an ESG (green and social) agenda also reflecting the Bank's purpose and market trends. Although still relatively scaled down in comparison to pre-pandemic days, our CSR programme for 2021 saw the Bank actively supporting various events in the arts, culture and community spaces. Some activities are worthy of particular mention. The year started with the hosting of the 2nd edition of the Malta Sustainability Forum in a virtual, but not any less successful, version held over five consecutive days. And the regular, monthly appointments with the APS Talks were kept, also in virtual format. We supported various publications, exhibitions and other cultural activities, most prominently the 2nd edition of the APS Summer Festival which was held in collaboration with the University of Malta

Unleash and optimize Corporate Social Responsibility ("CSR") power as part of a dynamic ESG agenda (continued)

at the Msida Campus. Other milestone announcements in 2021 included the national award received from Arts Council Malta for the promotion of arts and culture, and the long-term partnership agreement signed with *Fondazzjoni Patrimonju Malti* (FPM) in September. Under this agreement, the Bank is passing use of its former main office premises in St Paul's Street, Valletta to FPM for the historic palazzo to be transformed into a state-of-the-art permanent gallery and exhibition space.

Create products, services and channels that simplify the customer experience

In 2021 we continued to improve our product and service offering and the channels through which we interact with our customers. Q3 saw the launch of the *APS Booost*, a new loan designed to help students between the ages of 18 and 40 further their studies to programmes recognised at MQF Level 5 or higher and on very attractive terms. The Bank's sustainability agenda was at the heart of two specific initiatives launched during the year under review. The *Green Finance* facility, in partnership with the European Investment Fund ("EIF") under the Energy Efficiency and Renewable Energy investment scheme, permits retail and commercial customers to invest in technology or devices to reduce their carbon footprint, while benefiting from longer repayment terms, subsidised interest rates and more. The *Green Home Loan* offers significantly discounted interest rates and other beneficial terms to customers buying a property that satisfies an EPC energy efficient rating of A or B. Q3 also saw the launch of the *New Hope Guarantee Scheme*, in conjunction with the Ministry for Social Accommodation and the Housing Authority. The Scheme aims to assist aspiring home-owners who wish to acquire their primary residence but are unable to obtain life insurance cover because of a disability, medical condition or history. Improvements to the terms and conditions of other products and services took place regularly, not least to respond to customer requirements and expectations. Channels were also scaled up, starting with increased service hours for the Contact Centre which, with the introduction of a video service, comes closer to the description of a digital branch that is open 12 hours a day. And a new St Paul's Bay branch was opened early in the year while an enlarged and transformed Żejtun branch was finished and soft-opened in December. We also took the opportunity to limit further the services offered from our Floriana branch as the lease of the premises came to expire.

Concluding remarks

2022 is a landmark year for the Bank as it approaches the market to raise equity capital for the first time in its 100+ year history. This long-awaited step is not a goal of prestige, but an integral part of the plan agreed with the Shareholders in 2018 that sees the Bank on a path of growth also through the diversification of its shareholder base. Our strategy of being a leading community bank is no longer just about developing our product range, technology model and gaining market share but it is increasingly about being a pillar of support for Maltese businesses and families, as the experience of recent years has shown. That strategy is aptly captured by the simple slogan of being 'the community Bank in Malta' and is fortified by our values of excellence, authenticity, passion, inclusiveness and remaining contemporary. We believe to have the vision and tenacity to deliver all of this in the right balance of prudence and optimism for the future of APS Bank.

Marcel Cassar

10 March 2022

1. Martin Scicluna
Chairman of the Board

Appointed to the Board in November 2013 and as Chairman in September 2021.

Committee Memberships: Nominations and Remuneration Committee (Chair)

Bio: Martin is an Associate of the Chartered Institute of Bankers, holds a Diploma in Financial Studies and was elected fellow of the Institute of Financial Services in 1999. Martin held a number of managerial appointments in Mid-Med Bank between 1976 and 1996, following which he joined Midland Bank plc which later became HSBC Bank Malta plc. From 2006 to 2012, he served on several boards for HSBC Malta regulated subsidiaries and on its Audit Committee. Since 2012, he has held directorships in asset management and insurance companies licensed in Malta. Martin has also been actively engaged in various areas of voluntary work for the last 40 years, including Scouting, the preservation of the built and natural environment and financial services education. He has served on the Boards of Administration, in a voluntary capacity, of Non-Governmental Organisations such as Din l-Art Ħelwa (Malta's 'National Trust') and the HSBC Malta Foundation.

Significant External Appointments: Chairman – Accredited Insurance (Europe) Limited;
Chairman – Zarattini International Limited;
Non-Executive Director, Member of Investments Committee - Merck Capital Asset Management Limited;
Non-Executive Director, Member of Investments Committee - Thybo Malta Limited.

2. Victor E. Agius
Non-Executive Director

Appointed to the Board in October 2018.

Committee Memberships: Board Credit Committee (Chair)
Environment, Social and Governance Committee (Chair)
Risk Committee (Member)

Bio: Victor has an extensive career in financial services and investment banking, which includes 23 years at the World Bank Group in Washington DC, three years of which at the European Bank for Reconstruction and Development in London and seventeen years with the Council of Europe Development Bank in Paris. Past appointments consist of extensive field missions in leadership responsibilities to over 60 countries in Africa, East Asia, Middle East & North Africa, Europe and in Former Soviet Republics. Victor graduated with a BA(Hons) in Economics from the University of Malta, holds an MBA from the Manchester Business School and completed Senior Finance and Banking Executive programmes at the Wharton School of Finance and at the Stanford Graduate School of Business.

Significant External Appointments: None

3. Joseph C. Attard
Non-Executive Director

Appointed to the Board in July 2018.

Committee Memberships: Technology and Innovation Committee (Chair)
Board Credit Committee (Member)
Risk Committee (Member)

3. Joseph C. Attard (continued)

Bio: Joseph has over 25 years of local and international experience in the Information and Communication Technology (ICT) sector. Between 2007 and 2015, he was the Chief Technology Officer of Emirates International Telecommunications LLC and subsequently Chief Technical Officer of GO plc up till 2020. He holds a Bachelor's degree in Electrical Engineering (Hons) from the University of Malta, a Master of Science (MSc) in Operational Telecommunications from the University of Coventry (UK) and a Doctor of Philosophy (PhD) in Telecommunications Engineering from University College London (UK). Since 2002, he has regularly lectured at University College London on ICT related topics.

Significant External Appointments: None

4. Franco Azzopardi
Non-Executive Director

Appointed to the Board in September 2008.

Committee Memberships: Audit Committee (Chair)
Risk Committee (Member)
Technology & Innovation Committee (Member)

Bio: Franco is a Certified Public Accountant with a UK post-graduate Master of Science degree in Finance from University of Leicester. He spent twenty-seven years up until 2007 working in public practice, ten years of which with Deloitte Haskins and Sells, and later in a firm he co-founded in 1990. He is today a professional director and a registered fellow member of the UK Institute of Directors. He serves on Boards of Directors, Audit, and Risk Committees of both regulated companies in various sectors including banking, insurance, and payments. He is the CEO of a leading logistics company in Malta. Franco also personally contributed towards the development of the Malta Institute of Accountants. He is a fellow member of the said Institute, having served on the Council from 2007 until 2019. He was also elected President of the Institute for the term 2015-2017.

Significant External Appointments: Director and CEO - Express Trailers Limited;
Non-Executive Director, Audit Committee (C), Member of Risk Committee, Member of Investments Committee - Atlas Insurance PCC Limited;
Non-Executive Director, Audit Committee (C), Member of Remuneration Committee - RS2 Software plc;
Non-Executive Director, Audit Committee (C) - Grand Harbour Marina plc.

5. Juanito Camilleri
Non-Executive Director

Appointed to the Board in September 2021.

Committee Memberships: Risk Committee (Chair)
Audit Committee (Member)

Bio: Juanito holds a BSc (Hons) in Computer Science from the University of Kent at Canterbury and a Doctor of Philosophy (PhD) in Theoretical Computer Science from the University of Cambridge. Over the years, he served as a non-Executive Director and consultant on the boards of several public and private entities. Juanito was successively CEO at GO mobile and at Melita Cable plc, then served as Rector of the University of Malta from 2006 to 2016. Between September 2014 and January 2017, he served as non-Executive Director of HSBC Bank Malta plc, and for a period was also Chairman of the Risk Committee. Apart from the significant appointments listed below, he serves as a non-Executive member of the Board of Governors of St. Edward's College. Juanito is the owner of Ta' Betta Wine Estates and St Anne's Clinic.

5. Juanito Camilleri (continued)

Significant Appointments:
Non-Executive Chairman - EPIC Malta Limited;
Chairman, Resident Professor at the Centre for Entrepreneurship and Business Incubation at the University of Malta;
Board Member – Malta University Innovation Portfolio Limited and Non-Executive Chairman (of its two subsidiaries) - FLASC BV and DeNovoCell Limited.

6. Laragh Cassar
Non-Executive Director

Appointed to the Board in April 2016 and as Senior Independent Non-Executive Director in October 2021.

Committee Membership:
Conduct Committee (Chair)
Nominations & Remuneration Committee (Member)

Bio: Laragh obtained a degree in law from the University of Malta in 2002 and a Master of Law in Banking and Finance from the University of London in 2003. Laragh held the role of partner at Camilleri Preziosi between 2009 and 2015, after which she founded the firm 'Camilleri Cassar Advocates' where she now heads the corporate and commercial practice group. Throughout her career, Laragh has gained extensive experience in many areas of practice, with a particular focus on M&A, banking, asset management, capital markets and corporate law restructuring. She has acted for a significant number of publicly listed companies, structuring the offering/issuance of equity and non-equity securities as well as subsequently advising on continuing obligations as listed entities and is often appointed by the Faculty of Laws of the University of Malta as supervisor and examiner of MAdv dissertations.

Significant External Appointments:
Partner - Camilleri Cassar Advocates;
Non-Executive Director – Hili Properties plc;
Non-Executive Director / Company Secretary – MedservRegis plc

7. Alfred DeMarco
Non-Executive Director

Appointed to the Board in April 2016.

Committee Memberships:
Audit Committee (Member)
Board Credit Committee (Member)
Conduct Committee (Member)

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

Significant External Appointments: Member - Kunsill Finanzjarju Djoċeżan

8. Victor Gusman
Non-Executive Director

Appointed to the Board in April 2012.

Committee Memberships: Conduct Committee (Member)
Nominations and Remuneration Committee (Member)
Technology and Innovation Committee (Member)

Bio: Victor has a 35-year longstanding career at the helm of the Lemco Group, an international entity, which consisted of a workforce of over 650, with its manufacturing bases in Italy and Poland, with a sales force operating in 34 countries. He gained vast experience in the servicing of international companies with custom-made products to accommodate various brands and was central in dealing with governments for their specialised requirements in the hardware and manufacturing sectors, negotiating with unions in Italy and Poland. Until August 2021, Victor was the Administrative Secretary of the Diocese of Gozo and Executive Director of GDH Company Limited and Kura Gozo Company Limited.

Significant External Appointments: None

9. Michael Pace Ross
Non-Executive Director

Appointed to the Board in November 2015.

Committee Memberships: Conduct Committee (Member)
Environment, Social and Governance Committee (Member)
Risk Committee (Member)

Bio: Michael served as Director General of the National Statistics Office for six years, sitting on national and European committees, including the European Statistical Advisory Committee, prior to his current appointment as Administrative Secretary of the Archdiocese of Malta. He is a council member of the Malta Employers Association (MEA). He also sits on the board of Discern, a Church research institute on the signs of the times, and on the board of the Voluntary Solidarity Fund (Malta). Michael holds a BA (Hons) in Economics and Management and an MBA from the University of Malta. In his capacity as Administrative Secretary, he sits on the Diocesan Representative Council, the Diocesan Pastoral Council, and the Diocesan Finance Committee. He is also an associate of the London College of Music. He was vested as Knight in a papal equestrian order by Cardinal Edwin O'Brien in 2019.

Significant External Appointments: Administrative Secretary - Archdiocese of Malta;
Non-Executive Director - Amalgamated Investments SICAV plc;
Non-Executive Director – Beacon Media Group Limited;
Company Secretary - AROM Holdings Limited.

10. Graziella Bray
Company Secretary

Appointed as Company Secretary in July 2018.

Bio: Graziella graduated with a Doctor of Laws from the University of Malta in 2004 and joined the Bank in 2006. Over the years, she has performed duties in various areas of law, regulation, and compliance, including providing support to the Board, its subsidiaries, and various committees. In 2021 she was elected fellow of the Chartered Governance Institute of UK & Ireland, as a Chartered Company Secretary and Governance Professional. She also sits on the Board of directors of APS Funds SICAV plc. Graziella lectures in Company Law, Regulation and Corporate Governance at the Malta Stock Exchange Institute and as a freelance trainer.

EXECUTIVE MANAGEMENT

1. Chief Executive Officer - Marcel Cassar

Committee Memberships:
Executive Committee (Chair)
Management Credit Committee (Chair)
Board Credit Committee
Conduct Committee
Environmental, Social and Governance Committee (Non-Voting)
Risk Committee (Non-Voting)

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

2. Chief Risk Officer – Giovanni Bartolotta

Committee Memberships:
Compliance Committee (Chair)
Board Credit Committee (Non-Voting)
Conduct Committee
Environmental, Social and Governance Committee (Non-Voting)
Risk Committee (Non-Voting)
Assets & Liabilities Committee
Executive Committee
Management Credit Committee

Bio: Giovanni joined the Bank as Chief Risk Officer in September 2018. Prior to joining the Bank, he spent ten years in London working for major global investment banks, including Kleinwort Benson, JP Morgan Chase & Co and Bear Stearns International. He then moved to Malta where he spent fourteen years at FIMBank plc, as Executive Vice President and Global Head of Risk. Giovanni holds a BA in Economics from Bocconi SDA, University of Milan and is currently a member of the Council of Malta Association of Credit Management.

3. Chief People Officer – Raymond Bonnici

Committee Memberships: Executive Committee

Bio: Raymond joined the Bank as Head of Human Capital in 2016 and was appointed to his present role in June 2020. He started his career in aviation, working for KLM, Swissair and Sabena. Following this period, he worked at Hilton Hotels International, as Director of Human Resources for Malta. Prior to joining the Bank, he was Director of Human Resources at Premier Capital plc and was a key element in setting up the group's Human Resources function across the company's six EU countries of business. Raymond holds a BA in Youth and Community Studies from the University of Malta.

4. Chief Banking Officer – Anthony Buttigieg

Committee Memberships: Board Credit Committee (Non-Voting)
Risk Committee (Non-Voting)
Compliance Committee
Executive Committee
Management Credit Committee

Bio: Anthony joined the Bank as Head of Banking in May 2016 and was appointed to his current position in June 2019. His experience in the banking sector spans 45 years. He started his career with Mid-Med Bank, which later became HSBC Bank (Malta) plc, where he held a number of Senior and Managerial roles. Anthony is a qualified banker and an associate of the Chartered Institute of Bankers.

5. Chief Operations Officer - Edward Calleja

Committee Memberships: Board Credit Committee (Voting)
Compliance Committee
Executive Committee

Bio: Edward joined the Bank in 1992. He held senior managerial positions in lending, corporate strategy, and risk management. He was responsible for the setting up of the Bank's lending function and the centralisation of the key operations through the implementation of a Loans Processing System in 2009. He was appointed to his current position in August 2021. Edward started his career with Mid-Med Bank in 1981. He holds a BA (Hons) Accountancy from the University of Malta (1990), a Diploma in Management (2003) and an MBA from Henley Management College, UK (2005). Edward obtained his warrant as CPA in 1991 and became a fellow member of the Malta Institute of Accountants in 2011.

Edward's appointment as Chief Operations Officer of the Bank is subject to regulatory approval by the MFSA.

6. Chief Technology Officer – Jonathan Caruana

Committee Memberships: Technology & Innovation Committee
Executive Committee

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

7. Chief Strategy Officer – Liana DeBattista

Committee Memberships: Environmental, Social and Governance Committee
Executive Committee

Bio: Liana joined the Bank in 2003 and held positions across multiple areas, including strategy, internal audit, and marketing. Her main areas of expertise are in business planning, corporate strategy formulation, product development, research, performance management and ESG. She was promoted to Head of Strategy & Propositions in 2020. She was then appointed Chief Strategy Officer in 2021. Liana has a BSc in Business & Computing (2001) and a BCom (Hons) in Management (2002), both from the University of Malta, and a First-Class MSc in Corporate Finance from the University of Liverpool (2015).

Liana's appointment as Chief Strategy Officer of the Bank is subject to regulatory approval by the MFSA.

8. Chief Investments Officer – Noel McCarthy

Committee Memberships: Risk Committee (Non-Voting)
Executive Committee
Management Credit Committee

Bio: Noel joined the Bank in 2000 and served in a number of successively senior positions over the years. He was appointed as Chief Investments Officer in June 2020, after having held the role of Chief Financial Officer since 2016. In his current role, Noel oversees the Investment Management and Investment Distribution units, the activities of the subsidiary and affiliated companies and the Bank's property portfolio. He is a CPA and a fellow member of the Malta Institute of Accountants. He also holds a MA in Financial Services from the University of Malta. He also serves as a Director of ReAPS Asset Management Limited and as Alternate Director of IVALIFE Insurance Limited.

9. Chief Financial Officer – Ronald Mizzi

Committee Memberships: Risk Committee (Non-Voting)
Technology & Innovation Committee
Assets and Liabilities Committee
Executive Committee
Management Credit Committee

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

EXECUTIVE MANAGEMENT

HEADS OF DEPARTMENTS

Wilhelm Attard	-	Head of Support; Management Credit Committee
Kenneth Azzopardi	-	Head of Human Capital
Rachael Blackburn	-	Head of Culture
Cynthia Borg	-	Head of Financial Crime Compliance & MLRO; Conduct Committee; Compliance Committee
Elaine Calleja	-	Head of Career Development
Alexander Camilleri	-	Head of Operations; Technology & Innovation Committee
Gilbert Caruana	-	Head of Finance; Assets and Liabilities Committee
Daniel Cassar	-	Head of Digital Transformation; Technology and Innovation Committee
Angele de Mesquita	-	Head of Transformation; Technology and Innovation Committee
Marvin Farrugia	-	Head of Asset Liability Management; Asset and Liabilities Committee (C); Management Credit Committee (NV)
Mario Gauci	-	Head of Commercial; Board Credit Committee (NV); Management Credit Committee (NV)
Kenneth Genovese	-	Head of Investment Distribution; Assets and Liabilities Committee
Gordon Gilford	-	Head of Electronic Channels; Technology and Innovation Committee
Dione Stephan Gravino	-	Head of IT Infrastructure & Operations
Nives Grixti	-	Head of Legal; Environmental; Social and Governance Committee (NV); Conduct Committee, Board Credit Committee (NV); Compliance Committee; Management Credit Committee (NV)
Zoltan Horvath	-	Head of Propositions; Assets and Liabilities Committee
Marco Micallef	-	Head of Risk; Risk Committee (NV); Board Credit Committee (NV); Management Credit Committee (NV)
Simon Micallef	-	Head of Customer Profiling; Compliance Committee
Aaron Mifsud	-	Head of Retail; Assets and Liabilities Committee; Management Credit Committee
Rodney Naudi	-	Head of Operational Risk and Security Governance; Technology and Innovation Committee
Josef Portelli	-	Head of Investment Management; Assets and Liabilities Committee
Ronald Psaila	-	Head of Business Solutions
Richard Scerri	-	Head of Internal Audit
Dorianne Tabone	-	Head of Regulatory Compliance; Conduct Committee; Compliance Committee

CONSTITUTION AND PRINCIPAL ACTIVITIES

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

The Bank is a public limited company. It is licensed by the Malta Financial Services Authority (the "MFSA") to carry out the business of banking and investment services in terms of the Banking Act (Cap. 371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta). The Bank is also enrolled in the Tied Insurance Intermediaries List in terms of the Insurance Intermediaries Act (Cap. 487 of the Laws of Malta).

ReAPS is a wholly owned subsidiary of the Bank incorporated in October 2016 as a private limited liability company. The company is a UCITS fund management company and is licenced by the MFSA to perform investment management services under the Investment Services Act.

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

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

SHARE CAPITAL STRUCTURE AND MAJOR SHAREHOLDERS

The Bank's authorised and issued share capital are disclosed in Note 35 to the financial statements.

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

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

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

Shareholders holding 5% or more of the share capital as at 31 December 2021 are as follows:

	No of shares held	% holding
AROM Holdings Limited *(wholly owned by the Archdiocese of Malta)*	198,367,765	79.44%
Diocese of Gozo	45,449,032	18.00%

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

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

DIRECTORS

The Directors who served during the financial year and continue to serve at the date of approval of the Directors' Report were:

Martin Scicluna (Chairman – appointed Chairman on 1 September 2021)
Frederick Mifsud Bonnici (Chairman – retired from Chairman and Board of Directors on 31 August 2021)
Victor E. Agius
Joseph C. Attard
Franco Azzopardi
Juanito Camilleri (appointed on 20 September 2021)
Laragh Cassar
Alfred DeMarco
Victor Gusman
Michael Pace Ross

NON-FINANCIAL DISCLOSURES

Directive 2014/95/EU – also referred to as the Non-Financial Reporting Directive ("NFRD") – lays down the rules on disclosure of non-financial and diversity information by certain large companies. The following are the disclosures hereby made pursuant to this Directive:

1. **The Bank's Business Model**

APS Bank plc is an established Maltese credit institution that provides a comprehensive range of banking and financial services to its personal and corporate customers. Ever since its foundation in 1910, its aim has been to always fully connect with customers within local communities, where through the Bank's professional network, it has been able to assist customers in realising their financial and economic ambitions, whether for purchasing their new family home, a new car or saving and investing for their retirement or other goals.

The Bank provides a wide suite of products and services, ranging from basic deposit accounts, credit and lending facilities and also investment and retirement services. All of this is delivered to customers through the Banks' branch network in Malta and Gozo, which the Bank is continuously investing in to ensure presence and accessibility in various locations. All the Banks' customers are also provided access to banking services digitally through myAPS desktop and mobile app, making it easy to view and perform transactions through their accounts.

Following the outbreak of the COVID-19 pandemic, the Bank introduced several measures to protect employees, customers and also to comply with the various directives issued by the local authorities. A shift to remote or hybrid working, a drive to increase usage of ATMs and digital channels to reduce over the counter transactions and attending customer appointments through video conferencing, were all initiatives that the Bank implemented and retained.

The Bank also participates in Syndicated Lending on an ongoing basis, where across the years, it has managed to secure participations in facilities arranged by renowned international institutions.

Being there for the community and being able to provide banking services effectively to all strata of society was always a strategic priority for the Bank. In fact, ongoing effort is dedicated to make sure that families in need, or those who require dedicated assistance, can be provided with a banking experience through specific products and services provided by the Bank itself or through collaboration with local and international entities, such as the Malta Development Bank, the Malta Housing Authority, and the European Investment Bank. The Bank's commitment to the betterment of the communities it serves also extends to its own core product offering. Late 2021 saw the launch of the APS Green Home Loan, a first for Malta, where customers opting to seek and purchase a sustainable and energy efficient property will be rewarded through significant interest savings over time when compared to the standard home loan products on the market. This integration of the Bank's core values into its suite of retail lending products and services aligns to its mission of delivering on its social commitment through financial innovation.

2. Communicating brand, purpose and corporate culture

The Bank adopted an innovative approach towards strategic communication with the setup of the Culture Department in 2021, with the objective of developing effective internal and external communication and brand management strategies, aligned with the Bank's purpose and strategic priorities. This department is responsible for the Bank's branding and marketing, corporate social responsibility ("CSR"), the voice of the customer ("VOC") and corporate culture change programmes.

Branding and Marketing

The APS Bank brand is a vital medium to communicate the Bank's vision, mission and values. In 2021, the Marketing function focused on further elevating the brand in its communication strategy, whilst complementing product specific messages. This was done through the launch of the Bank's brand campaign across integrated media channels, highlighting the Bank's diverse customer cohorts and the value of APS Bank in their lives. The brand campaign was sustained with the production of a series of three Christmas adverts, each celebrating the true value and magic of Christmas, rather than the commercial aspect.

Corporate Social Responsibility Programme

CSR is a critical driver in the successful delivery of the Bank's strategy and a vehicle to communicate its brand and corporate values: Excellence, Authenticity, Passion, Inclusiveness and being Contemporary. The annual CSR Programme is made up of curated events and activities, in addition to donations and sponsorships, which are selected in alignment with four CSR pillars to support arts and culture, financial literacy development, education and sustainability.

The CSR Programme includes a wide range of activities with a broad appeal to reach different audiences. APS talks and APS Business talks are lectures open to the public and delivered by experts with the objective of knowledge-sharing, building awareness and encouraging cross-disciplinary application of best practice. From the sponsorship of diverse book publications, artistic exhibitions and performances, restoration projects to collaborations with educational institutions, each CSR activity demonstrates the Bank's commitment to sustain and celebrate the community, which it serves.

Two of the Bank's largest CSR initiatives in 2021 included the Malta Sustainability Forum and the APS Summer Festival. These proved to be especially important since, at the time, there was subdued activity due to the pandemic. The Bank - driven by its sense of purpose - stepped in when it mattered most, to support these two key areas.

The Malta Sustainability Forum ("MSF") was launched by APS Bank in 2019 with the objective of providing a platform to raise awareness on the topic of sustainability and empower citizens in making conscious decisions towards a more sustainable life. Building on the success of the first MSF event delivered as an in-person, one-day conference in 2019, the second MSF event held in January 2021 embraced the mass transition to online events, with 16 hours of live-streamed webinars, delivered by 83 speakers, to an audience of over 1,200 online participants, over 5 consecutive days. MSF 2021 made inroads by clarifying the challenges the world is facing on its journey to achieve the 17 UN Sustainable Development Goals, to provide solutions and different perspectives that could be applied in Malta. As MSF established an online presence across social media channels throughout 2021, it has transformed beyond an annual calendar event, into a trusted reference on all aspects of sustainability, which will continue to evolve.

The second edition of the APS Summer Festival ("APS SF") was held during the last fortnight of July 2021, on the University of Malta campus. The Festival was designed in line with the Bank's vision of being the community bank in Malta. The multidisciplinary programme of performances promoted diversity in the line-up of artists, the variety of artistic forms and in the delivery of a festival in the safest way possible. Sustainability was promoted in both form and function, allowing the Bank to ignite a renewed commitment to arts and culture, serving as entertainment for diverse audiences longing to attend live performances and an opportunity for artists to showcase their talents following a long period of inactivity.

2. Communicating brand, purpose and corporate culture (continued)

Voice of the Customer
The Bank's vision, mission and values are engrained in the VOC function as it serves as a catalyst for its 'Customer First' strategy, ensuring that the voices of the Bank's customers are heard and channelled throughout the organisation. Responsible for directly assisting customers who have feedback on any point in the customer journey, VOC receives feedback and complaints and handles each individual case through to resolution.

In the spirit of continuous improvement, VOC collates and shares customer feedback with senior management and develops and delivers ongoing coaching and training on effective customer support, across the Bank. Various research initiatives are coordinated annually by VOC to identify additional ways to optimise the Bank's customers' experience.

Corporate Culture Change Programme
The Corporate Culture Change Programme was developed and launched in 2019 with the objective of delivering various initiatives to communicate and encourage employee engagement with the Bank's strategy, vision, mission and values. The programme includes various activities and strategic corporate culture communications including: Executive Breakfasts, the APS Times newsletter for employees, the development of the APS Bank Culture Deck and workshop for managers, and various talks and presentations for senior and middle management as well as the creation of Teams channels and posts on core aspects of the Bank's corporate culture. The frequency, topics and channels used for internal communication developed rapidly in response to fluid conditions brought about due to the pandemic and changes in work arrangements.

3. Climate change and related risks

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 European Banking Authority ("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 Competent Authorities 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).

4. Social Matters

a) Trade Unions

The Bank recognises the Malta Union of Bank Employees ("MUBE") as the sole and exclusive bargaining agency for the managerial, clerical and non-clerical categories of employees. The Bank's relationship with the MUBE has been productive throughout the years, with ongoing communication between both parties on various topical matters. The current Collective Agreement is for a period of three years 2020 – 2022.

b) Community Relations

The Bank has over the years supported a number of community projects and initiatives and continues to engage in more on an ongoing basis. These are generally selected for their significance to a specific sector of society such as youth or people with special needs, or to support specific areas of Maltese culture, such as music or visual arts. The Bank's philosophy is to create partnerships that are just, sustainable and of mutual value, and preference is given to umbrella organisations, federations, or collective interest groups over individual endeavours. Through various direct initiatives, substantial support is given to charitable, voluntary and community projects that meet the Bank's social support philosophy and our staff is encouraged to pursue various activities in voluntary work to take an active role in matters that are so vital to society at large.

The Bank contributes to public education and debate by sponsoring seminars and their proceedings which expound topical themes of general or specific interest. In this way, it provides opportunities for the exchange of ideas in a structured and cohesive manner and makes them available to a wider audience. Occasionally, the Bank also publishes studies which consider critically particular issues concerning the demographic, economic, social and political networks in the Maltese Islands and in the European Union.

The Bank has also continued these efforts during the ongoing COVID-19 pandemic. Online seminars have become the Bank's modus operandi of the day, and these have been delivered covering a number of distinct thematic topics aimed at both educating and inspiring attendees in matters of particular social or cultural interest, as well as those related to financial literacy.

c) Consumer Relationships

The COVID-19 pandemic has accelerated a number of trends in consumer behaviour. This presented significant opportunities for the Bank to continue transforming, modernising and, at the same time, improving its services. More recently, the Bank has launched a virtual meeting service, where customer service officials are able to meet with customers through online communication tools and assist their needs without the need for physical interaction.

The provision of the Bank's products and services through both its physical and virtual channels, as well as the ongoing refinement and modernisation of its internal processes lend towards the Bank's ultimate objective; that of providing excellent levels of customer experience and service.

The Bank continues to devote increasing attention and resource towards ensuring that its customers feel comfortable and confident in engaging with the Bank through several physical and virtual interactive spaces. Significant investment has gone into upgrading the Bank's network of Retail branches, making them more modern in design and experience for our customers and colleagues alike. Branches are now being equipped with improved office spaces and furniture, modern waiting and meeting areas, as well as interactive digital display monitors that are available for customers to use.

At the same time, the Bank continued to make a positive difference when it comes to sustainability, through the choices that were made when the project of branch and offices transformation was ongoing. This regeneration of the Bank's premises has, as a matter of fact, been planned to contribute towards lowering its carbon footprint. Energy efficient lighting and heating and cooling systems have been installed in several of its locations. Many branches have already passed through this transformation, with the few remaining renovations planned to follow in short order. The Bank's flagship branch and head office premises in Swatar also allows for the recycling of rain and wastewater, as well as generating renewable energy through several photovoltaic panels. The Bank has also invested in charging bays on every floor of its latest underground staff and customer parking area, aimed at encouraging its staff to invest in hybrid and electric cars, which are less harmful to the environment.

5. Employee Matters

The Bank's people strategy is aimed at being the 'Employer of Choice', maintaining high employee engagement levels to attract and retain the best talent. The strategy focuses on ensuring all employees achieve their full potential, through supporting the ongoing development of skills, knowledge and competence required for today's and future needs. The Bank is an inclusive and equal opportunity employer. It aims to provide an inclusive environment that promotes diversity, maintains a healthy working environment in which the rights and dignity of its staff members are respected.

The Bank's Collective Agreement governs a wide range of family friendly measures, enhanced by a policy framework that supports the wellbeing of all its employees. During 2021, the Bank reviewed its remote working and flexi-time policies in line with its investment in collaborative and communication systems. All its employees have the tools required to work remotely to ensure their wellbeing as well as business continuation during the pandemic. In 2021, the Bank also introduced an occupational pension plan for all its employees in support of various other wellbeing incentives.

In addition, various policies and programmes support the wellbeing of employees. These include a zero-tolerance policy to cases of bullying, harassment and discrimination, a preventative medical care and sports activity policy, an employee assistance programme, an employee screening policy, a succession planning policy, and a performance development programme that provides a holistic approach to developing employees to achieve their full potential.

Employee Assistance Programme – The Bank's Employee Assistance Programme ("EAP") is an external confidential counselling service available to all employees. In 2021, the EAP was enhanced to support the mental wellbeing of employees. The EAP offers employees the possibility of reaching out for counselling, guidance and support to assist and resolve work, family and personal issues.

Zero-tolerance Policy – The Bank maintains zero-tolerance to cases of bullying, harassment and unlawful discrimination and supports a workplace that promotes a dignified working environment and harmonious relations among its employees based on respect, understanding and appreciation.

Preventative Medical Care and Sports Activity Policy – This policy complements other wellbeing initiatives organised by the Bank to promote the physical, mental and social health and wellbeing of its employees to achieve their full potential and live a healthy and active lifestyle.

Employee Screening – The highest standard of integrity and professionalism by employees of financial institutions is critical to sustain public confidence in the financial sector. Employee screening presents a critical opportunity for the Bank to ensure prospective and existing employees are aligned with its desired corporate culture, embrace its values and are 'fit and proper' to discharge their duties and responsibilities. The Bank uses various tools for screening employees as part of its due diligence process. Employees are also expected to abide with other policies including its Code of Ethics and other regulatory policies and guidelines that ensure the integrity of its employees.

Succession Planning – This policy details the Bank's process for identifying and growing talent to fill leadership and business-critical functions and positions in the future. Succession and talent planning sits inside a much wider strategic framework encompassing areas such as business strategy and plans, business continuity management, resource management, required skills and competencies and career development. The scope of this policy is to complement these areas through a framework for ensuring that the Bank has the right people in the right place at the right time, and that learning, and development investment is maximised.

Performance Development – The Bank adopts a clear distinction between fixed and variable remuneration. Its variable remuneration is based on the performance of staff members taking in consideration both qualitative and quantitative criteria, the performance of the Bank, the achievement of departmental, team and individual targets in line with Key Performance Indicators ("KPIs"), living the Bank's values and supporting the ongoing development of skills, knowledge and competency required by each employee. Each employee has clear objectives and ongoing development discussions so that they can achieve high levels of performance across the Bank.

5. Employee Matters (continued)

Our continued focus on the future of work and customer service saw the completion of the Bank's Future Banker Programme focused on the digitisation of banking services as well as sharing of knowledge on developing and emerging technologies and the launch of the Customer Service Academy focused on our front-line employees and our service to our customers. These programmes ensure that as a Bank will continue to remain relevant to our time and that we engage with our communities in a meaningful way.

6. Anti-Corruption and Bribery Matters

The Bank is committed to conduct business in a legal, honest and ethical way, to this end, the Bank has in fact adopted a zero tolerance towards financial crime, including, bribery and corruption.

The Anti-bribery and anti-corruption ("ABC") policy has been designed to promote a culture of ethical business practices and compliance with ABC legal and regulatory requirements within APS Bank plc, its subsidiaries and affiliates.

The policy defines Bribery and Corruption as follows:

- Bribery - the act of giving, offering, promising, receiving, accepting, demanding or soliciting directly or indirectly of monetary or non-monetary, tangible or intangible benefits in order to obtain or retain an undue advantage in the course of business activities, either to motivate active or passive deviation from a duty or to secure the performance of a service.
- Corruption - the state or situation resulting from providing, soliciting, authorising or offering a bribe. A corruption offence includes not only committing Bribery and Corruption, but also attempting, inciting, aiding and abetting. These may lead to: criminal prosecution of persons involved in it as participants, regulatory or criminal prosecution against their supervisors if they violated their supervisory duties, against Senior Management of a company or a company itself.

The policy aims to:

- clearly articulate the Group's commitment to prohibiting bribery and corruption and to be compliant with applicable anti-bribery laws,
- define principles for identifying and preventing potential bribery and corruption in order to protect the integrity and reputation of the Group,
- clearly communicate anti-bribery and anti-corruption principles both to internal and external stakeholders,
- provide a framework for a Group-wide Anti-Bribery and Anti-Corruption Programme which forms part of the Financial Crime Compliance Framework.

In order to establish an efficient control system, the following complementary internal standards and procedures applicable to APS Group should be considered, including but not limited to:

- Bank's Code of Ethics;
- Gifts and Cards for Special Occasions Policy;
- Regulatory Breaches Register Policy;
- Whistle-blower Policy

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS

Responsibility for risk management lies at all levels within the Group through the adoption of three lines of defence model. Business units, as the first line of defence, are responsible for identifying, assessing and managing the risks to which the Group is exposed in the respective operating units. The management of the various forms of risk is then co-ordinated and monitored by the second line of defence, namely the Risk, Legal, Financial Crime Compliance and Regulatory Compliance Departments. The Internal Audit Department, as the third line of defence, provides independent and objective assurance and advice on the adequacy and effectiveness of governance and risk management to the Board.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

The Risk, Legal, Financial Crime Compliance and Regulatory Compliance Departments are headed by the Chief Risk Officer who reports directly to the Risk Committee. The Risk Committee establishes and ensures the implementation of the Group's risk management and compliance strategy, systems and policies. The Risk Committee meets regularly to monitor the assessment and management of the risk profile of the Group and ensures that policies are in place in line with the Group's risk appetite, as set by the Board.

The subsequent sections provide an overview of each material risk, including the management of each risk and capital allocation techniques adopted.

Credit Risk

Credit Risk is the potential risk 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 assets value arising from actual or perceived deterioration in credit quality.

Lending is considered to be APS Bank's main activity and, as such, assessment of credit risk plays a pivotal part in the execution of the Bank's strategy. 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. The appetite (and tolerance levels) for credit risk which is deemed acceptable by the Bank at any point in time is defined and evaluated in the Risk Appetite Statement ("RAS"), which is approved by the Board and reviewed on an annual basis.

Credit Risk is managed and controlled in various ways, including the regular four-eye approach/risk-based review of the:

a) credit risk policy, including the policies relating to forbearance and non-performing loans;
b) lending procedures of the first line of defence;
c) new lending products and/or the review/revamp of existing lending products;
d) internal credit scoring systems;
e) internal credit risk grading system based on days past due and other non-financial/qualitative factors, including cure/probation periods;
f) daily excesses/loan arrears exceeding the encroachment tolerance limits of the branch/commercial managers and/or the 30 days past due (Significant Increase in Credit Risk ("SICR"));
g) non-performing credit exposures graded 'Doubtful' and/or 'Classified', including monitoring of the Bank's NPL ratio;
h) fresh and/or renewal of business and retail credit limits exceeding €750,000 and/or fresh retail credit facilities below the €750,000 threshold with parameters exceeding established delegated criteria, e.g. DSCR/DSTI-O, LTV-Os, etc.;
i) six monthly sample of credit facilities below the €750,000 threshold sanctioned by the first line of defense;
j) forward-looking expected loss model for quantifying provisions compliant with the IFRS 9 accounting regime;
k) stress testing relating to credit risk;
l) internal limits relating to single-name and sectoral concentration risk;
m) risk-based credit pricing model to determine the ROE of fresh credit limits and/or new lending products / schemes.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

Operational Risk

The Bank defines Operational Risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events" in line with the Basel Committee. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk is inherent in the Bank's products, services and activities. The Bank's operational risk management framework and governance are fully integrated into the Bank's overall risk management framework.

The Bank aims to ensure sound operational risk governance practices with the involvement of the following functions:

- Board of Directors
- Risk Committee
- Operational Risk and Security Governance Department
- Senior Management
- Business Risk and Control Management
- Internal Audit

The operational risk management process is intended to maintain an overall operational risk level that meets the Bank's operational risk appetite.

Risk identification considers internal and external factors and is paramount for the subsequent development of a viable operational risk monitoring and control system. The Bank has increased its efforts of risk identification by improving the culture and encouraging all employees from all levels to report any identified operational risks and incidents in a timely manner.

Following the identification of operational risks, these are measured by quantifying, where possible, the potential losses from each identified risk and allocation of an adequate amount of capital to cover the Bank's exposure to this risk.

The Group maintains a database to regularly quantify and record operational losses and near miss events, reported electronically by the first line of defence and co-ordinated and analysed by the Operational Risk and Security Governance department, in order to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses.

Once operational risks have been identified, assessed and measured, controls and process improvements are developed and implemented as necessary to further mitigate identified risks to levels that are within the risk appetite. The Bank has strengthened this process by appointing Business Risk and Control Managers in the first line of defence to liaise with the Operational Risk and Security Governance Department. The Bank also ensures that procedures and processes are documented in the Bank's handbooks and reviewed from an Operational Risk perspective.

The Bank does regular monitoring of operational risks to quickly detect and correct deficiencies in the Bank's policies, processes and procedures. Finally, appropriate reporting mechanisms are in place to support proactive management of operational risk at Board, Executive and business line levels.

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.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

Market Risk (continued)

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 are 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.

Interest Rate Risk

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.

Interest rate risk is measured from two perspectives – the economic value of equity ("EVE") and the earnings-based approach.

The Group's exposure to interest rate risk is monitored on a monthly basis by the Enterprise Risk Management Unit ("ERMU") and verified by Asset Liability Management ("ALM"), and is reported to Executive Committee, ALCO and Risk Committee on a quarterly basis.

Liquidity Risk

Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due in the short term and medium term, either at all or without incurring unacceptable losses.

Funding risk is the risk that the Group cannot meet its financial obligations as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably. Funding risk can also be seen as the risk that its assets are not stably funded in the medium and long term.

The Group manages this risk by seeking to match the maturities of assets and liabilities in its balance-sheet. The management of liquidity and funding is governed by a detailed Liquidity and Funding Risk Policy. This Policy establishes clear lines of responsibility, limits and guidance on the measurement and monitoring of the Group's net funding requirements. The ALM 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.

Solvency Risk

The Group continuously aims at building and sustaining a strong capital base and at applying it efficiently throughout its activities to attain its strategic objectives, optimise shareholder value whilst ensuring the sustainability of the Bank's business model and risk profile. A strong and prudent capital base is one of the pillars of the Group's business model and maintaining adequate capital ratios will continue being key to enable the Group to steer through currently challenging economic conditions.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

Solvency Risk (continued)

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 ICAAP includes an assessment of both Pillar 1 and Pillar 2 risks. The latter includes concentration risk, IRRBB risk, IT and cyber risk, 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.

Regulatory Compliance Risk

Effective compliance risk management is a key control towards ensuring that the Bank continues to operate within the remit of its operating licenses. Being compliant, is a core part of establishing and maintaining the trust of clients and protecting the interests of all stakeholders.

Compliance starts at the top and is supported by a corporate culture that emphasises high standards of honesty and integrity. Moreover, all members of management and staff are to take ownership of Compliance and seek guidance and support from the Compliance Function as may be appropriate.

The Compliance Function is essentially made up of two units referred to as Regulatory Compliance and Financial Crime Compliance.

Financial Crime Compliance

The Bank is fully committed to compliance with the salient legislative provisions aimed at the prevention of Financial Crime Compliance. Financial Crime Risk covers:

- Money laundering and funding of terrorism,
- Breach of International & Local Sanctions,
- Bribery & Corruption,
- External Fraud.

In this regard, the Bank has a Financial Crime Compliance Function responsible for the design and implementation of a Financial Crime Compliance ("FCC") Framework within APS Group. The FCC Framework is to ensure consistent management of financial crime related to the above-mentioned risks across Group entities. The programme seeks to identify, assess, monitor and manage FCC risks in line with the Bank's risk appetite.

The FCC Function, headed by the Head of FCC and MLRO of the Bank reports to the Chief Risk Officer of the Bank and the Board of Directors. The function is split into four distinct units:

- Financial Crime Compliance Anti-Money Laundering ("AML")/Fraud Investigations and Transaction Monitoring – Responsible for the analysis and investigation of unusual or suspicious transactions/activity.
- Financial Crime Compliance AML Operations – Responsible for adherence with regulatory reporting obligations emanating from the Prevention of Money Laundering and Funding of Terrorism Regulation.
- Financial Crime Compliance Monitoring & Advisory (AML & Fraud) – Responsible for the provision of advice related to AML and Fraud Risks and the monitoring of the same FCC risks.
- Financial Crime Compliance Monitoring & Advisory (Sanctions & ABC) – Responsible for the provision of advice related to Sanctions and ABC Risks and the monitoring of the same FCC risks.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

Reputational Risk

Reputation is one of the Bank's most important intangible assets, founded on trust from its internal and external stakeholders. It has a direct impact on the Bank's value, which falls under the scrutiny of the Bank's Board of Directors, employees, existing and prospective customers, business partners, investors, regulators and legislators.

The Bank established an appropriate reputational risk environment by defining the governance framework and pertinent responsibilities for managing reputational risk. The framework is established to provide consistent standards for the identification, assessment, management and monitoring of reputational risk issues, especially direct reputational risk. Reputational risks which may arise from a failure with another risk type, control or process (indirect reputational risk) are addressed separately via the associated risk type framework.

In addition to the above, other mitigating factors that the Bank adopts to manage reputational risk are the following:

- Prompt and effective communication with all categories of stakeholders,
- Strong and consistent enforcement of controls on governance, business, legal and compliance,
- Establishment and continual updating of the Business Continuity Plan and Crisis Management Plan, and the team required to support them,
- Continuous monitoring of threats to reputation,
- Clear core corporate values setting out expected standards of behavior,
- A strong corporate culture that is open, trusting and supportive,
- A robust and dynamic risk management framework which provides continuous monitoring of threats to reputational and early warning of developing issues,
- Organisational learning leading to corrective action where necessary.

The Bank has zero appetite for any form of reputational risk, as articulated in the Bank's Risk Appetite Statement. Reputational risks and their implemented/planned controls are recorded in the Bank's risk register.

Regulatory Compliance

The Regulatory Compliance Department ("RC") manages regulatory compliance risks across the Bank. Regulatory compliance risks have been identified as:

- Legal and regulatory risk - This risk may arise from non-compliance with the applicable laws, rules regulations and guidelines, including as a result of regulatory developments. There is also a risk that activities may be carried out on the basis of regulatory interpretation or documents that are subsequently found to be inaccurate, inadequate or outdated.

The key areas within scope of the RC function's remit as a second line of defence are the following:

- Conduct of business and treating customers fairly
- Conflicts of interest
- Marketing and promotions
- New product launches ("Product Oversight Governance")
- Outsourcing
- GDPR

The identification, monitoring and management of these risks will prevent:

- the financial or other consequences of disputes between the Bank and a client, counterparty or third party (litigation risk);
- the risk of losses due to unsuitable internal processes, or failures due to human error or external events;
- the financial consequences of a less effective controls in place;

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS (continued)

Regulatory Compliance (continued)

- sanctions being imposed on the Bank because of failure to comply with any current regulatory provision or decision it is required to implement.

The identification, monitoring and management of Regulatory Compliance Risks are undertaken as follows:

- Regulatory Development and Implementation
- Compliance Advice
- Compliance Risk Identification and Assessment
- Compliance Monitoring
- Compliance Training
- Regulatory Reporting Obligations
- Regulatory Compliance Policies
- Registers Maintained by the Compliance Function

The Bank's Board of Directors retains ultimate responsibility for all the Bank's identified risks. The Board Risk Committee ensures implementation of the Bank's risk management and compliance strategy, systems and policies that ensure adherence to the Bank's Risk Appetite Statement.

Key Performance Indicators (KPIs)

The Group has in place a set of key performance indicators (KPIs) that include:
CET1 13.0%
Solvency CAR 16.9%
LCR 142.9%
Profitability ROAE 7.1%

TAXONOMY REGULATION (REGULATION (EU) 2020/852)

Content of Taxonomy Regulation and related Delegated Acts

In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European green deal, the European Commission put forward a number of legislations to direct investments towards sustainable projects and activities. To achieve this, a common language, and a clear definition of what is 'sustainable' is being formulated at EU level, through the creation of a common classification system for sustainable economic activities or an "EU taxonomy". The EU Taxonomy is a classification system, establishing a list of environmentally sustainable economic activities through the Taxonomy Regulation which was published on 22 June 2020 and entered into force on 12 July 2020. It establishes the basis for the EU taxonomy by setting out four conditions that an economic activity must meet to qualify as environmentally sustainable. The Taxonomy Regulation establishes six environmental objectives, two of which relate to Climate Change Mitigation and Adaption.

The European Commission published a delegated act on sustainable activities for Climate Change Adaptation and Mitigation objectives defining technical screening criteria for these environmental objectives. The Bank is monitoring developments in the Taxonomy Regulation through its ESG Committee. The European Commission is to publish further legislative documentation on the topic for the other environmental objectives.

Article 8 of the Taxonomy Regulation requires institutions that are in scope of the Non-Financial Reporting Directive ("NFRD") to publish information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under that Regulation. The European Commission also published a Delegated Act in this respect, which requires the Bank to publish a number of indicators, subject to a phase in period. It specifies the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their

TAXONOMY REGULATION (REGULATION (EU) 2020/852) (continued)

Content of Taxonomy Regulation and related Delegated Acts (continued)

business, investments or lending activities. This Delegated Act applies from 1 January 2022 and requires the publishing of such information in the Annual Report of 2021.

Article 10 paragraph 3 of that Delegated Act requires financial institutions to publish ratios related economic activities that are Taxonomy Eligible and those which are not. The aim is to indicate the percentage of assets that that would be eligible for the technical screening to determine their alignment with the EU Taxonomy Classification.

Key Performance Ratios

The below information is consolidated in accordance with the Capital Requirements Regulation (EU) 575/2013.

The proportion in total assets of exposures to Taxonomy eligible economic activities stands at 53.3%.

The proportion in total assets of exposures to Taxonomy non-eligible economic activities stands at 1.3%.

These two ratios have been reported in a combined manner for the two Taxonomy objectives adopted as of 1 January 2022, that is climate change mitigation and climate change adaptation.

The proportion in the total assets of the exposures to central governments, central banks and supranational issuers stands at 16.5%.

The proportion in the total assets of the exposures to undertakings that are not obliged to publish non-financial information pursuant to Article 19a or 29a of the NFRD stands at 23.5%.

Finally, the Bank's exposure to on Demand inter-bank loans as a percentage of total assets stood at 0.7%. The Bank has no trading portfolio.

Taxonomy-Eligible and Non-Eligible economic activities

"*Taxonomy-eligible economic activities*" refers to the share of economic activities that are described in the Commission's delegated acts, but that do not yet meet the relevant technical screening criteria.

To identify the taxonomy-eligible economic activities within the Group's portfolio, reference is made to the Delegated Act on sustainable activities for climate change adaptation and mitigation objectives. That Delegated Act provides the list of economic activities for which the European Commission has provided a common classification vis-à-vis the climate change adaptation and mitigation objectives. The assessment of Taxonomy eligibility for calculation of the mandated ratios is made using the Nomenclature of Economic Activities ("NACE") code for loans and advances to identify the exposures that fall into scope. For investments in transferable securities the industry and sub-industry provided by a Research Portal were reviewed vis-à-vis the list of economic activities provided in the delegated act on sustainable activities for climate change adaptation and mitigation objectives.

The "Taxonomy Non-eligible economic activities" refers to the share of economic activities that are not described in the Commission's delegated acts, and thus are not subject to technical screening criteria. These are all those economic activities which have not been identified as Taxonomy-eligible economic activities as explained above.

Exposures to undertakings not in scope of NFRD

The NFRD applies to large public-interest companies with more than 500 employees. Those Undertakings which are not subject to the NFRD reporting are not included in the Taxonomy-Eligible and Non-Eligible economic activities but represented in a separate ratio.

TAXONOMY REGULATION (REGULATION (EU) 2020/852) (continued)

Data Limitations

The Group used internal and external data to determine Taxonomy eligible and non-eligible exposures and exposures not subject to NFRD. Availability of more guidance by the authorities, data and improvements in data quality over time (as undertakings adopt the Taxonomy requirements for their own disclosures) will further enhance the quality of disclosure.

The Group is working in developing its capabilities to assess the Taxonomy alignment of its exposures, also considering the Taxonomy Alignment reporting requirements from 1 January 2024. This will enhance the Group's capabilities to adopt the Taxonomy classifications within its systems and processes.

FINANCIAL OVERVIEW

Operating Performance

For the year under review, APS Group recorded €15.1 million profit after tax, a significant increase of 49.7% over 2020 and yielding a return on average equity of 7.1%. During the period, businesses continued to be dominated by the pandemic disruptions brought about by the COVID-19 virus, especially due to the detection of new virus variants which disrupted economic plans. Approved vaccination and booster programmes aided in controlling the virus transmission, as these were administered to the wider community and led to phased liftings of restrictions. Nevertheless, specific sectors are still faced with notable challenges especially those most impacted by the pandemic as they continue to face the volatile market. Against this backdrop, with Malta-bound tourists' arrivals on the increase over the summer and the economic momentum gradually improving leading to the December festive period, the Group's operating profit maintained its momentum. The financial results recorded for the year affirm the Group's resilience and strength of its business model during these unprecedented times. Guided by its vision to be the Community Bank in Malta and its core values, APS Group continued to support the local community, ensuring their business continuity, and lessening the impact of the current economic climate.

Net interest income remains a key pillar for the Group's revenue mix with a total of €55.4 million generated in 2021, rising by €6.5 million or 13.3% over the comparative year. This has been largely driven by the interest receivable on loans and advances which for the reporting period grew by 12.0% as a direct result of the growth in the Group credit lending book. Interest expense remained consistent to 2020 levels albeit the significant growth in customer deposits. This demonstrates the Group's efficient asset-liability and cost of funding management, aiming to protect net interest margins.

Net fee and commission income totalled €7.0 million, an increase of 34.3% or €1.8 million higher than the former year. Fee and commission income recorded during the financial year ended 31 December 2021 was €9.0 million (2020: €8.0 million), affected by the growth in customer base and increased service provision, in particular the provision of credit, cards, and investment services. Moreover, the Bank started earning additional fees and commissions from its pension plans which schemes were launched in late 2020. Fee and commission expense increased by €0.4 million, totalling €2.0 million during the year. This mainly consists of card charges, pension scheme fees and payment fees.

Other operating income for the year was €0.8 million, a reduction of €0.3 million from 2020. This was largely attributable to dividend income and net gains on foreign exchange which in aggregate recorded total revenue of €0.7 million. Counterbalancing this was the decrease in gains on financial instruments due to changes in fair values and the impairment of €0.4 million realised on revalued property.

Impairment against expected credit losses amounted to a writeback of €1.5 million as opposed to the charge of €5.5 million posted in the comparative year. This was largely due to the performance on customer loans and advances which at close of last year had a significant increase in credit risk. During the year, the Group continued assessing updated information and client performance especially in relation to the impact of COVID on the credit portfolio, with a net write-back on the credit loss estimates made in 2020. This evidently reflects the Group's risk appetite, quality of the loan book and its vigilant approach on credit lines aligned by its conservative lending policies.

FINANCIAL OVERVIEW (continued)

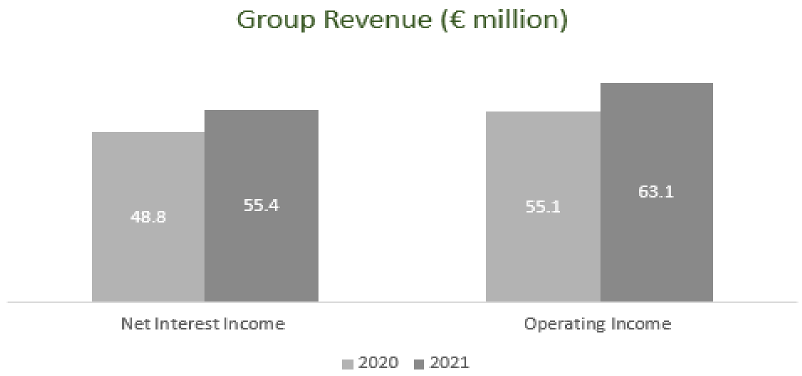
Operating Performance (continued)

Operating expenses for 2021 amounted to €40.6 million increasing by €7.0 million when compared to the €33.6 million during the previous period. Staff costs remains one of the key sources to the increase as the Group continues investing in its human capital to sustain its operational growth and to continue absorbing the ever increasing and more stringent regulatory and compliance requirements.

In addition to this, several projects are in motion, targeted to improve the overall customer experience and the Group's position within the industry. The Group's cost-to-income ratio increased by 3.5% to 64.3%. This affirms the management's approach to provide high quality service with optimised operational cost levels.

ReAPS, as the Investment Manager of APS Funds SICAV plc, generated €0.5 million profit before tax, thus more than doubling the profit registered for 2020. Notwithstanding the challenges faced and the impact on financial markets by the pandemic, the total net assets managed by APS Funds SICAV plc stood at €195.6 million, growing by 8.2% over the comparative period.

The share of profits from the associated investments in the APS Regular Income Ethical Fund and the APS Income Fund amounted to €0.3 million over the reporting period (2020: €0.3 million loss). In turn, the Group is recognising its share of loss of €0.2 million in IVALIFE, a life insurance company in which it has a 25% investment. It is expected that the company will turn profitable in the foreseeable period after absorbing the initial set up costs and generating further growth in business.



Financial Position

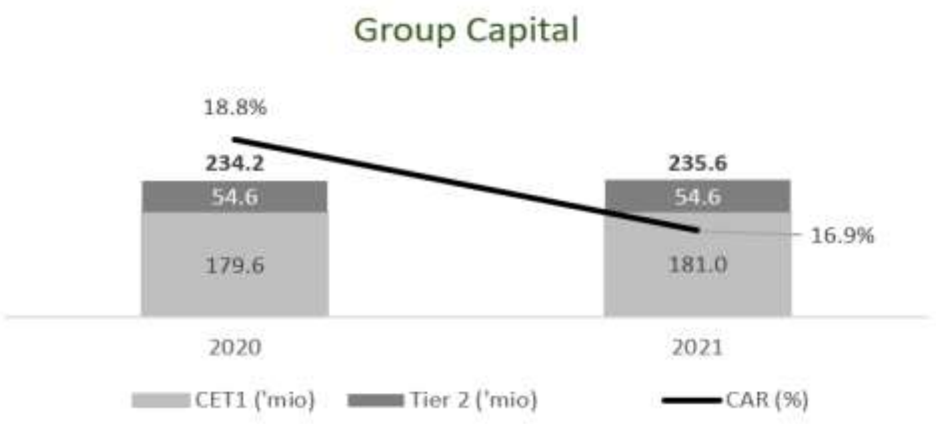
At Group level, total assets amounted to €2.8 billion expanding by a further €374.0 million or 15.4% over the €2.4 billion at the end of last year. As of 31 December 2021, loans and advances stood at €2.1 billion, growing by €264.2 million or 14.7%. This increase was mainly attributable to loans and advances to customers and the syndicated loan book which contributed to 65.0% of this growth in assets. The demand for home loans steered this expansion by largely contributing to this increase, followed by commercial lending. Syndicated loans portfolio also grew by 18.7% to €134.3 million, thus enabling the Group to continue with its strategic objective to diversify the lending portfolio from both a sectorial and geographical perspective. Additional balance sheet growth resulted from the treasury portfolios, of which a further €99.4 million in liquidity balances were placed with the Central Bank of Malta. This is the result of the strength of the APS brand in the local community in being able to continue attracting liquidity from the market.

Total liabilities stood at €2.6 billion as at the end-of year under review. Key pillars to this growth were customer deposits, followed by increased balances owed to banks. With additional liquidity being available across the whole banking system, amounts owed to customers expanded by €308.3 million over the year - with overnight deposits largely contributing to this growth in line with the Group's objective to further diversify its funding mix between overnight and term deposits. Overall liquidity also remained well above the regulatory requirements and stands in an efficient zone in terms of risk versus return with a year-end Liquidity Coverage Ratio of 142.9% (31 December 2020: 138.9%).

FINANCIAL OVERVIEW (continued)

Financial position (continued)

The Group's equity at year end amounted to €220.8 million, rising by €14.6 million or 7.1% over the prior year-end. Capital Adequacy ratios are being managed in line with the regulatory thresholds including buffers, with CET1 ratio at 13.0% and the Capital Adequacy Ratio at 16.9% (31 December 2020: 14.4% and 18.8% respectively).



DIVIDEND

The Directors are recommending that a gross dividend of 1.85 cents per ordinary share (net dividend of 1.20 cents per ordinary share) is paid to ordinary shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting ("AGM") and has not been included as a liability in these financial statements. The total gross dividend to be paid is €4,615,385 (total net dividend of €3,000,000).

OUTLOOK

As the Maltese economy adapts to the new contours of the post-COVID era, the return to normality seems more likely when compared to last year. This can be noted as economies across both Europe and in Malta are being gradually brought back to pre-pandemic levels in term of output.

At the same time, several downside risks to the outlook persist. The Group remains cautious in

OUTLOOK (continued)

managing its credit exposure, as public support measures are tapered off and key economic sectors (like tourism and trade) emerge from the pandemic crisis and gradually rebuild their competitive position as private demand rebounds and a new wave of public investment starts to support the recovery – backed by significant EU funding. Moreover, APS also remains observant on the possible economic risks and consequences of the Financial Action Task Force ("FATF") decision to grey list Malta, as this might substantially dampen foreign investment and limit global financial connectivity with the country.

The Group's business strategy will continue to be supported by a solid capital and liquidity position. Plans to raise additional capital as part of Phase 3 of the Bank's capital development plan are already in motion and the Bank is targeting to approach the market in the second quarter of 2022.

Looking ahead, APS plans to continue its journey in enriching the customer experience through customised product offering – through its digital and physical channels - whilst remaining true to its core values as guided by its mission and vision.

Following recent developments, the Group is following closely the evolving conflict in Ukraine and the geopolitical and economic repercussions that this is causing on a global scale. While the Group's exposure in the region is immaterial, including to payment flows that might be impacted by economic sanctions, it is nonetheless increasing its risk and compliance monitoring as necessary, including enhanced sanctions screening.

GOING CONCERN

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

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

STATEMENT OF RESPONSIBILITY

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

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

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

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

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

The Directors, through oversight of Management, are responsible to ensure that the Group establishes and maintains internal controls to provide reasonable assurance with regard to reliability of financial

STATEMENT OF RESPONSIBILITY (continued)

reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Additionally, the Directors are responsible for:

- the preparation and publication of the Annual Financial Report, including the consolidated financial statements and the relevant tagging requirements therein, as required by Capital Markets Rule 5.56A, in accordance with the requirements of the European Single Electronic Format Regulatory Technical Standard as specified in the Commission Delegated Regulation (EU) 2019/815 (the "ESEF RTS"),
- designing, implementing, and maintaining internal controls relevant to the preparation of the Annual Financial Report that is free from material non-compliance with the requirements of the ESEF RTS, whether due to fraud or error,
- and consequently, for ensuring the accurate transfer of the information in the Annual Financial Report into a single electronic reporting format.

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

During the financial year ended 31 December 2021, no shares in the Bank were:

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

STANDARD LICENCE CONDITIONS

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

In accordance with Standard Licence Condition R1-2.1.3 of the Investment Services Guidelines issued by the MFSA, licence holders are required to disclose any regulatory breaches of the Investment Standard Licence Conditions in their annual report. During the year under review, there were no such regulatory breaches nor were any regulatory sanctions imposed on the Group by the MFSA.

AUDITORS

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

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

Martin Scicluna	**Franco Azzopardi**
Chairman	Director

10 March 2022

REMUNERATION POLICY

The Remuneration Policy of APS Bank Group aims to exercise a competent and independent judgement on its remuneration practices and its incentives created for managing risk, capital and liquidity, and ensure that they are in line with applicable legislation, directives, regulations and guidelines. The approval of the Group's Remuneration Policy is the responsibility of the Board of Directors and covers all categories of staff including Senior Management (CEO, Chief Officers and Heads of Department), risk takers and staff engaged in control functions.

The application of the principles of Directive 2013/36/EU and the EBA Guidelines on sound remuneration policies considers the nature and scale of the Group and the complexity of its activities. A Collective Agreement with the MUBE for the years 2020 – 2022 covers all staff members, excluding Senior Management. References in this Report to types and modes of remuneration apply to all staff, but where these refer to staff covered by the Collective Agreement it shall be construed accordingly.

The Remuneration Policy is reviewed on a regular basis and was updated twice in 2021, on 29 April and 2 December after approval by the Nominations and Remuneration Committee and the Board of Directors as the case may be. The updates are aimed to strengthen the overall remuneration governance framework, the launch of an Occupational Pension Scheme to staff members in 2021 and to take into account the revised EBA Guidelines on Sound Remuneration Practices published on 2 July 2021, which mainly addressed the area of gender-neutrality.

Fixed Remuneration

The base salary provides a predictable base level of income reflecting each staff member's level of responsibility, capabilities, skills and experience. Base salaries are reviewed annually, and salary increases are granted in line with performance and when a staff member assumes increased responsibilities or significantly deepens knowledge and expertise. Base salaries may also be reviewed when there is a material change in the remuneration levels of comparable roles in the respective market. Base salaries are set for a number of different levels within approved salary ranges. In 2021 the Bank introduced an Occupational Pension Scheme for staff members with a fixed contribution in accordance with established eligibility criteria.

Variable Remuneration

Staff members may have a variable component to their remuneration in addition to their fixed remuneration. The relation between fixed and variable remuneration shall not exceed twenty-five (25) per cent of the fixed component for each individual. The variable portion is clearly connected to the work and performance of the staff member, the performance of his/her business unit and the overall performance of the Bank and its subsidiaries. The goals are based on factors that support the Group's long-term strategy and business objectives. Staff in Control Functions are adequately compensated in accordance with their own objectives and not directly tied to the results of any business unit. They are judged on their success in developing appropriate policies, developing effective risk management controls and procedures, monitoring risk and building control systems.

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

The Group ensures that bonuses are fair, transparent, easy to understand and based on the Bank's Business Plan and Annual Budgets. Any variable remuneration, be it monetary or non-monetary, outside the parameters of the Policy is referred to the Nominations and Remuneration Committee for approval. Variable remuneration does not include "clawback" provisions. APS Group does not offer buy out contracts or share options. Schemes relating to early termination are established within the Collective Agreement. There is no remuneration that is subject to deferral.

REMUNERATION POLICY (continued)

Link between Pay and Performance

The variable portion of remuneration is linked to the level of profit earned by the Bank during the relative financial period. The bonus pool allocated to the staff in the clerical, non-clerical and managerial grades is calculated as determined in the Collective Agreement and based on the profit achieved by the Bank. The bonus is distributed to employees according to the merit of performance achieved by the individual and reflecting the respective grade and level of responsibility. Annual bonus entitlements are also applicable to members of Senior Management in terms of their individual contracts and as highlighted in the Remuneration Statement.

Notwithstanding that the challenges of COVID-19 impacted the financial performance of the Bank and the Group for 2020 in relation to the original targets set for that year, during 2021 the Committee recommended, and the Board approved, bonus awards discretionally and outside the formula applicable when the targets are achieved.

Presently the Bank does not pay variable remuneration in equity, equity-linked or other eligible instruments to any category of staff. The application of the proportionality principle, according to circular published by the MFSA in 2015, prescribes that the provisions of CRR relating to variable pay in instruments and deferral rule are to be fully applied if an individual staff member is remunerated with a variable pay of more than €100,000, or for lower values where variable pay is more than 100% of the fixed pay of the individual concerned. No staff member falls in this category.

Performance Management System

KPIs, by which employees' performance is measured, provide corporate departmental, unit and team/individual targets aligned with the strategic objectives and business plan of the Group. Performance management also takes into consideration leadership competencies required by the individual positions as well as the Group's corporate values. Performance targets are reviewed periodically to ensure that these are aligned to specific strategic and operational objectives set out by the Board of Directors, covering not only business generation, but also other areas of importance such as compliance with prevalent regulation and internal policies and procedures, on boarding and customer due diligence, non-performing borrowing, quality of service and others.

Identified Staff

Additional disclosures on the governance process related to remuneration have been made in the Remuneration Statement in this report. The target population defined as Identified Staff for the purposes of this disclosure represents 10.3% of total number of employees in the Group. Identified staff is determined in line with recommended EBA Regulatory Technical Standards[1] and includes:

- all members of the management body and senior management;
- staff members with managerial responsibility over the institution's control functions or material business units; and
- Other employees who are members of Board and Management Committees with collective authority to commit to risk exposures per transaction beyond 0.5% of CET1 Capital, and employees who, individually or as part of a Committee take, approve or veto decisions on new products, material processes or material systems.

For the purposes of remuneration, Identified Staff have been split into business areas according to EBA guidelines[2]. The table overleaf shows total fixed and variable remuneration for Identified Staff during the financial year 2021 broken down by business area, Senior Management and members of staff whose actions have a material impact on the risk profile of the institution. All fixed and variable remuneration were paid in cash. All Identified Staff are individually remunerated less than €1 million per annum.

[1] EBA Final Draft Regulatory Technical Standards EBA/RTS/2020/05 dated 18 June 2020

[2] EBA Guidelines on the remuneration benchmarking exercise EBA/GL/2014/08 dated 16 July 2014

REMUNERATION POLICY (continued)

Identified Staff (continued)

Standard contracts for all Identified staff would generally be indefinite following a period of definite employment with notice periods and retirement from the Bank in line with local legislation.

	Supervisory Function	Executive Management Function	Portfolio Management and Wealth Management	Retail Banking	Asset Liability Management	Corporate Function	Independent Control Functions
Supervisory & Management functions	14	9					
Number of identified staff			2	3	5	12	12
of which in Senior management positions			2	3	4	12	11
Total Fixed Remuneration (€)*	429,567	1,174,387	198,982	235,036	244,918	747,705	767,851
Occupational Pension (€)**		34,000	6,000	9,000	5,568	30,000	23,843
Total Variable Remuneration (€)		148,240	26,880	33,120	20,873	125,802	71,746

*Total fixed remuneration comprises benefits, specifically car allowances.
**Fixed occupational pension contribution subject to eligibility criteria.

Notes to the Table:

- This has been compiled as defined in EBA guidelines EBA/GL/2014/8 – Remuneration Benchmarking Exercise. None of the employees individually earn over €500,000.
- There are no amounts of deferred remuneration and no deferred remuneration was awarded during the financial year.
- The above figures are for the APS Group.
- Variable remuneration for identified staff includes performance related bonuses and other discretionary benefits.

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2021

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

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

The Committee is composed of three Non-Executive Directors, with the Chairman of the Board acting as Chair of the Committee. The members of the Committee are Martin Scicluna as Chairman (he replaced Frederick Mifsud Bonnici in September 2021), Victor Gusman and Laragh Cassar. None of the members participate in the discussion regarding their own nomination, remuneration or performance. A senior member within the Human Capital Department acts as Secretary to the Committee.

Further detail on the Terms of Reference of the Nominations and Remuneration Committee is found in the "Statement of Compliance with the Code of Principles of Good Corporate Governance" under Principle 4, on page 46.

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2021 (continued)

2. Meetings

The Committee held five (5) meetings during the period under review. All members were present at these meetings. The CEO, Chief People Officer and Company Secretary were invited to all meetings.

3. Nominations

In line with the requirement of the Capital Markets Rule 8.B.7, the fulcrum of the work carried out by the Nominations and Remuneration Committee relating to Nominations throughout 2021 is being presented under three main headings:

Appointment of Chair and of Non-Executive Director

Following the AGM held on 14 May 2021, Frederick Mifsud Bonnici announced his intention to step down as Chairman and Director and the shareholders nominated Martin Scicluna to succeed him as Chairman. In the meantime, the Committee proceeded to draw up a candidate profile for the appointment of a new non-executive director who would also take up Board Committee roles after the change in Chairman.

Local and international candidates, including those already included in the Bank's Nominations Pool, were considered with particular emphasis being placed on skills and experience in risk, technology and business enterprise. These skills were viewed as complementing those currently held by the other directors after the conclusion of a thorough collective suitability exercise. Two candidates were eventually shortlisted and interviewed by Committee members, followed by further discussions all the Board members and Qualifying Shareholders. The outcome was the nomination of Prof Juanito Camilleri as announced on 25 June 2021. Information on Prof Camilleri may be found in his bio-note on pages 9 to 10. Regulatory approvals from the MFSA for the appointment of Chairman Scicluna and Prof Camilleri were received on 30 August 2021 and 20 September 2021, respectively.

Maintaining Board Effectiveness through Board Succession Planning

The Nominations and Remuneration Committee is cognisant of the importance to maintain Board effectiveness by ensuring that the Board is at all times composed of individuals with diverse perspectives, that may embrace new ways of thinking whilst also mindful of replacing those directors who intend to retire over the short and medium term.

Throughout 2021 this was done predominantly by:

a) *Drawing up a Skills-Matrix*. To ensure that the Bank's Board of Directors is comprised of individuals that collectively possess a healthy balance of skills, expertise and perspectives to contribute to the governance of the Bank, the Committee has drawn up a Director Skills Matrix comprising optimal characteristics Board members should have to reflect current and future needs in consideration of the Bank's strategy, risk profile, regulatory requirements, board responsibilities, commitment to diversity in governance and board leadership succession.
b) *Maintaining a 'live' Nominations Pool for the Boards of the Bank and ReAPS Asset Management Limited*. The Pool includes candidates taking into consideration skills, knowledge, and diversity, whilst also considering areas of competence required over the medium to long-term to support the Bank's strategic objectives. The Pool seeks to tie in with the results expressed in the Skills Matrix.

Securing the Bank's Strategy through Management Succession Planning

The Nominations and Remuneration Committee also engaged with discussion on senior management succession planning following contribution by the CEO and the Chief People Officer. This exercise continued to expand on the one embarked on in 2019, with the Board's commitment to identify, develop and retain talent for key positions and areas in line with the business objectives. The focus remains on developing the succession potential of promising individuals, forming a pool of qualified candidates who are ready to compete for key positions and areas when they become vacant. Moreover, the Committee follows recommended good governance practices and the requirements of the EBA and ESMA Guidelines on the Suitability of the Management Body, amended and in force as at 31 December

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2021 (continued)

Securing the Bank's Strategy through Management Succession Planning (continued)

2021. Frameworks to ensure adherence are currently being finalised to further strengthen policies and practices in place.

4. Remuneration Statement

4.1 Remuneration Policy – Senior Management

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

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

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

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

Apart from the Occupational Pension Scheme no discretionary pensions or other supplementary pension benefits were payable to the Executives in 2021. Insofar as early retirement schemes are concerned, the Executives are subject to the schemes which are set out and defined in the Collective Agreement (for Managerial and Clerical Grades) as may be applicable to employees from time to time.

Total emoluments received by Executives during the financial year ended 31 December 2021 are reported below.

Variable Remuneration of Executives

The total Variable Remuneration of Executives is proposed by the CEO, reviewed by the Committee, and confirmed by the Board of Directors. During 2021 the Executives were awarded a performance bonus linked to the performance and achievement of their objectives. The objectives were based partly on financial targets and partly on qualitative performance review.

4.2 Remuneration Policy – Directors

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

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2021 (continued)

4. Remuneration Statement (continued)

4.2 Remuneration Policy – Directors (continued)

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

The remuneration of the Chairman and Directors of the Bank for 2021 was approved by the Shareholders at the AGM. The remuneration consists of fixed fees for being appointed as Board of Director as well as for membership in Board Committees. It is set at a level which broadly reflects:

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

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

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

4.3 Directors' Fees and Executives' Emoluments

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

Board Fees	€
Chairman	53,333
All other Directors	156,500
Board Committees Fees	€
Chairman of the Board	7,667
All other Directors	153,416

Executives' Emoluments

Fixed Remuneration	Group Directors Fees	Variable Remuneration	Share Options	Others
1,174,387	* € nil	148,240	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses

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

Directors' Fees

Fixed Remuneration	Variable Remuneration	Share Options	Others
370,916	None	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2021 (continued)

4. Remuneration Statement (continued)

4.3 Directors' Fees and Executives' Emoluments (continued)

The Bank's Directors' Fees for the year ended 31 December 2021 are as follows:

	€
Frederick Mifsud Bonnici – retired from Chairman and Board of Directors on 31 August 2021	33,333
Martin Scicluna – appointed Chairman on 1 September 2021	52,500
Franco Azzopardi	41,750
Victor E. Agius	45,750
Joseph Attard	43,750
Laragh Cassar	32,500
Alfred De Marco	37,750
Victor Gusman	29,750
Michael Pace Ross	36,750
Juanito Camilleri – appointed on 20 September 2021	17,083
TOTAL	**370,916**

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

The Board of Directors (the "Board" or "Directors") of APS Bank plc (the "Bank") is presenting this Statement of Compliance in conformity with the requirements of the Capital Markets Rules 5.94 *et seq* of the MFSA and the principles outlined in the "Code of Principles for Good Corporate Governance" (the "Code"), in Appendix 5.1 of the Capital Markets Rules. Reference to the Bank also covers the subsidiary undertakings forming the APS Group as noted in the Directors' Report on page 16.

The Board is committed to the well-being of the Bank by instilling robust corporate governance principles, sound management and general supervision of its affairs. The Board acknowledges that the Code recommends principles for the Board and the Bank's management to pursue objectives that are in the interest of the Bank and its shareholders and undertakes to comply fully with it to the extent that this is considered consistent with the size, nature, and operations of the Bank. As at the date of this Statement, the Board considers the Bank to be in compliance with the Code, save for the exceptions delineated in Section Non-Compliance with the Code on page 55.

COMPLIANCE WITH THE CODE

Principle 1: The Board

The Board plays a salient role in setting the strategy of the Bank by providing leadership, integrity and judgement, upholding the highest standards of corporate governance. In doing so, the Board establishes the required focus on the value-added deliverables, promoting the Bank's culture, values and ethics, aiming to safeguard the interests of the institution, shareholders, employees and customers alike. The Board is committed to continually improve its practices and capabilities so that it can discharge its role and responsibilities effectively.

As at the date of this Statement, the Board is composed of nine Non-Executive Directors, including the Chairman, as listed in the Directors' Report on page 17. There is a range of relevant skills on the Board, gained in diverse business environments and different sectors, making the Board suitable to articulate perspectives, entertain debates on a wide range of issues, ensuring effective and efficient decision making.

In October 2021, the Board established the role of a Senior Independent Director ("SID"), with responsibility delegated to Laragh Cassar. The primary role of the SID is to act as a sounding board for the Chair and serve as a trusted intermediary for the Directors, and shareholders when necessary. This role reinforces the Board's commitment to provide Directors with all the necessary tools to ensure Board effectiveness towards a contemporary culture.

Furthermore, the Board delegates specific responsibilities to various Board and Management Committees. Supplementary information on delegated authorities and responsibilities is provided in Principle 4 on pages 44 to 49.

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

Principle 2: Chairman and CEO

The Bank's Organisational Structure incorporates the positions of a Chairman and a CEO, which are separate and distinct positions, occupied by different individuals, having clear division of responsibilities.

The Chairman is appointed from amongst the Directors by the largest shareholder holding at least twenty-five per cent of the ordinary issued share capital of the Bank. The Chairman is responsible for leading the Board and setting its agenda for meetings, ensuring that the Directors receive precise,

COMPLIANCE WITH THE CODE (continued)

Principle 2: Chairman and CEO (continued)

timely and objective information so that they can properly discharge their duties, whilst encouraging their active engagement at meetings and on issues of a complex or contentious nature.

The CEO is responsible for the running of the Bank's business and to lead the management team, establishing the required fora to communicate, review and agree on issues and actions of Group-wide significance, with the exception of those matters reserved for the Board or specifically delegated by the Board to its Committees. The CEO is also responsible for the recruitment and appointment of senior management, after consultation with the Nominations & Remuneration Committee.

Principle 3: Composition of the Board

The Bank's Articles of Association, with their detailed provisions, govern the appointment in office, the retirement and/or resignations of Board Members. Directors hold office from the close of the AGM at which they are appointed until the end of the subsequent General Meeting, at which they become eligible for re-election. The Nominations and Remuneration Committee has the delegated authority to lead this process, ensuring at all times Board suitability.

Following the closure of the AGM held on 14 May 2021, Frederick Mifsud Bonnici announced his intention to step down as Chairman and Director. The Shareholders nominated Martin Scicluna to succeed him as Chairman, and Juanito Camilleri to be appointed as Director. The formal appointments of Scicluna as Chairman and Juanito Camilleri as Director came into effect on the 1 September 2021 and the 20 September 2021 respectively, once regulatory approval was received.

All Directors hold office in a non-executive capacity and actively participate in Board Committees. All Directors are committed to high standards of conduct, ethics and governance practices.

Each Director is expected to be an active participant to ensure that the Board functions effectively as a whole. The Directors combine broad business and commercial experience, conveying independent and objective judgement, providing constructive challenge to the executives, ensuring diligent monitoring of internal control functions. All Directors have adequate knowledge on the key performance indicators and have the required understanding of the business risks involved.

The Board contains a mix of longer-serving Directors and more-recently appointed ones, ensuring good institutional memory with fresh insight, and bringing to the Board a broad range of skills, expertise and experience. This is considered to be a good formula that enables the Board to deal with current and emerging opportunities and issues and to effectively appreciate the business risk and key performance indicators affecting the Bank's ability to achieve its objectives. This is complemented with an ongoing evaluation of the skills, competences, knowledge, and experience to fulfil boardroom responsibilities.

In accordance with the Code Provision 3.2, the independent Non-Executive Directors of the Bank as at 31 December 2021 were:

- Martin Scicluna (Chairman)
- Victor Agius
- Joseph C Attard
- Franco Azzopardi
- Laragh Cassar
- Juanito Camilleri

COMPLIANCE WITH THE CODE (continued)

Principle 3: Composition of the Board (continued)

In determining the independence or otherwise of its Directors, the Board has considered the principles emanating from the Code, the Joint EBA and ESMA "Guidelines on the Assessment of the Suitability of Members of the Management Body" (2021), as well as general principles of good practice.

The Board has determined that Franco Azzopardi has demonstrated the ability to take objective decisions independently, notwithstanding his tenure of over 12 years as Director.

Conversely, the Board considers Michael Pace Ross, who holds the role of Administrative Secretary of the Archdiocese of Malta, and Victor Gusman who until the second quarter of 2021 held the same role with the Diocese of Gozo, to be non-independent from the Bank. Additionally, Alfred DeMarco sits on *the Kunsill Finanzjarju Djocesan* within the Archdiocese of Malta, and therefore he is regarded as being non-independent. This notwithstanding, the Board does not consider that their roles with the Shareholders hinder them from maintaining independence of free judgement and character; as they demonstrably make their own objective, sound and independent decisions and judgements when performing their Board duties.

Principle 4: The Responsibilities of the Board

In its primary responsibility, in setting the 'tone at the top', the Board is responsible for understanding and for advising management on the processes through which governance occurs and is accountable for the results of those processes, hence the Board ensures effective execution of its functions through clear articulation of the Bank's purpose and strategy, exercising stewardship and oversight of the institution. In doing so, the Board works closely with the senior management team, led by the CEO, and together establish a balance between oversight and strategy execution.

The Board actively oversees the affairs of the Bank by formulating policy in alignment with relevant laws, regulations, and code of practice. The Board is responsible to approve major projects, budgets, capital expenditures and financing, and oversees the adequacy of its corporate governance, transformation, internal controls systems, and risk management, including people's management.

Through the ongoing monitoring of the Bank's risk tolerances, KPIs and other relevant Key Risk Indicators ("KRIs"), the Board ensures full adherence to the Bank's business plan and its risk appetite, cascading to the tactical and operational levels through project action plans, regulatory and risk policies, limits and established processes and controls.

In establishing, the Bank's Risk Appetite, determining the Risk Appetite Statement and respective Dashboard, the Board is further supplemented with the advice of the Risk Committee. The Risk Appetite Dashboard captures and amplifies on the most significant financial and non-financial risks to which the Bank is exposed and sets guidance on the types and maximum amount of risk that the Board considers acceptable. Additionally, it sets out risk limits and triggers to benchmark the Bank's risk profile with its risk appetite.

In 2021 the Bank continued to invest more effort in establishing robustness in its top-level policy framework and currently is undergoing the review of various policies in full alignment with the updated EBA & ESMA Guidelines on internal governance and suitability, which came into effect in December 2021.

The Board ensures that the Bank has appropriate policies and procedures in place to lead its employees to the highest standards of corporate conduct and to comply at all times with applicable laws, regulations, business and ethical standards.

As detailed in Principle 1 on page 42, the Board delegates its authority to various Board and Management Committees which operate under their respective Terms of Reference, setting out the Committee's mandate, scope and working procedure. In 2021 Committees continued to meet on a regular basis. The holding of online meetings also permitted the flow of Committee meetings to continue when it would have otherwise not been possible to meet physically.

COMPLIANCE WITH THE CODE (continued)

Principle 4: The Responsibilities of the Board (continued)

In the second half of 2021, the Bank held its first Committee self-evaluation exercise whereby each Committee was assessed against appropriate criteria in order to assess their respective effectiveness.

Furthermore, Committee memberships were revised to further ensure these are instrumental in driving effectiveness to permit them to gear the business towards its long-term objectives. Induction sessions were held for new Committee members.

The table hereunder provides details of the main responsibilities emanating from each Committee Terms of Reference (TORs):

Board & Management Committees

Audit Committee - Main Responsibilities

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

In terms of Capital Markets Rules 5.117, 5.118 and 5.118A, the Audit Committee is composed of three Non-Executive Directors. The Committee is composed of three members, Franco Azzopardi (Chair), Alfred DeMarco and Juanito Camilleri. Juanito Camilleri joined the Audit Committee in Martin Scicluna's stead when the latter was appointed Chair of the Board as from 1st September 2021. The Committee members' biography may be found on pages 8 to 11. Franco Azzopardi is the member who the Board considers as competent in accounting. In view of the diverse skills and professional experience of each of the Audit Committee Members, the Bank considers the Audit Committee as a whole to have the adequate competence and meet the independence criteria as required by Capital Markets Rule 5.118.

Membership	2021 Attendance out of 8 meetings
Franco Azzopardi	8/8
Martin Scicluna	7/8
Alfred DeMarco	7/8
Juanito Camilleri	2/8*

*As from 1 November 2021

Risk Committee - Main Responsibilities

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

Membership	2021 Attendance out of 7 Meetings
Martin Scicluna	7/7
Victor Agius	7/7
Joseph C Attard	7/7
Franco Azzopardi	5/7
Michael Pace Ross	6/7
Juanito Camilleri	2/7*

*As from 1 November 2021

Nominations and Remuneration Committee - Main Responsibilities

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

Attendance and more information on the Nominations and Remuneration Committee is provided under the Nominations and Remuneration Report on pages 35 to 41.

Other Board Committees

Conduct Committee - Main Responsibilities

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

Board Credit Committee ("BCC") - Main Responsibilities

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

Technology & Innovation Committee ("TAIC") - Main Responsibilities

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

Environmental, Social and Governance Committee ("ESG") - Main Responsibilities • Considers the material environmental, social & governance issues and policies relevant to the Bank's business activities and promotes initiatives to raise ESG performance. • Ensures that the Bank is keeping the UN Sustainable Development goals as an overarching guide, monitors their applicability & considers emerging ESG issues. • Oversees the implementation of social sustainability initiatives and commitments, including performance, challenges and opportunities, to ensure their effectiveness in delivering social impact. • Oversees the reputational impacts of the Bank's business strategies and practices, monitors policies and initiatives to ensure appropriate safeguards are in place for dealing fairly and ethically with third party stakeholders.
<u>**Management Committees**</u> **Assets-Liabilities Committee ("ALCO") - Main Responsibilities** • Generally responsible for the ALM strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy. • Monitors interest rate, liquidity and currency risks and determines treasury strategy accordingly. • Focuses on liquidity management and contingency planning, determines the liquidity strategy. • Optimises capital allocation in terms of ALM strategy and regulatory requirements. • Instigates the development of new treasury (funding and lending) products and approves and monitors the Bank's Funds Transfer Pricing ("FTP") framework and its components, monitors implementation and reviews results. • Regularly appraises Bank performance in terms of ALM strategy.
Management Credit Committee ("MCC") - Main Responsibilities • Receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy and procedures. • Refers and recommends to the BCC limit applications where these exceed its MCC limits. The Committee receives and reviews updates/amendments to approved facilities and approves, or delegates approval, for deviations as the case may be, and considers and advises the BCC on credit limits and/or any matter for approval that is within its BCC competence.
Compliance Committee – Main Responsibilities • Ensures that prescribed regulations, rules, policies, guidelines and procedures are being followed and also anticipated in advance. • Acts as a decision point for business acceptance, on-boarding and dismissal of customers, in line with the Bank's on-boarding and exit policies. • It ensures that the Bank's Compliance function takes a holistic as well as balanced view of compliance risk. • The Compliance Committee reports to the Risk Committee.
EXCO Management Meeting – Main Responsibilities • Acts as consultative body and advisor to the CEO on matters such as strategy, operations, and business. • Reviews and debates relevant items before consideration by the Board/Board Committees and escalates key issues. • Focuses on the four Ps, namely Performance, Products, Projects and People, and these four broad areas. • Approves capital commitments and transactions within its delegated authority and recommends for Board approval the annual capital and revenue budgets, monitors KPIs, KRIs and financial performance on an ongoing basis. • Has first line of oversight of the control frameworks, receiving and considering reports of operational reports, including serious service/product complaints and/or incidents.

Weekly Management Meeting – Main Responsibilities

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

		Board Committees							Management Committees			
		Audit	Risk	ESG	NR	Conduct	BCC	TAIC	EXCO	Compliance	ALCO	MCC
Directors	Martin Scicluna				C							
Directors	Victor E. Agius		■	C			C					
Directors	Joseph C. Attard		■				■	C				
Directors	Franco Azzopardi	C	■					■				
Directors	Juanito Camilleri	■	C									
Directors	Laragh Cassar				■	C	■					
Directors	Alfred DeMarco	■				■	■					
Directors	Victor Gusman				■	■		■				
Directors	Michael Pace Ross		■	■		■						
Management	Marcel Cassar		NV	NV		■	■		C			C
Management	Giovanni Bartolotta		NV	NV		■	NV		■	C	■	■
Management	Raymond Bonnici								■			
Management	Anthony Buttigieg		NV				NV		■	■		■
Management	Edward Calleja						■		■	■		
Management	Jonathan Caruana							■	■			
Management	Liana Debattista			■					■			
Management	Noel McCarthy		NV						■			■
Management	Ronald Mizzi		NV					■	■		■	■
Heads	Wilhelm Attard											■
Heads	Cynthia Borg					■				■		
Heads	Alexander Camilleri							■				
Heads	Gilbert Caruana										■	
Heads	Daniel Cassar							■				
Heads	Angele de Mesquita							■				
Heads	Marvin Farrugia										C	NV
Heads	Mario Gauci						NV					NV
Heads	Kenneth Genovese										■	
Heads	Gordon Gilford							■				
Heads	Nives Grixti			NV		■	NV			■		NV
Heads	Zoltan Horvath										■	
Heads	Marco Micallef		NV				NV					NV
Heads	Simon Micallef									■		
Heads	Aaron Mifsud										■	■
Heads	Rodney Naudi							■				
Heads	Josef Portelli										■	
Heads	Dorianne Tabone					■				■		
	David Galea										■	
	Michael Tabone			■								
	Astrid Tailly-Lubin			■								
	Susan Vella							■				

Legend

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

C Chair NV Non-Voting Member

COMPLIANCE WITH THE CODE (continued)

Principle 5: Board Meetings

All Directors are required to attend all meetings of the Board, the meetings of those Committees on which they serve, and the AGM. The Board meets regularly to discharge its duties effectively, typically monthly. Stemming from the Bank's COVID-19 safety protocol, 2021 Board meetings followed a hybrid set up, that is, a mix of in person and virtual attendance. This enabled the required flexibility to accommodate uninterrupted attendance.

During the year under review, the Board met 11 times, with another 5 additional meetings held on an *ad hoc* basis. During 2021, the average rate of attendance was 97%. In terms of the Memorandum and Articles of Association and the Board Charter, when a Director is unable to attend there is the option to appoint another Director, including the Chairman, to act as his/her alternate and in any case to submit comments to the Chairman ahead of the meeting.

All Directors are required to attend all meetings of the Board, the meetings of those Committees on which they serve, and the AGM. All Directors are expected to devote sufficient time to the Bank's affairs to enable them to fulfil their duties as Directors, always exercising independent judgement.

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

Board Attendance at Meetings as at 31 December 2021	
Board Member	**Attendance out of 16 meetings (including *ad hoc* meetings)**
Martin Scicluna	16/16
Frederick Mifsud Bonnici*	12/16
Victor Agius	16/16
Joseph C Attard	15/16
Franco Azzopardi	16/16
Laragh Cassar	15/16
Alfred DeMarco	16/16
Victor Gusman	15/16
Michael Pace Ross	14/16
Juanito Camilleri**	3/16

*until 23 August 2021
** as from 30 September 2021

Board agendas and packs are circulated in advance to permit Board Directors to prepare themselves for the discussions that take place during the meetings. Board agendas invariably include discussions and decisions on regulatory, risk and strategic matters, detailed presentations by the CEO, and other members of the senior management team, as appropriate. Structured reporting from the Committees, subsidiaries and associates are a regular agenda item of each Board Meeting. The CEO is invited to attend all Board meetings, and other senior management officials attend Board meetings as required, according to the nature of the discussion and their specific area of responsibility. This provides the Board with an opportunity to engage directly with senior management on key issues.

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

In 2021, in addition to its scheduled meetings, the Board also met with the Management Team in: a) July for the Annual Business Planning brainstorming days; b) October, for a strategy workshop led by the new Chairman shortly after taking office, and c) November for the Business Planning Wrap-up Workshop, looking into the Bank's main priorities for the updated 2022-2024 Plan and strategic initiatives for the same period.

COMPLIANCE WITH THE CODE (continued)

Principle 5: Board Meetings (continued)

Directors also attended the Bank's AGM held on 14 May 2021 wherein ordinary and special business, extraordinary resolutions were presented and approved. Following the lifting of the European Central Bank's recommendation as a consequence of the COVID-19 pandemic, a scrip dividend was declared.

Principle 6: Information and Professional Development

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

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

In 2021, the Directors attended two tailor-made programmes. The first programme was organised by a reputable local law firm and delved into Directors' responsibilities internal governance, ESG and remuneration. A second programme was organised by an international firm specialising in financial crime. The session related to anti-money laundering. The annual Business Plan & Budget Review Off-Site Workshops held in July and November, also served as a professional development opportunity for the Directors. Directors attended online seminars and conferences on an array of topics. Directors were kept abreast of other webinars that were being organised by local and international entities. A training and development log is maintained by the Human Capital Department.

Upon appointment, all Directors undertake a formal and tailored induction programme providing the required familiarisation with the Bank. This programme is co-ordinated by the Company Secretary and tailored to suit the requirements of the individual concerned. This includes a series of meetings with senior executives in providing an overview of the Bank's main functions, namely strategy, finance, risk, people, technology, operations, and other internal control functions. The programme also provides information related to Board Committee Memberships and includes guidance on directorship responsibilities, duties, liabilities, and expectations.

Continuous training and development initiatives are organised for Directors to facilitate their contribution in the Boardroom. Continuous training targets deliverables on core competencies, namely strategic leadership, agility, power, responsibility and liability of the Board and the individual director, Board development and practices, individual attributes and qualities and business ethics.

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

Principle 7: Evaluation of the Board's Performance

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

COMPLIANCE WITH THE CODE (continued)

Principle 7: Evaluation of the Board's Performance (continued)

In terms of the 'Evaluation Policy and Procedure', at least once a year an evaluation is carried out to assess the Board's performance, which evaluation extends to assess its Individual Directors, the Chair, and delegated Committees. It is the Bank's practice that the Committee evaluation exercise is carried out in the second half of the year.

The 2021 Board Evaluation was carried out in the form of self-assessments, following the process detailed hereunder under the oversight of the Conduct Committee, supported by the Company Secretariat.

The Internal Evaluation Process

It is positive to note that the final evaluation report earmarks a satisfactory outcome, where no changes in the governance and the organisation are being envisaged as a result of the Board evaluation.

Principle 8: Committees

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

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

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

The table overleaf identifies the Bank's key stakeholders and how both the Bank and the Board engaged with them throughout 2021. The Board seeks to understand the needs and the key areas of interest of each stakeholder group and consider them during deliberations and as part of the decision-making process.

COMPLIANCE WITH THE CODE (continued)

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

Key stakeholders	Reason for engagement and key priorities for 2021
Shareholders	Meetings with Shareholders are conducted in a structured manner, with meetings held separately with the main Shareholders, namely AROM Holdings Ltd (ultimately owned by the Archdiocese of Malta), the Diocese of Gozo and the Metropolitan Cathedral Chapter, as well as with their financial advisers. Joint Shareholders' meetings with the main Shareholders were also held more frequently this year due to the implementation of Phase 3 of the Capital Development Plan in line with the Bank's Strategic Plan.
Bondholders and Institutional Investors	Following the issuance of the Bank's bonds in late 2020, in November 2021 the Bank issued its first coupon payment to bondholders who were listed on its Register on 3 November 2021. The Bank also issued its first newsletter to bondholders whereby it communicated the Bank's main achievements of 2021.
Business clients, potential new clients, financial advisers	The Bank engages with business clients, potential new clients and financial advisers through various channels to ensure strong relationships are maintained allowing its vision, business model and *modus operandi* to be communicated, with emphasis on strategy and delivery. Furthermore, the Bank constantly monitors emerging trends and is responsive to clients' needs in order to create new products and identify future revenue drivers. The Bank continued to issue the APS Digest to assist commercial entities even beyond the most challenging times of the pandemic. Clients were kept up-to-date on the Bank's services and responding in a timely manner to clients as different circumstances arose, through various digital channels.
Employees	Although COVID-19 measures were relaxed in a number of areas throughout 2021, it was still impossible for the Bank to organise full-blown Townhall Meetings for 500 employees, thereby necessitating online meetings to be held instead. Staff were likewise engaged into understanding the Bank's progression, strategy and financial results.

	Employee engagement is measured through the cloud-based survey platform Peakon, first introduced in 2019 and carried out again in 2021. Excellent results were recorded across practically all segments of staff engagement, despite the challenging environment.
Relevant information provided to stakeholders	1. Financial reporting This year's annual financial reporting presentation was delivered virtually due to COVID-19 measures that prevented a physical presentation taking place. The Bank also publishes interim half-yearly results and quarterly financial updates. 2. Company Announcements As a listed entity, the Bank is required to issue Company Announcements, in terms of the Capital Markets Rules to bring useful, relevant and material facts to the attention of the market. 3. Press releases The Bank issues Press Releases on a regular basis in order to inform its clients and other stakeholders about developments and news. The widespread use of social communication media has helped the Bank to increase the reach and speed of its communication. 4. Website The Bank's website (www.apsbank.com.mt) is the platform through which interested parties may have access to Bank information. The section 'Investor Relations' section is consistently updated with biographies of the members of the Board and of Executive Management as well as Annual Reports, Company Announcements and Press Releases.

Principle 11: Conflicts of Interest

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

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

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

COMPLIANCE WITH THE CODE (continued)

Principle 12: Corporate Social Responsibility

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

Further details on the Banks' CSR outreach are disclosed separately in the Directors' Report.

NON-COMPLIANCE WITH THE CODE

Principle 3 (Composition of the Board): The Board is currently composed of nine Non-Executive Directors including the Chairman. While the Code of Principles for Good Corporate Governance provides that the Board should be composed of Executive and Non-Executive Directors, there are no Executive Directors presently appointed to the Board. The Board believes that with the required diversity of knowledge, judgment, and experience, it can still adequately perform its functions (even without the appointment of any Executive Directors) and collectively execute the four basic roles of corporate governance namely, accountability, monitoring, strategy formulation and policy development. In addition, the CEO is ordinarily invited to attend meetings of the Board of Directors to ensure that the Board is adequately supported from an executive management perspective. The Bank's Memorandum & Articles of Association includes a clause specifying that executive members are also eligible to be appointed Directors. Furthermore, with respect to the appointment of Non-Executive Directors, the Nominations and Remuneration Committee and Board are guided by the relative provisions of the Articles of Association, as amended in 2020, as well as the EBA and ESMA Guidelines on the assessment of the suitability of members of the management body. The Nominations and Remuneration Committee is currently updating its Nomination and Succession Policy and Procedure to further promote the notion of diversity.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

Board responsibility

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

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (continued)

Board responsibility (continued)

Control effectiveness review

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

The Bank's risk management and internal control systems are regularly reviewed by the Board and are consistent with applicable guidance issued by the competent authorities and compliant with the requirements of CRD V. More detail on the review of internal controls is found in the 'Pillar 3 Disclosures' Report as published on the Bank's website.

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

Board of Directors

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

Capital Markets Rule 5.97.5

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

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (continued)

General Meetings

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

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

The Articles relating to 'General Meetings' stipulate that Shareholders registered in the Shareholders' Register on the Record Date, have the right to attend, participate and vote at the General Meeting, and those owning not less than five percent (5%) of the voting issued share capital of the Bank may request the Bank to include items on the agenda of a General Meeting, and table draft resolutions for items included in the agenda of a General Meeting, insofar as they are received at least forty-six days before the date set for the relative General Meeting.

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

This Statement was authorised for issue by the Board of Directors on 10 March 2022 and signed on its behalf by:

Martin Scicluna	**Franco Azzopardi**
Chairman	Director

STATEMENTS OF PROFIT OR LOSS
for the year ended 31 December 2021

	Note	The Group 2021 €000	The Group 2020 €000	The Bank 2021 €000	The Bank 2020 €000
Interest receivable and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	63,246	56,461	63,246	56,455
On debt and other fixed income instruments	(3)	5,889	5,819	4,394	4,685
Total interest receivable and similar income	(3)	69,135	62,280	67,640	61,140
Interest payable	(4)	(13,773)	(13,434)	(13,773)	(13,434)
Net interest income		55,362	48,846	53,867	47,706
Fee and commission income		8,982	6,814	7,909	6,592
Fee and commission expense		(1,981)	(1,600)	(1,981)	(1,600)
Net fee and commission income	(5)	7,001	5,214	5,928	4,992
Dividend income	(6)	312	189	1,273	1,236
Net gains on foreign exchange	(7)	404	99	428	328
Net gains from derecognition of financial assets at amortised cost	(8)	572	-	572	-
Net (losses)/gains on financial instruments	(8)	(152)	490	215	(262)
Other operating (loss)/income		(356)	306	(356)	306
Operating income before net impairments		63,143	55,144	61,927	54,306
Net impairment gains/(losses) on financial assets	(11)	1,488	(5,538)	1,488	(5,538)
Net operating income		64,631	49,606	63,415	48,768
Personnel expenses	(9)	(20,425)	(17,172)	(20,002)	(17,123)
Other administrative expenses	(10)	(16,089)	(12,351)	(15,606)	(12,097)
Depreciation of property and equipment	(25)	(1,603)	(1,896)	(1,603)	(1,896)
Amortisation of intangible assets	(26)	(1,905)	(1,651)	(1,905)	(1,649)
Depreciation of right-of-use assets	(27)	(562)	(481)	(562)	(481)
Operating expenses		(40,584)	(33,551)	(39,678)	(33,246)
Net operating profit before associates' results		24,047	16,055	23,737	15,522
Share of results of associates, net of tax	(23)	21	(258)	-	-
Profit before tax		24,068	15,797	23,737	15,522
Income tax expense	(12)	(8,967)	(5,707)	(8,696)	(5,589)
Profit for the year		15,101	10,090	15,041	9,933
Profit for the year attributable to:					
Equity holders of the parent		14,638	9,853	15,041	9,933
Non-controlling interest		463	237	-	-
		15,101	10,090	15,041	9,933

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2021

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Profit for the year	**15,101**	10,090	**15,041**	9,933
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Change in fair value on debt instruments measured at fair value through other comprehensive income (FVTOCI)	**(7,908)**	1,717	**(7,908)**	1,717
Release of fair value on disposal of debt instruments measured at FVTOCI	**1,236**	(271)	**1,236**	(271)
Deferred income tax relating to the components of other comprehensive income	**560**	349	**560**	349
Deferred income tax relating to components reclassified from other comprehensive income to profit and loss on derecognition of FVTOCI debt instruments	**-**	5	**-**	5
Items that may not be reclassified subsequently to profit or loss:				
Revaluation of land and buildings	**(863)**	(291)	**(863)**	(291)
Deferred income tax relating to the revaluation on land and buildings	**49**	45	**49**	45
Other comprehensive income for the year, net of tax	**(6,926)**	1,554	**(6,926)**	1,554
Total comprehensive income for the year, net of tax	**8,175**	11,644	**8,115**	11,487
Total comprehensive income attributable to:				
Equity holders of the parent	**7,712**	11,407	**8,115**	11,487
Non-controlling interest	**463**	237	**-**	-
	8,175	11,644	**8,115**	11,487

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2021

	Note	The Group 2021 €000	The Group 2020 €000	The Bank 2021 €000	The Bank 2020 €000
ASSETS					
Cash and balances with Central Bank of Malta	(14)	**207,723**	108,330	**207,723**	108,330
Cheques in course of collection		**2,881**	103	**2,881**	103
Loans and advances to banks	(15)	**32,296**	51,068	**30,831**	46,281
Loans and advances to customers	(16)	**1,932,044**	1,689,003	**1,932,044**	1,689,003
Syndicated loans	(17)	**134,262**	113,152	**134,262**	113,152
Derivative financial instruments	(18)	**552**	499	**552**	499
Financial assets at fair value through profit or loss	(19)	**61,846**	50,636	**-**	251
Other debt and fixed income instruments	(20)	**328,041**	315,983	**328,041**	315,983
Equity and other non-fixed income instruments	(21)	**307**	303	**307**	303
Investment in subsidiaries	(22)	**-**	-	**45,251**	45,251
Investment in associates	(23)	**19,803**	18,641	**16,761**	15,261
Investment properties	(24)	**6,053**	1,830	**6,053**	1,830
Property and equipment	(25)	**40,998**	46,180	**40,998**	46,180
Intangible assets	(26)	**11,746**	8,848	**11,746**	8,848
Right-of-use assets	(27)	**5,051**	5,235	**5,051**	5,235
Deferred tax assets	(28)	**2,249**	2,553	**2,249**	2,553
Other receivables	(29)	**9,152**	8,619	**8,303**	7,974
TOTAL ASSETS		**2,795,004**	2,420,983	**2,773,053**	2,407,037
LIABILITIES					
Derivative financial instruments	(18)	**552**	499	**552**	499
Amounts owed to banks	(30)	**57,208**	9,304	**57,208**	9,304
Amounts owed to customers	(31)	**2,431,757**	2,123,446	**2,433,073**	2,124,149
Debt securities in issue	(32)	**54,597**	54,558	**54,597**	54,558
Current tax		**945**	1,399	**758**	1,354
Lease liabilities	(27)	**5,348**	5,365	**5,348**	5,365
Other liabilities	(33)	**10,450**	10,090	**10,404**	10,090
Accruals	(34)	**13,325**	10,103	**13,224**	10,031
TOTAL LIABILITIES		**2,574,182**	2,214,764	**2,575,164**	2,215,350
EQUITY					
Share capital	(35)	**62,429**	62,255	**62,429**	62,255
Share premium	(36)	**10,453**	10,140	**10,453**	10,140
Revaluation reserve	(37)	**25,334**	32,260	**25,334**	32,260
Retained earnings	(38)	**103,974**	91,736	**99,673**	87,032
Attributable to equity holders of the parent		**202,190**	196,391	**197,889**	191,687
Non-controlling interest	(39)	**18,632**	9,828	**-**	-
TOTAL EQUITY		**220,822**	206,219	**197,889**	191,687
TOTAL LIABILITIES AND EQUITY		**2,795,004**	2,420,983	**2,773,053**	2,407,037
MEMORANDUM ITEMS					
Contingent liabilities	(40)	**25,356**	23,128	**25,356**	23,128
Commitments	(41)	**802,552**	786,427	**802,552**	786,427

The financial statements on pages 58 to 173 were authorised for issue by the Board of Directors on 10 March 2022 and were signed by:

Martin Scicluna
Chairman

Franco Azzopardi
Director

Marcel Cassar
Chief Executive Officer

Ronald Mizzi
Chief Financial Officer

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2021

	Attributable to the equity holders of the parent						
	Share capital	Share premium	Revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
The Group	€000	€000	€000	€000	€000	€000	€000
FINANCIAL YEAR ENDED 31 December 2021							
Balance at 1 January 2021	**62,255**	**10,140**	**32,260**	**91,736**	**196,391**	**9,828**	**206,219**
Profit for the year	-	-	-	14,638	14,638	463	15,101
Other comprehensive income	-	-	(6,926)	-	(6,926)	-	(6,926)
Total comprehensive income	**-**	**-**	**(6,926)**	**14,638**	**7,712**	**463**	**8,175**
Dividends paid (Note 13)	174	313	-	(2,400)	(1,913)	(218)	(2,131)
Net share capital issued by subsidiary company	-	-	-	-	-	8,559	8,559
Balance at 31 December 2021	**62,429**	**10,453**	**25,334**	**103,974**	**202,190**	**18,632**	**220,822**
FINANCIAL YEAR ENDED 31 December 2020							
Balance at 1 January 2020	**62,255**	**10,140**	**30,706**	**82,785**	**185,886**	**6,029**	**191,915**
Profit for the year	-	-	-	9,853	9,853	237	10,090
Other comprehensive income	-	-	1,554	-	1,554	-	1,554
Total comprehensive income	**-**	**-**	**1,554**	**9,853**	**11,407**	**237**	**11,644**
Dividends paid (Note 13)	-	-	-	-	-	(96)	(96)
Retained earnings adjustment due to tax	-	-	-	(902)	(902)	-	(902)
Net share capital issued by subsidiary company	-	-	-	-	-	3,658	3,658
Balance at 31 December 2020	**62,255**	**10,140**	**32,260**	**91,736**	**196,391**	**9,828**	**206,219**

STATEMENTS OF CHANGES IN EQUITY
for the year ended 31 December 2021

The Bank	Share capital €000	Share premium €000	Revaluation reserve €000	Retained earnings €000	Total equity €000
FINANCIAL YEAR ENDED 31 DECEMBER 2021					
Balance at 1 January 2021	**62,255**	**10,140**	**32,260**	**87,032**	**191,687**
Profit for the year	-	-	-	15,041	15,041
Other comprehensive income	-	-	(6,926)	-	(6,926)
Total comprehensive income	**-**	**-**	**(6,926)**	**15,041**	**8,115**
Dividends paid	174	313	-	(2,400)	(1,913)
Balance at 31 December 2021	**62,429**	**10,453**	**25,334**	**99,673**	**197,889**
FINANCIAL YEAR ENDED 31 DECEMBER 2020					
Balance at 1 January 2020	**62,255**	**10,140**	**30,706**	**78,001**	**181,102**
Profit for the year	-	-	-	9,933	9,933
Other comprehensive income	-	-	1,554	-	1,554
Total comprehensive income	**-**	**-**	**1,554**	**9,933**	**11,487**
Retained earnings adjustment due to tax	-	-	-	(902)	(902)
Balance at 31 December 2020	**62,255**	**10,140**	**32,260**	**87,032**	**191,687**

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2021

	Note	The Group 2021 €000	The Group 2020 €000	The Bank 2021 €000	The Bank 2020 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**73,552**	64,405	**71,077**	63,051
Interest and commission payments		**(11,672)**	(13,326)	**(11,672)**	(13,326)
Cash paid to employees and suppliers		**(37,367)**	(31,622)	**(36,517)**	(31,378)
Operating profit before changes in operating assets and liabilities		**24,513**	19,457	**22,888**	18,347
(Increase)/decrease in operating assets					
Loans and advances to customers/syndicated loans		**(266,941)**	(223,412)	**(266,941)**	(223,412)
Reserve deposit with Central Bank of Malta		**(2,878)**	(2,219)	**(2,878)**	(2,219)
Cheques in course of collection		**(2,778)**	25	**(2,778)**	25
Other assets		**(36)**	(15)	**-**	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		**308,312**	194,473	**308,924**	194,645
Amounts owed to banks		**(1,549)**	9,294	**(1,549)**	9,294
Other liabilities		**(1,095)**	(2,590)	**(1,120)**	(2,540)
Cash from/(used in) operating activities before tax		**57,548**	(4,987)	**56,546**	(5,860)
Income tax paid		**(8,512)**	(7,360)	**(8,388)**	(7,276)
Net cash flows from/(used in) operating activities		**49,036**	(12,347)	**48,158**	(13,136)
INVESTING ACTIVITIES					
Dividends received		**597**	544	**1,273**	1,236
Interest income from debt securities		**7,054**	6,684	**7,054**	6,684
Purchase of financial assets measured at amortised cost		**-**	(27,443)	**-**	(27,443)
Proceeds on maturity of financial assets measured at amortised cost		**3,107**	2,000	**3,107**	2,000
Purchase of debt instruments measured at FVTOCI		**(44,389)**	(107,335)	**(44,389)**	(107,335)
Proceeds on disposal of debt instruments measured at FVTOCI		**20,731**	53,957	**20,731**	53,957
Purchase of financial assets at FVTPL		**(46,241)**	(39,165)	**-**	-
Proceeds on disposal of financial assets at FVTPL		**34,605**	31,496	**249**	221
Purchase of equity and other non-fixed income instruments		**-**	(950)	**-**	(950)
Proceeds on disposal of equity and other non-fixed income instruments		**-**	1,000	**-**	1,000
Investment in subsidiary		**-**	-	**-**	(5,000)
Additional investment in associate		**(1,500)**	-	**(1,500)**	-
Purchase of property, equipment and intangible assets		**(653)**	(6,034)	**(653)**	(6,034)
Net cash flows used in investing activities		**(26,689)**	(85,246)	**(14,128)**	(81,664)
FINANCING ACTIVITIES					
Dividends paid		**(2,144)**	(91)	**(1,913)**	-
Amounts received on creation of shares in subsidiaries		**9,386**	4,207	**-**	-
Amounts paid on redemption of units in subsidiaries		**(794)**	(535)	**-**	-
Proceeds from issue of debt securities in issue		**-**	55,000	**-**	55,000
Cash payment for the principal portion of lease liability		**(515)**	(496)	**(515)**	(496)
Net cash flows from/(used in) financing activities		**5,933**	58,085	**(2,428)**	54,504
Net increase/(decrease) in cash and cash equivalents		**28,280**	(39,508)	**31,602**	(40,296)
Cash and cash equivalents at 1 January		**142,821**	182,329	**138,034**	178,330
Cash and cash equivalents at 31 December	(42)	**171,101**	142,821	**169,636**	138,034

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

APS Group comprises APS Bank plc, ReAPS Asset Management Limited, APS Diversified Bond Fund and APS Global Equity Fund (sub-funds of APS Funds SICAV plc, in which the Bank holds 99.99% of the founder shares). The Group also has a significant investment in its associates IVALIFE Insurance Limited and in the following sub-funds of APS Funds SICAV plc - APS Income Fund and APS Regular Income Ethical Fund.

APS Bank plc is incorporated and domiciled in Malta as a public limited company under the Companies Act (Cap. 386 of the Laws of Malta). It is licensed by the Malta Financial Services Authority (the "MFSA") to carry out the business of banking and investment services in terms of the Banking Act (Cap. 371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta). The Bank is also enrolled in the Tied Insurance Intermediaries List in terms of the Insurance Intermediaries Act (Cap. 487 of the Laws of Malta).

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

The principal activities of the Group are described in the Directors' report on page 16.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

Statement of compliance

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

Basis of consolidation

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

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

Effects of COVID-19 on the financial statements

During the year under review, the COVID-19 pandemic continued to impact the global economies. The following are the effects that the pandemic had on the Group's and the Bank's financial statements during the year under review:

Moratoria on loan repayments

During the prior year, credit and financial institutions licensed by the MFSA were directed to offer a moratorium on repayments on capital and interest for borrowers who were negatively affected by COVID-19. The Central Bank of Malta ("CBM") issued Directive 18 for Moratoria on Credit Facilities in Exceptional Circumstances to which the Group has abided.

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 to include targeted conditions that an applicant can benefit from by either an extension of an existing moratorium or else through an application of a new moratorium.

As at end of the financial reporting year, there were no loans which still benefitted from a moratorium on capital and/or interest payments in line with CBM Directive 18.

Clients who have been granted a moratorium on their loans and advances in line with Directive 18 since the beginning of COVID-19, amounted to a gross carrying amount of €277 million (Dec-20: €272 million).

Following the expiry of CBM Directive 18 on 31 March 2021, the Bank decided to continue supporting its clients by granting the moratorium on a case-by-case basis. The Bank's total lending now under moratoria represents repayment deferments granted by the Bank itself. The gross carrying amount of these loans as at end of December 2021 amounted to €98.0 million.

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Moratoria on loan repayments (continued)

The following table presents the remaining loan balances which had been granted a moratorium under CBM Directive 18 as at the end of December 2020 and loan balances under moratorium as granted by the Bank as at December 2021.

	Dec-21 €000	Dec-20 €000
Commercial facilities	97,673	139,570
Retail facilities	299	19,058
	97,972	**158,628**

As part of the assessment of the potential impact of the pandemic on the Group's loans and advances 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 is included within the 'Pillar 3 Disclosures' Report as published on the Bank's website.

	Dec-21 Balance on which COVID-19 measures were granted CBM moratoria €000	Dec-21 Total Balance €000	Dec-20 Balance on which COVID-19 measures were granted CBM moratoria €000	Dec-20 Total Balance €000
High risk sectors	-	-	113,549	260,046
Medium risk sectors	-	-	15,498	215,073
Low risk sectors	-	-	10,523	111,430
Household and individuals	-	-	19,059	1,123,329
	-	**-**	**158,628**	**1,709,878**

The following tables provide information on moratoria and forbearance measures in relation to COVID-19 as at the end of December 2021 and 2020. The balances as at 2021 represent the moratorium which were granted by the Bank, whereas the 2020 balances represent the moratorium as granted under the CBM Directive.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Moratoria on loan repayments (continued)

Gross Carrying Amount		Dec-21 €000	Dec-20 €000
Loans and advances		**98,726**	**159,969**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders		1,897	32,398
	of which: Households	693	19,168
	of which: Non-Profit Institutions Serving Households & Sole Traders	1,204	13,230
of which: Households	*of which:* Collateralised by residential immovable property	1,835	22,590
of which: Non-financial corporations		96,291	123,426
of which: Non-financial corporations	*of which:* Small and medium-sized enterprises	88,735	112,756
	of which: Collateralised by commercial immovable property	94,481	104,843
of which: Other financial corporations		538	4,145

The above table includes the interest accrued on loans and advances subject to a moratorium amounting to €0.8 million (2020: €1.3 million).

Information on loans and advances subject to moratoria

Accumulated impairment, accumulated negative changes in fair value due to credit risk		Dec-21 €000	Dec-20 €000
Loans and advances		**(155)**	**(781)**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders		(88)	(271)
	of which: Households	(83)	(249)
	of which: Non-Profit Institutions Serving Households & Sole Traders	(5)	(22)
of which: Households	*of which:* Collateralised by residential immovable property	(83)	(172)
of which: Non-financial corporations		(67)	(507)
of which: Non-financial corporations	*of which:* Small and medium-sized enterprises	(59)	(507)
	of which: Collateralised by commercial immovable property	(59)	(63)
of which: Other financial corporations		-	(3)

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Moratoria on loan repayments (continued)

Dec-21		Number of obligors	Gross carrying amount €000	Of which: active €000	Of which: expired €000
of which granted		**747**	**316,827**	**98,726**	**218,101**
of which: Households, Non-Profit Institutions Serving Households & Sole Traders			106,767	1,897	104,870
	of which: Households		87,795	693	87,102
of which: Households	*of which:* Non-Profit Institutions Serving Households & Sole Traders		18,972	1,204	17,768
	of which: Collateralised by residential immovable property		92,200	1,835	90,365
of which: Non-financial corporations			197,665	96,291	101,374
of which: Non-financial corporations	*of which*: Small and medium-sized enterprises		182,550	88,735	93,815
	of which: Collateralised by commercial immovable property		183,610	94,481	89,129
of which: Other financial corporations			12,395	538	11,857

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

As at end of December 2021, clients who have applied for a moratorium on their loans and advances amounted to a gross carrying amount of €341 million (2020: €302 million) out of which €316 million (2020: €272 million) were granted.

Moratoria granted under CBM Directive 18 which was rolled over under the Bank's discretion amounted to €244 million. During the year under review total moratoria granted amounted to €176 million out of which €151 million were granted under the Bank's discretion. Total expired moratoria amounted to €78 million with €98 million still active as at year end.

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

The MDB Guarantee Scheme ("Guarantee") was launched to support businesses who were negatively impacted by COVID-19. Following the introduction of the scheme, the Group launched the "Jet Pack" product

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Moratoria on loan repayments (continued)

which allowed eligible local businesses to apply for a working capital loan which amount depended on the size, wage bill and turnover of the business amongst other things.

Facilities sanctioned under the Guarantee as at 31 December 2021 amounted to €35,086K (Dec-20: €32,269K) of which €32,469 (Dec-20: €30,813K) was drawn down. The Guarantee covers 90% of each loan individual facility, capped at 50% of the actual portfolio volume.

MDB loan exposure are covered by government guarantee amounting to €15,789 (Dec-20: €13,828K) and by hypothecs amounting to €2,968 (Dec-20: €2,384K).

Expected Credit Loss ("ECL") Measurement

In the current context of the on-going COVID-19 pandemic, the Group took several decisions to address the repercussions brought along by the pandemic and thus having a more realistic ECL calculation. During the prior year, the Group introduced a post-model adjustment, by triggering a forward transition on specific performing exposures, operating in sectors impacted by the pandemic. The aim behind such decision is to mitigate the risk of not capturing SICR due to the suspension of capital and interest payments during the moratorium period.

As expected, during the year under review, the pandemic outlook continued to evolve, and a significant degree of uncertainty still exists. Consequently, the Group continued monitoring the effects of the pandemic on the economy and with the availability of more loan performance data and economic updates, it continued fine-tuning its judgement and assumptions when applying the post-model adjustment. Whilst the initial post-model adjustment was based on portfolio level, during the year under review, the Group adopted a more granular approach by looking at customer-specific factors and circumstances. This entails assessing the customer's ability to generate sufficient cash flows to be able to maintain their respective repayment obligations and determine whether the client requires a forward transition. Furthermore, a significant number of retail clients who had encountered some difficulties to continue repaying their loans during the prior year, have resumed with their regular repayments during the year under review. However, the Group still monitors and considers these performing exposures, whilst analysing the post-model adjustment.

Facilities impacted by the Group's recent decisions and judgements relate only to loans and advances to customers as follows;

1. Retail loan facilities

   Forward transition depends on whether customer has benefitted or is still benefitting from a moratoria initiative, and on the sector from which customer's income is generated.

a. Customers whose ability to repay their commitments depend on income driving from the following sectors listed below, are forward transitioned to Stage 2, only if they resumed with their repayments over the previous three months prior to ECL reporting date. If customers are still benefitting from a moratoria initiative or resumed with their repayments during the previous three months prior to ECL reporting date, facilities are still forward transitioned to Stage 3, to allow a probation period of three months, as required by Group's IFRS 9 policy.

   i. Accommodation & food services;
   ii. Real estate activities;
   iii. Transportation & storage;
   iv. Art, entertainment & recreation activities.

b. Customers whose income depends on other sectors other than the sectors mentioned above, are forward transitioned to Stage 2, only if customers are still benefitting from a moratoria initiative or resumed with their repayments during the previous three months prior to ECL reporting date. Otherwise, facilities are not captured within the post-model adjustment.

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Expected Credit Loss ("ECL") Measurement **(continued)**

2. For commercial facilities, all lending facilities, irrespective from the sector, which have benefitted from a moratorium, have been assessed individually on their ability to generate enough cash flow to repay their commitments and therefore to identify whether a forward transition to Stage 2 or Stage 3, is required or otherwise. The assessment also considered the duration of the moratorium, whether the moratorium is for capital only or also including interest.

Post-Model Adjustment Impact

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

The Group/The Bank

	Additional ECL	
	Dec-21	**Dec-20**
	€000	€000
Commercial clients	436	919
Retail clients	215	2,860
Total	**651**	**3,779**

a) **Loss Allowance Movement**

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

A further analysis of the loans and advances to customers portfolio can be found in Notes 11, 16 and 46.

Additional costs incurred

During the year under review, the Group has continued to take the necessary steps to safeguard the health of its clients as well as its employees, by continuing to adhere to the measures that as a minimum met the recommendations of the Health Authorities. The Group incurred additional operational expenses such as the following:

- More frequent office cleaning;
- Purchase of personal protective equipment;
- Increase in internet bandwidth to support remote working; and
- Additional subscriptions to support online meetings.

The above additional costs are not considered to be material for the year end financial reporting.

In addition, the Group continued to support the measures introduced in 2020 whereby staff are allowed maximum flexibility in their working arrangements in order to manage their specific personal and family circumstances during the pandemic. No new additional capital expenditure was incurred by the Group in this regard (Dec-20: €419K).

Fair value movement

The volatility caused by the COVID-19 pandemic started to stabilise during the second quarter of 2020 with certain unrealised losses starting to reverse during the first half of 2021. However, the volatility in prices was once again felt during the second half of the year under review, with the Group recording a net loss on financial instruments amounting to €152K (Dec-20: gain of €490K).

2.1 BASIS OF PREPARATION (continued)

Effects of COVID-19 on the financial statements (continued)

Fair value movement (continued)

Net losses recorded in the statements of comprehensive income brought about by a change in fair value on debt instruments measured at FVTOCI amounted to €7,908K (2020: gain of €1,717K).

2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN THE CURRENT YEAR AND THOSE IN ISSUE BUT NOT YET EFFECTIVE

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

The following amendments are effective in the current year:

- Amendment to IFRS 16 – COVID-19 – Related Rent Concessions beyond 30 June 2021 (effective for financial years on or after 1 April 2021, earlier application permitted). The Group and the Bank did not receive any Covid-related rent concessions and accordingly this is not applicable.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for financial years beginning on or after 1 January 2021).

  In the current year, the Group adopted the Phase 2 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates ("IBOR") to alternative benchmark interest rates (also referred to as risk free rates or "RFRs") without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Group has not restated the prior period. Instead, where applicable, the amendments have been applied retrospectively; however, there was no need for an adjustment in equity as at 1 January 2021.

  As a result of the Phase 2 amendments:

  - When the contractual terms of financial instruments measured using amortised cost (that is, financial instruments classified at amortised cost and debt financial assets classified as FVTOCI) are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of IFRS 9 are applied to the other changes.

  - When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

    The Group does not have significant exposure to IBOR on its financial instruments, as further detailed below, and none of its leases in which it is a lessee are linked to IBOR.

    The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. The transition to RFRs included assessing all the existing assets and liabilities that are based on IBOR cashflows. The process involved a review of contracts, drafting of new legal clauses, changes to the Bank's IT system, and subsequently communication of the IBOR reform to customers and counterparties.

2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN THE CURRENT YEAR AND THOSE IN ISSUE BUT NOT YET EFFECTIVE (continued)

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 (effective for financial years beginning on or after 1 January 2021). (continued)

  The absolute majority of the Bank's loan portfolio is priced over the Bank's internal base rate and only some loans are linked to either USD LIBOR (in the case of foreign currency denominated loans) or EURIBOR (in the case of Euro denominated loans). As at end of December 2021, the carrying amount of loans linked to USD LIBOR and EURIBOR were $0.7 million and €227 million, respectively.

  All syndicated loans with a carrying amount of €99 million and trade finance transactions with a carrying amount of €35.8 million are also priced over LIBOR or EURIBOR, with 37% of these being linked to LIBOR and the remaining 63% being linked to EURIBOR.

  Bonds linked to EURIBOR amount to €0.3 million, whilst those linked to GBP SONIA (overnight rate) amount to £1.2 million.

  The Bank has two floating-rate financial liabilities held with the European Investment Bank and the European Investment Fund (both 6-month EURIBOR), with a carrying amount of €7.7 million.

  All maturing and non-maturing deposits are linked to fixed rates of interest and so not dependent on IBOR.

  With respect to derivative instruments, the Bank holds no such positions which are linked to IBOR.

  Following ALCO approval, fall back and replacement rates have been identified and subsequently implemented. As from 1 January 2022 new GBP loans will be linked to the GBP SONIA issued by the Bank of England as recommended by the 'UK Working Group on Sterling Risk-Free Rates'; whilst in the case of new USD loans these will be linked to the USD SOFR issued by the Federal Reserve Bank as recommended by the 'US Alternative Reference Rates Committee'. The EURIBOR is EU Benchmark Regulation compliant, and it is expected that it will not be replaced by an alternative risk-free rate. Given that the absolute majority of our IBOR linked instruments are linked to EURIBOR, this reform had only an insignificant impact on the Bank's financial statements.

  No significant risks were identified during the consultations and review phases since in the case of EURO denominated instruments, which represent the majority, there will be no change, and in the case of the new USD and GBP rates, any interest rate difference is expected to be negligible.

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

Standards, interpretations and amendments to published standards that are in issue but not yet effective

Up to the date of approval of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective for the current reporting period and which have not been adopted early.

The following standards, interpretations and amendments have been issued by the IASB but not all were endorsed by the EU:

- IFRS 17 Insurance Contracts (effective for financial years on or after 1 January 2023).

2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN THE CURRENT YEAR AND THOSE IN ISSUE BUT NOT YET EFFECTIVE (continued)

Standards, interpretations and amendments to published standards that are in issue but not yet effective (continued)

- Amendments to IFRS 4 – Extension of the Temporary Exemption from applying IFRS 9 (in which the fixed expiry date of the amendment was deferred to annual periods beginning on or after 1 January 2023).
- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract (effective for financial years on or after 1 January 2022).
- Amendments to IFRS 3 – Reference to the conceptual framework (effective for financial years on or after 1 January 2022).
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use (effective for financial years on or after 1 January 2022).
- Amendments to IFRS 9 (as part of the 2018 – 2020 Annual Improvement cycle) – Financial instruments (effective for financial years on or after 1 January 2022).
- Amendments to IAS 41 (as part of the 2018 – 2020 Annual Improvements Cycle) (effective for financial years on or after 1 January 2022).

The changes resulting from the above standards, interpretations and amendments are not expected to have a material effect on the financial statements of the Group or the Bank.

The changes resulting from the following standards, interpretations and amendments are in the process of being assessed by management to determine their applicability and potential effect on the financial statements of the Group and the Bank:

- Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current (effective for financial years on or after 1 January 2023 by virtue of the July 2020 Amendments). The amendments affect only the presentation of liabilities in the statements of financial position and not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. The amendments:
    a) clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
    b) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
    c) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

- Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for financial years on or after 1 January 2023). The amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements. Material accounting policy information is now required to be disclosed instead of significant accounting policies. The amendments explain how an entity can identify material accounting policy information and give examples of when accounting policy information is likely to be material. Accounting policy information may be material due to its nature and is material if users of an entity's financial statements would need it to understand other material information in financial statements.

    In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.

- Amendments to IAS 8 – Definition of Accounting Estimates (effective for financial years on or after 1 January 2023). The changes to IAS 8 focus entirely on accounting estimates and clarify that the definition of a change in accounting estimates is replaced with a definition of accounting estimates. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. A change in accounting estimate that results from new information or new developments is

2.2 INTERNATIONAL FINANCIAL REPORTING STANDARDS EFFECTIVE IN THE CURRENT YEAR AND THOSE IN ISSUE BUT NOT YET EFFECTIVE (continued)

Standards, interpretations and amendments to published standards that are in issue but not yet effective (continued)

not the correction of an error and a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods.

- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for financial years on or after 1 January 2023). The aim of the amendments is to reduce diversity in the reporting of deferred tax on leases and decommissioning obligations.

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest and similar income and expense

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

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

Fee and commission income

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

Dividend income

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

Net gains on financial instruments

Net gains on financial instruments include realised gains and losses on disposal of financial instruments and unrealised gains and losses on financial assets at fair value through profit or loss ("FVTPL"). Realised gains and losses on disposal of financial assets at FVTPL represent the difference between an instrument's carrying amount and disposal amount and are recognised on the trade date of transaction. Unrealised gains and losses on financial assets at FVTPL represent changes in fair value of financial

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net gains on financial instruments (continued)

instruments during the year and up to the reporting date. Net gains on financial instruments also include the reclassification of cumulative fair value movements from OCI to profit or loss on the derecognition of debt instruments at FVTOCI.

Foreign currency translation

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

Net gains or losses resulting from foreign exchange on financial assets and financial liabilities are recognised in Note 8.

Financial assets and liabilities

Initial recognition and measurement

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

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

Derecognition

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

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

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

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

Offsetting financial instruments

Financial assets and financial liabilities could be offset and the net amount is presented in the statements of financial position only if there is a currently legally enforceable right to offset the

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

recognised amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets

Classification and subsequent measurement

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

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

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

Business model assessment

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

The Bank's business model does not depend on management's intentions for an individual instrument therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis. Factors considered by the Group in determining the business model for a group of assets include;

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

Solely payment of principal and interest (SPPI)

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Solely payment of principal and interest (SPPI) (continued)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell, the Group assesses whether the financial instruments' cash flows represent SPPI (the SPPI test). In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- features that modify consideration for the time value of money - e.g. periodic reset of interest rates.

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

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

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

In addition, a prepayment feature is treated as consistent with this criterion if:

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

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

Debt instruments

Amortised cost

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Debt instruments (continued)

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

Fair value through other comprehensive income (FVTOCI)

Debt financial assets that are held within a business model whose objective is achieved by both collection of contractual cash flows and sale of the assets, where those cash flows give rise on specified dates to cash flows that are SPPI, and that are not designated at FVTPL, are measured at FVTOCI.

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

Fair value through profit or loss (FVTPL)

Debt financial assets that are not classified as measured at amortised cost or FVTOCI are measured at FVTPL. Certain debt and other fixed income instruments are being classified in this category.

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

A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented in the profit or loss statement within 'Net (losses)/gains on financial instruments' in the period in which it arises. Interest income from these financial assets is included in 'Interest receivable and similar income' using the EIR method. Foreign exchange movements are recognised in Net gains on foreign exchange under Note 8.

Equity instruments

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Equity instruments (continued)

Impairment of financial assets

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

The Group assesses on a forward-looking basis the ECL associated with;
- debt financial assets carried at amortised cost and FVTOCI, comprising mainly debt and other fixed income securities, loans and advances to customers and banks, syndicated loans and balances with CBM
- irrevocable loan commitments and financial guarantee contracts issued.

The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. The Group recognises loss allowances at an amount equal to lifetime ECLs, except in the following cases, for which the amount recognised will be 12-month ECLs:
- financial assets, including debt investment securities that are determined to have low credit risk at the reporting date. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment-grade';
- and other financial instruments for which credit risk has not increased significantly since initial recognition.

The credit risk note provides more detail of how the ECL allowance is measured. Loss allowances for ECL are presented as follows:
- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts, generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component; and
- debt instruments measured at FVTOCI: no loss allowance is recognised against the asset because the carrying amount of these assets is their fair value. However, the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Equity instruments (continued)

Modification of loans

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

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

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

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

Collateral valuation

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

Financial liabilities

Subsequent measurement

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities (continued)

Financial liabilities (continued)

Modification of financial liabilities

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

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

Derivative financial instruments

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

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

Financial guarantee contracts and loan commitments

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial guarantee contracts and loan commitments (continued)

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

Equity

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

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

Repurchase and reverse repurchase agreements

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

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

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

Property and equipment

Property and equipment are initially recorded at cost.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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

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

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

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

Intangible assets

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

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

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

Development costs

Development costs on an individual project are recognized as an intangible asset when the Group can demonstrate:
- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale.
- Its intention to complete and its ability to use or sell the asset.
- How the asset will generate future economic benefits.
- The availability of resources to complete the asset.
- The ability to measure reliably the expenditure during development.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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

Investment properties

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

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

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

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or Cash Generating Unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the statements of profit or loss in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case, the impairment loss is recognised in OCI to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that asset.

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

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

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

Investments in subsidiaries

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associates

The Group

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

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

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

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

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

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

The Bank

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

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

Dividends payable on ordinary shares

Dividends payable on ordinary shares are recognised in the period in which they are declared.

Taxation

Current income tax

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

Deferred income tax

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred income tax (continued)

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Retirement benefit costs

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

Other liabilities

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

Non-current assets held-for-sale

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

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

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

Leases

The Group acts both as a lessor and as a lessee. The accounting policies herein address the accounting treatment of the Group in both instances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

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

The Group as a lessor

On commencement of the lease, the Group evaluates its classification in accordance with the covenants in the contract and to the extent to which the lease transfers the risks and rewards from ownership of the underlying asset. If substantially all the risks and rewards incidental to ownership of the asset are transferred to the lessee, the contract would classify as a finance lease, whereas all other leases are classified as an operating lease.

For the year under review, the Group does not hold any finance leases and thus all lease agreements whereby the Group acts as a lessor are being reported as operating leases. Leased assets are presented in the statements of financial position according to their nature and are tested for impairment in accordance with the company's accounting policy on impairment. Depreciable leased assets are depreciated in accordance with the Group's accounting policy on depreciation. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the pattern in which benefit from the use of the underlying asset is diminished. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the leased asset.

The Group as a lessee

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

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

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

The Group determines that the following leases qualify as leases of low-value assets on the basis of the Group's accounting policy for such items:
(a) Leases of IT equipment; and
(b) Leases of water dispensers.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

change in circumstances that: (a) is within its control and (b) affects whether the lessee is reasonably certain to exercise or not to exercise an option.

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

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

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

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

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.
Right-of-use assets are depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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

Some property leases contain variable payment terms that depend on an index/rate such as the Property/retail/consumer price index. The lessee measures the index of the lease payments using the rate at the commencement date. After the commencement date, lessees are required to re-measure the lease liability to reflect changes to the lease payments arising from changes in the index or rate. The subsequent remeasurement of the lease liability is adjusted against the right-of-use asset. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line item in other administrative expenses in profit or loss.

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

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (continued)

associated non-lease components as a single arrangement. The Group does not apply this practical expedient. Accordingly, the Group is required to account for each lease component within the contract as a lease separately from non-lease components of the contract.

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

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

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

Fair value measurement

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

As of 31 December 2021, the Bank directly held 15.26% (2020: 15.45%) interest in APS Income Fund and 15.29% (2020: 17.56%) interest in APS Regular Income Ethical Fund.

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

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

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

Fair value of investment properties

The Group and the Bank carry their investment properties at fair value, with changes in fair value being recognised in the statements of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2021 and 31 December 2020. For investment properties, the valuation specialist determines the most appropriate methodology (market or / and income approach) depending on the nature of the property.

Fair value of land and buildings included within property and equipment

Land and buildings owned by the Group are carried at fair value, with changes in fair value being recognised in the other comprehensive income. The Group engaged an independent valuation specialist to assess the fair value as at 31 December 2021 and 31 December 2020. The valuation specialist determines the most appropriate methodology (market/income approach) depending on the nature of the property.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (Note 28).

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgements, estimates and assumptions *(continued)*

Impairment losses on loans and advances

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

The critical judgements and estimates are explained in Note 2.1 Expected Credit Loss Measurement and in Note 46.2 Credit Risk.

Impairment of debt and other fixed income securities.

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

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
On loans and advances to banks	**7**	128	**7**	122
On loans and advances to customers	**63,239**	56,333	**63,239**	56,333
	63,246	56,461	**63,246**	56,455
On debt securities:				
Measured at amortised cost	**1,758**	1,745	**1,758**	1,745
Amortisation on premiums and discounts on debt securities measured at amortised cost	**(772)**	(753)	**(772)**	(753)
Measured at FVTPL	**1,495**	1,145	**-**	11
Other debt securities	**5,169**	4,886	**5,169**	4,886
Amortisation on premiums and discounts on other debt securities	**(1,761)**	(1,204)	**(1,761)**	(1,204)
	5,889	5,819	**4,394**	4,685
	69,135	62,280	**67,640**	61,140

4. INTEREST PAYABLE

	The Group / The Bank	
	2021	2020
	€000	€000
On amounts owed to banks	**331**	204
On amounts owed to customers	**11,534**	12,908
On lease liabilities	**120**	107
On debt securities in issue	**1,788**	215
	13,773	13,434

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
On loans and advances and other general banking activities	**4,561**	3,777	**4,561**	3,777
On insurance, investments and similar activities	**3,794**	2,163	**2,721**	1,942
Other activities	**627**	874	**627**	873
	8,982	6,814	**7,909**	6,592
Fee and commission expense	**(1,981)**	(1,600)	**(1,981)**	(1,600)
	7,001	5,214	**5,928**	4,992

6. DIVIDEND INCOME

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
From equity shares held in local and foreign entities and collective investment schemes	**312**	189	**1,273**	1,236

During 2021 the Group did not recognise any dividend income on equity instruments designated at FVTOCI, which were held at year-end (2020: €2K). During 2021 and 2020 the Group did not recognise any dividend income on equity instruments designated at FVTOCI upon initial recognition, which were derecognised during the year.

7. NET GAINS ON FOREIGN EXCHANGE

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Net unrealised/realised gain on foreign exchange	**404**	99	**428**	328

8. NET (LOSSES)/GAINS ON FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Realised gains on disposal of financial assets at amortised cost	**572**	-	**572**	-
Realised (losses)/gains on disposal of financial assets at FVTOCI	**216**	(283)	**216**	(283)
Unrealised net fair value movements on financial assets at FVTPL	**(338)**	235	**46**	10
Realised (losses)/gains on disposal of financial assets at FVTPL	**(30)**	538	**(47)**	11
	(152)	490	**215**	(262)
	420	490	**787**	(262)

During the year under review the Group disposed of an insignificant amount of financial assets held at amortised cost, realising previously unrecognised gains. The sale of these assets is very infrequent and the Bank's business model for managing financial assets at amortised cost has not changed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. PERSONNEL EXPENSES

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Wages and salaries (short-term):				
- key management personnel other than Directors	**4,922**	3,223	**4,922**	3,223
- other staff	**14,334**	12,911	**14,334**	12,911
- wages recharged to subsidiary at cost	**-**	-	**(423)**	(49)
Social security contributions	**1,169**	1,038	**1,169**	1,038
	20,425	17,172	**20,002**	17,123

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

	The Group		The Bank	
	2021	2020	**2021**	2020
Senior Management	**34**	24	**34**	24
Managerial	**125**	111	**125**	111
Senior officers and officers	**340**	328	**340**	328
Others	**9**	9	**9**	9
	508	472	**508**	472

10. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Remuneration payable to the statutory auditors for:				
- the audit of financial statements	**158**	159	**130**	130
- tax advisory services	**6**	6	**4**	4
- other non-audit services	**34**	13	**30**	13
Directors' emoluments	**451**	351	**383**	321
Insurance	**332**	305	**331**	153
Professional fees	**1,613**	1,012	**1,489**	762
Regulatory fees	**2,853**	2,806	**2,848**	2,806
Repairs and maintenance	**4,133**	3,022	**4,102**	3,016
Telecommunications	**748**	623	**738**	623
Office operating expenses	**2,869**	2,636	**2,838**	2,632
Other administrative expenses	**2,892**	1,418	**2,713**	1,637
	16,089	12,351	**15,606**	12,097

Additional disclosures on Directors' emoluments is made in the Remuneration Report (pages 40 to 41).

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. NET IMPAIRMENT GAINS/(LOSSES) ON FINANCIAL ASSETS

	The Group / The Bank	
	2021	2020
	€000	€000
Charge for the year:		
- collective impairment	(987)	(4,616)
- individual impairment	(2,142)	(4,251)
- bad debts written off	(521)	(215)
	(3,650)	(9,082)
Reversal of write-downs:		
- collective impairment	4,555	561
- individual impairment	583	2,983
	5,138	3,544
Net impairment gains/(losses)	1,488	(5,538)

	The Group / The Bank	
	2021	2020
	€000	€000
Cash and balances with Central Bank of Malta		
- Stage 1	(7)	(5)
Loans and advances to banks		
- Stage 1	18	(49)
Loans and advances to customers:		
- Stage 1	(88)	109
- Stage 2	3,195	(3,845)
- Stage 3	(2,080)	(1,483)
	1,027	(5,219)
Syndicated loans:		
- Stage 1	(184)	49
- Stage 2	590	(184)
	406	(135)
Debt securities at amortised cost:		
- Stage 1	13	(27)
Debt securities at FVTOCI:		
- Stage 1	22	(94)
- Stage 2	9	(9)
	31	(103)
Net impairment (gains)/losses	1,488	(5,538)

The majority of the reversal of write-downs are in relation to loans and advances to customers. Accordingly, the impairment losses gross of reversals for loans and advances to customers amounted to €4,779K (2020: €8,763K).

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INCOME TAX EXPENSE

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Current income tax	**8,063**	7,396	**7,792**	7,278
Deferred income tax	**904**	(1,689)	**904**	(1,689)
Income tax expense	**8,967**	5,707	**8,696**	5,589

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2020: 35%) for the years ended 31 December 2021 and 2020 is as follows:

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Profit before tax	**24,068**	15,797	**23,737**	15,522
Theoretical tax expense at 35%	**8,424**	5,529	**8,308**	5,433
Tax effect of:				
- Non-taxable sale of investments	**(202)**	11	**(202)**	11
- Income taxed at lower rates of tax	**(439)**	(430)	**(439)**	(430)
- Depreciation not recovered by way of capital allowance	**149**	275	**149**	275
- Income from financial instruments included in untaxed account	**155**	22	**-**	-
- Disallowed expenses	**1,065**	462	**1,065**	462
- Other differences	**(185)**	(162)	**(185)**	(162)
Income tax expense	**8,967**	5,707	**8,696**	5,589

13. DIVIDENDS PAID AND PROPOSED

	The Bank	
	2021	2020
	€000	€000
Dividends paid on ordinary shares:		
Final gross of income tax for 2020: 1.48 cents per share (2019: - cents per share)	**3,692**	-
Final net of income tax for 2020: 0.96 cents per share (2019: - cents per share)	**2,400**	-

During the year the Group`s subsidiaries paid dividends amounting to €1,133,000 (2020: €966,119) to their shareholders, including the Bank.

During the year under review the Bank distributed a gross dividend of €3,692,308 (net dividend of €2,400,000). A total of 696,462 ordinary shares (Note 35) were distributed as scrip dividend whereas €1,912,477 were distributed in cash.

Details of the recommended final dividend for 2021 can be found on page 32 in the Directors' report.

14. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group / The Bank	
	2021	2020
	€000	€000
Cash in hand (Note 42)	15,165	15,064
Balances with Central Bank of Malta (excluding reserve deposit) (Note 42)	173,072	76,650
Reserve deposit with Central Bank of Malta	19,498	16,621
Gross cash and bank balances	207,735	108,335
Less: allowance for impairment losses	(12)	(5)
Net cash and bank balances	207,723	108,330

Deposits with the Central Bank of Malta represent mandatory reserve deposits and are not available for use in the Group's day-to-day operations. Included in this balance is an amount of €2,281,000 (2020: €1,400,000) pledged in favour of the MFSA's Depositors' Compensation Scheme. During the current and the prior year, the Bank has been compliant with the reserve deposit requirement.

15. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Repayable on call and at short notice (Note 42)	32,327	51,117	30,862	46,330
Gross loans and advances to banks (i)	32,327	51,117	30,862	46,330
Less: allowance for impairment losses (ii)	(31)	(49)	(31)	(49)
Net loans and advances to banks	32,296	51,068	30,831	46,281

(i) Gross loans and advances to customers analysed by currency

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
- Euro	16,780	22,851	15,315	18,064
- Foreign	15,547	28,266	15,547	28,266
	32,327	51,117	30,862	46,330

(ii) Impairment allowance for loans and advances to banks

	The Group / The Bank	
	2021	2020
	€000	€000
At 1 January	49	-
(Reversal)/charge for the year:	(18)	49
At 31 December	31	49

The impairment allowance on loans and advances to banks are recognised on a collective basis.

16. LOANS AND ADVANCES TO CUSTOMERS

	The Group / The Bank 2021 €000	2020 €000
Repayable on call and at short notice	**73,155**	82,074
Term loans and advances	**1,878,216**	1,627,804
Gross loans and advances to customers (i)	**1,951,371**	1,709,878
Less: allowance for impairment losses (ii)	**(19,327)**	(20,875)
Net loans and advances to customers	**1,932,044**	1,689,003

(i) Gross loans and advances to customers analysed by currency

	The Group / The Bank 2021 €000	2020 €000
- Euro	**1,950,259**	1,708,775
- Foreign	**1,112**	1,103
	1,951,371	1,709,878

(ii) Impairment allowance for loans and advances to customers

	The Group / The Bank 2021 €000	2020 €000
At 1 January	**20,875**	15,871
(Reversal)/charge for the year:		
- Collective	**(3,107)**	3,814
- Individual	**1,559**	1,190
At 31 December	**19,327**	20,875
- Collective impairment losses	**1,529**	4,636
- Individual impairment losses	**17,798**	16,239
	19,327	20,875

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. LOANS AND ADVANCES TO CUSTOMERS (continued)

Concentration of loans and advances to customers

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

	The Group / The Bank 2021 €000	The Group / The Bank 2020 €000
Agriculture	4,595	6,524
Fishing	16,089	10,678
Manufacturing	29,342	23,846
Electricity, gas and water supply	4,519	6,756
Construction	79,943	93,948
Wholesale and retail trade	41,130	39,503
Hotels and restaurants, excluding related construction activities	131,845	127,219
Transport, storage and communication	28,741	38,745
Financial intermediation	80,590	67,890
Real estate, renting and business	120,083	110,841
Professional, Scientific and technical	11,184	16,110
Administrative and Support services	11,588	7,232
Public administration	6,099	11,449
Education	7,590	7,731
Health and social work	10,450	13,352
Community, recreational and personal service activities	4,556	4,755
Households and individuals	1,363,027	1,123,299
	1,951,371	1,709,878

17. SYNDICATED LOANS

	The Group / The Bank 2021 €000	The Group / The Bank 2020 €000
Less than one year but not repayable on demand	61,904	63,683
Over one year	73,348	50,865
Gross syndicated loans (i)	135,252	114,548
Less: allowance for impairment losses (ii)	(990)	(1,396)
Net syndicated loans	134,262	113,152

(i) **Gross syndicated loans analysed by currency**

	The Group / The Bank 2021 €000	The Group / The Bank 2020 €000
- Euro	85,816	92,961
- Foreign	49,436	21,587
	135,252	114,548

17. SYNDICATED LOANS (continued)

(ii) Impairment allowance for syndicated loans

	The Group / The Bank	
	2021	2020
	€000	€000
At 1 January	**1,396**	1,261
Collective (reversal)/charge for the year:	**(406)**	135
At 31 December	**990**	1,396

The balance on impairment allowance for syndicated loans as at end of December 2021 and 2020 is all in respect of collective impairment losses.

Concentration of syndicated loans

The following table shows the risk concentration by industry for syndicated loans, gross of provisions:

	The Group / The Bank	
	2021	2020
	€000	€000
Agriculture	**5,931**	1,380
Community, recreational and personal service activities	**-**	4,871
Manufacturing	**62,106**	48,461
Wholesale and retail trade	**-**	9,998
Transport, storage and communication	**-**	4,544
Financial intermediation	**52,047**	32,722
Public administration	**2,652**	2,441
Health and social work	**12,516**	10,131
Gross syndicated loans	**135,252**	114,548

18. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group / The Bank	
	2021	2020
	€000	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	**552**	499
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	**552**	499

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

	The Group / The Bank					
	Notional 2021 €000	**Assets 2021 €000**	**Liabilities 2021 €000**	Notional 2020 €000	Assets 2020 €000	Liabilities 2020 €000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	**25,100**	**552**	**-**	38,975	499	-
Equity/commodity-index warrants written	**(25,100)**	**-**	**552**	(38,975)	-	499
	-	**552**	**552**	-	499	499

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

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	2021 €000	2020 €000	**2021 €000**	2020 €000
Fixed income instruments and collective investment schemes	**61,846**	50,636	**-**	251
Analysed by currency:				
- Euro	**35,866**	43,036	**-**	251
- Foreign	**25,980**	7,600	**-**	-
	61,846	50,636	**-**	251
Listing Status:				
- Listed on Malta Stock Exchange	**2,311**	2,548	**-**	-
- Listed elsewhere	**59,535**	48,088	**-**	251
	61,846	50,636	**-**	251
Carrying amount				
At 1 January	**50,636**	41,478	**251**	464
Disposals	**(34,640)**	(30,184)	**(250)**	(200)
Acquisitions	**46,243**	39,165	**-**	-
(Decrease)/increase in fair value	**(393)**	177	**(1)**	(13)
At 31 December	**61,846**	50,636	**-**	251

26.9% (2020: 1.3%) of the financial assets at FVTPL were issued by public bodies whereas 73.1% (2020: 98.7%) are issued by other issuers. The above financial assets are mandatorily measured at FVTPL in terms of IFRS 9.

20. OTHER DEBT AND FIXED INCOME INSTRUMENTS

	The Group / The Bank 2021 €000	2020 €000
At amortised cost	101,000	104,307
Fair value through other comprehensive income	227,103	211,751
Gross other debt and fixed income instruments	328,103	316,058
Less: allowance for impairment losses	(62)	(75)
Net other debt and fixed income instruments	328,041	315,983

At amortised cost	The Group / The Bank 2021 €000	2020 €000
Issued by public bodies:		
- Local government	15,941	17,529
Issued by other issuers:		
- Foreign government	84,759	86,478
- Foreign other	300	300
	85,059	86,778
Total	101,000	104,307

Fair value through other comprehensive income	The Group / The Bank 2021 €000	2020 €000
Issued by public bodies:		
- Local government	89,492	93,966
- Foreign government	62,993	38,864
	152,485	132,830
Issued by other issuers:		
- Foreign banks	22,548	22,524
- Foreign other	52,024	56,351
- Local other	46	46
	74,618	78,921
Total	227,103	211,751
Total gross other debt and fixed income instruments	328,103	316,058
Analysed by currency:		
- Euro	286,843	276,895
- Foreign	41,260	39,163
	328,103	316,058
Unamortised premiums included within the gross other debt and fixed income instrument	10,255	11,097

NOTES TO THE FINANCIAL STATEMENTS (continued)

20. OTHER DEBT AND FIXED INCOME INSTRUMENTS (continued)

	The Group / The Bank	
	2021	2020
	€000	€000
Listing status:		
- Listed on Malta Stock Exchange	105,478	111,542
- Listed elsewhere	222,325	204,216
- Unlisted	300	300
	328,103	316,058

Carrying amount– Gross of impairment allowances	The Group / The Bank	
	2021	2020
	€000	€000
At amortised cost		
At 1 January	104,307	79,617
Redemptions and disposals	(2,535)	(2,000)
Acquisitions	-	27,443
Amortisation	(772)	(753)
At 31 December	101,000	104,307

Carrying amount – Gross of impairment allowances	The Group / The Bank	
	2021	2020
	€000	€000
Fair value through other comprehensive income		
At 1 January	211,751	158,595
Redemptions and disposals	(19,756)	(54,296)
Acquisitions	33,525	108,662
Amortisation	(1,887)	(1,246)
(Decrease)/increase in fair value	(6,692)	1,363
Exchange adjustments	10,162	(1,327)
At 31 December	227,103	211,751
Total	328,103	316,058

Impairment allowance for debt and other fixed income instruments

	The Group / The Bank	
	2021	2020
	€000	€000
At 1 January	75	46
Collective (reversal) / charge for the year:	(13)	29
At 31 December	62	75

The balance on impairment allowance for other debt and fixed income instruments as at end of December 2021 and 2020 is all in respect of collective impairment losses.

Eligible debt instruments with a nominal value of €132,000,000 (2020: €155,922,231) have been pledged against the provision of credit lines by the Central Bank of Malta, under the usual terms and conditions applying to such agreements. Debt instruments with a nominal value of €3,850,000 (2020: €3,850,000) have been pledged in favour of the MFSA's Depositors' Compensation Scheme.

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

	The Group / The Bank	
	2021	2020
	€000	€000
Equity and other non-fixed income instruments at FVTOCI	**307**	303
Analysed by currency:		
- Euro	**228**	228
- Foreign	**79**	75
	307	303
Listing status:		
- Unlisted	**307**	303
Carrying amount		
At 1 January	**303**	308
- Acquisitions	**-**	959
- Disposals	**-**	(999)
- Exchange adjustment	**4**	-
- Increase in fair value	**-**	35
	307	303

These equity investments are not held for trading.

As part of the Group's business model, investments recognised at FVTOCI do not form part of its core business. No equity instruments measured at FVTOCI were derocognised during 2021 (2020: €999,982). The cumulative gains on the disposal of the instruments recognised in 2020 was of €41,000.

22. INVESTMENT IN SUBSIDIARIES

The Bank	**2021**	2020
	€000	€000
Cost		
At 1 January	**45,251**	40,251
Additions	**-**	5,000
At 31 December	**45,251**	45,251

NOTES TO THE FINANCIAL STATEMENTS (continued)

22. INVESTMENT IN SUBSIDIARIES (continued)

The investment in subsidiaries are made up as follows:

Name	Country of Incorporation	Equity interest 2021 %	Equity interest 2020 %	Cost 2021 €000	Cost 2020 €000
APS Funds SICAV plc 1,199 founder shares at €1.00 (2020: 1,199 founder shares at €1.00)	**Malta**	**99.99***	99.99*	**1**	1
APS Diversified Bond Fund 40,000,000 investor shares at €1.00 (2020: 40,000,000 investor shares at €1.00)	**Malta**	**76.67**	82.26	**40,000**	40,000
APS Global Equity Fund 5,000,000 investor shares at €1.00 (2020: 5,000,000 investor shares at €1.00)	**Malta**	**51.79**	91.91	**5,000**	5,000
ReAPS Asset Management Limited 250,000 ordinary shares at €1.00 (2020: 250,000 ordinary shares at €1.00)	**Malta**	**100.00**	100.00	**250**	250
				45,251	45,251

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

	APS Diversified Bond Fund 2021 €000	APS Diversified Bond Fund 2020 €000	**APS Global Equity Fund 2021 €000**	APS Global Equity Fund 2020 €000	**ReAPS Asset Management Limited 2021 €000**	ReAPS Asset Management Limited 2020 €000
Current assets	**52,513**	49,954	**11,698**	5,745	**1,888**	1,122
Non-current assets	**-**	-	**-**	-	**-**	1
Current liabilities	**(261)**	(99)	**(108)**	(19)	**(590)**	(294)
Net assets value	**52,252**	49,855	**11,590**	5,726	**1,298**	829
Income	**181**	1,545	**1,234**	298	**2,078**	1,332
Expenses	**(422)**	(387)	**(149)**	(24)	**(1,344)**	(1,009)
(Loss)/profit before tax	**(241)**	1,158	**1,085**	274	**734**	323
Tax	**(13)**	(3)	**(1)**	(2)	**(257)**	(113)
(Loss)/profit after tax	**(254)**	1,155	**1,084**	272	**477**	210

23. INVESTMENT IN ASSOCIATES

The Bank's investment in associates is as follows:

Name	Country of Incorporation	Equity interest 2021 %	Equity interest 2020 %	Cost 2021 €000	Cost 2020 €000
APS Income Fund 98,853.14 investor shares at €100.01 (2020: 98,853.14 investor shares at €100.01)	**Malta**	**15.26**	15.45	**9,886**	9,886
APS Regular Income Ethical Fund 5,000,000 investor shares at €1.00 (2020: 5,000,000 investor shares at €1.00)	**Malta**	**15.29**	17.56	**5,000**	5,000
IVALIFE Insurance Limited 1,875,000 ordinary shares at €1.00 (2020: 375,000 ordinary shares at €1.00)	**Malta**	**25.00**	25.00	**1,875**	375
				16,761	15,261

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

	APS Income Fund 2021 €000	APS Income Fund 2020 €000	APS Regular Income Ethical Fund 2021 €000	APS Regular Income Ethical Fund 2020 €000	IVALIFE Insurance Limited 2021* €000	IVALIFE Insurance Limited 2020 €000
Current assets	**88,682**	89,148	**43,475**	36,396	**2,311**	427
Non-current assets	**-**	-	**-**	-	**9,243**	639
Current liabilities	**(273)**	(196)	**(169)**	(143)	**(741)**	(145)
Non-current liabilities	**-**	-	**-**	-	**(4,856)**	-
Net assets value (NAV)	**88,409**	88,952	**43,306**	36,253	**5,957**	921
Split into:						
Accumulator shares	**21,569**	21,591	**16,339**	12,938	-	-
Distributor shares	**66,840**	67,361	**26,967**	23,315	-	-
	88,409	88,952	**43,306**	36,253	-	-
Group's percentage of:						
- Distributor shares' NAV	**12,373**	12,657	**6,075**	5,898	**-**	-
- **NAV**	**-**	-	**-**	-	**1,490**	230
Income	**996**	(660)	**2,389**	972	**162**	-
Expenses	**(843)**	(840)	**(490)**	(446)	**(1,597)**	(579)
Profit/(loss) before tax	**153**	(1,500)	**1,899**	526	**(1,435)**	(579)
Tax	**(211)**	(278)	**(4)**	(58)	**503**	-
(Loss)/profit after tax	**(58)**	(1,778)	**1,895**	468	**(932)**	(579)
Group's share of **(loss)/profit for the year**	**(17)**	(205)	**271**	127	**(233)**	(180)

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. INVESTMENT IN ASSOCIATES (continued)

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

	2021 €000	2020 €000
Carrying amount of the investment at 1 January	**18,641**	19,257
Share of associate's results, net of tax	**21**	(258)
Investment in associate	**1,500**	-
Dividend distribution	**(359)**	(358)
Carrying amount of the investment at 31 December	**19,803**	18,641

The associates had no contingent liabilities or capital commitments as at 31 December 2021 (2020: the same).

*The financial statements of IVALIFE Insurance Limited are still in the process being audited.

APS Income Fund and APS Regular Income Ethical Fund

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

The fair value of the investments in APS Income Fund (Class D) and APS Regular Income Ethical Fund (Class B) as at 31 December 2021 amounted to €18,447,285 (2020: €18,554,033). The fair value of the investment in IVALIFE Insurance Limited as at 31 December 2021 amounted to €1,489,538 (2020: €230,152).

The following are the quoted market prices of the APS Income Fund as at end of December 2021 and December 2020 and represent Level 1 investments in the fair value hierarchy:

	APS Income Fund	
	2021 €	2020 €
Accumulator	**189.7413**	190.2051
Distributor	**125.1633**	128.0337

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

	APS Regular Income Ethical Fund	
	2021 €	2020 €
Accumulator Class A	**1.5665**	1.4945
Distributor Class B	**1.2149**	1.1795
Accumulator Class C	**1.5589**	1.4883
Distributor Class D	**1.2112**	1.1766

IVALIFE Insurance Limited

During the financial year ended 31 December 2021, the Group made a further investment of €1,500,000 in IVALIFE Insurance Limited ("IVALIFE").

The Group is deemed to have a significant influence in the company since it holds 25% shareholding and is measuring its investment as an 'associate'.

24. INVESTMENT PROPERTIES

The Group's investment properties consist of commercial and residential properties in Malta. As at 31 December 2021 and 2020 the fair values of investment properties held by the Group were as follows:

	The Group / The Bank	
	2021	2020
	€000	€000
As at 1 January	**1,830**	1,830
Reclassification from property and equipment to investment property, net of depreciation	**3,998**	-
Improvements to property	**24**	-
Fair value movement	**201**	-
As at 31 December	**6,053**	1,830

During the year under review the Group did not repossess or sell any investment properties.

In 2021, the Group entered into an agreement whereby, one of its properties which was previously classified under property and equipment was leased out to third parties. Consequently, the Group reclassified property with a carrying amount of € 3,998K from property and equipment to investment property.

The agreement, which was signed in 2021, is for a period of 15 years expiring in 2036. The initial term may be extended by the mutual written agreement of both parties by an additional 5 years.

The unguaranteed residual value of the property does not represent a significant risk for the Group, as it relates to property which is situated in a location with a constant increase in value over the past years. The Group did not identify any indications that the situation will change.

In this respect the Group recorded the amount of €44K as rental income on this said property. Direct operating expenses incurred during the year were mainly professional fees and insurance cover which costs are deemed to be minimal. No other rental income was received from the other properties.

At the end of the reporting period, the respective lessees had outstanding undiscounted lease payments for operating leases, which fall due as follows:

	The Group / The Bank
	2021
	€000
Within one year	177
Within two years	177
Within three years	177
Within four years	177
Within five years	177
Over five years	1,726
	2,611

During the year the Group started to renovate one of its investment properties with the refurbishment costs amounting to €24K. The Group does not earn any rental income from this property.

Fair value movements are recognised as "Other operating income" in the statements of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. PROPERTY AND EQUIPMENT

The Group/The Bank

	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost or valuation				
At 1 January 2020	35,326	8,711	18,280	62,317
Additions	234	1,444	2,547	4,225
At 31 December 2020	35,560	10,155	20,827	66,542
Additions	586	433	1,358	2,377
Disposals	(281)	-	-	(281)
Reclassification to investment property	(4,000)	-	-	(4,000)
Revaluation decrease of property	(1,784)	-	-	(1,784)
Accumulation of depreciation on revalued property	(250)	-	-	(250)
At 31 December 2021	**29,831**	**10,588**	**22,185**	**62,604**
Depreciation				
At 1 January 2020	853	5,754	11,859	18,466
Charge for the year	313	903	680	1,896
At 31 December 2020	1,166	6,657	12,539	20,362
(Reversal)/charge for the year	(135)	987	751	1,603
Reclassification to investment property	(2)	-	-	(2)
Disposals	(99)	-	-	(99)
Accumulation of depreciation on revalued property	(258)	-	-	(258)
At 31 December 2021	**672**	**7,644**	**13,290**	**21,606**
Net Book Value				
At 31 December 2021	**29,159**	**2,944**	**8,895**	**40,998**
At 31 December 2020	34,394	3,498	8,288	46,180
At 1 January 2020	34,473	2,957	6,421	43,851

	2021 €000	2020 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**89**	13
- Authorised by the Directors but not yet contracted	**2,974**	4,712
	3,063	4,725

The gross carrying amount of fully depreciated property and equipment that is still in use as at 31 December 2021 is of €16,276K (2020: €16,120K).

The revaluation decrease recognised during the year under review in respect of land and buildings included as part of the other (loss)/income within the statements of profit or loss amounts to €914K.

The carrying amount of land and buildings at 31 December 2021 that would have been recognised had these been carried under the cost model is €12,169K (2020: €15,878K) for both the Group and the Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

26. INTANGIBLE ASSETS

	The Group Computer software €000	The Bank Computer software €000
Cost		
At 1 January 2020	19,080	19,076
Additions	3,179	3,179
At 31 December 2020	22,259	22,255
Additions	4,803	4,803
At 31 December 2021	**27,062**	**27,058**
Amortisation		
At 1 January 2020	11,760	11,758
Charge for the year	1,651	1,649
At 31 December 2020	13,411	13,407
Charge for the year	1,905	1,905
At 31 December 2021	**15,316**	**15,312**
Net book value		
At 31 December 2021	**11,746**	**11,746**
At 31 December 2020	8,848	8,848
At 1 January 2020	7,320	7,318

	The Group/The Bank	
	2021	2020
	€000	€000
Future capital expenditure:		
- Authorised by the Directors and contracted	**3,327**	744
- Authorised by the Directors but not yet contracted	**2,089**	8,017
	5,416	8,761

The gross carrying amount of fully amortised intangible assets that is still in use as at 31 December 2021 is of €9,527K (2020: €9,426K).

27. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Group leases properties, warehouses, office spaces, vehicles, spaces for the utilisation of parking and utilisation of space to provide banking related services.

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

Extension and Termination Options

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

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

Purchase options

The majority of vehicles leased with terms of 5 to 7 years had their lease term ended during the year under review. The Group had the option to purchase these vehicles, however this option was not exercised.

Furthermore, new vehicle lease agreements have been entered into late year 2021 with each having a 5-year lease term. A purchase option has been granted at the expiration of the agreement, whereby the lessee has the option to purchase the vehicle. However, the Group has no intention to exercise this option.

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

	The Group/The Bank	
	2021	2020
	€000	€000
Right-of-use-assets		
Property	4,782	5,147
Equipment	19	-
Vehicles	250	88
	5,051	5,235
Lease liabilities		
Current	469	548
Non-Current	4,879	4,817
	5,348	5,365

Additions to the right-of-use assets during the year ended 31 December 2021 were €768K (2020: €3,751K), whilst derecognised leases for which term has expired in 2021 amounted to €389K (2020: €628K). Total cash outflows in relation to leases during the year amounted to €635K (2020: €603K).

27. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

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

	The Group/The Bank	
	2021	2020
	€000	€000
Depreciation charge on right-of-use assets		
Property	**497**	415
Equipment	**-**	4
Vehicles	**65**	62
	562	481
Interest expense		
Interest expense (included in interest payable)	**120**	107
Expenses relating to leases of low-value assets (included in other administrative expenses)	**75**	70
	195	177

Variable Lease payments

During the year under review, the Group recognised a new lease subject to variable lease payments measured at the rate as specified in the lease agreement whereby the rent is increased on an annual basis or as otherwise indicated in the contract. The Group recognised €29,367 (2020: €71,908) and €155,731 (2020: €260,818) as an interest expense on the lease liability and amortisation on the right-of-use asset respectively in the income statement for the leases which are subject to variable lease payments.

Leases not yet commenced to which the lessee is committed

As at end of December 2021, there were no leases not yet commenced, to which the Group is committed (2020: same).

Residual Guarantees

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

Restrictions or covenants

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group / The Bank 2021 €000	2020 €000
Fair value movements on investment securities	**(496)**	(1,034)
Fair value movements on investment properties	**(164)**	(146)
Impairment allowance for loans and advances to banks and customers	**7,126**	7,809
Impairment allowance for investment securities	**21**	38
Excess of capital allowances over depreciation	**(1,756)**	(1,524)
Movement on right-of-use assets	**104**	45
Revaluation of land and buildings	**(2,586)**	(2,635)
	2,249	2,553

Deferred tax arising on the fair value movements on land and buildings classified in the statements of financial position within property and equipment and on investment securities, amounting to €599,688 was credited (2020: €404,241 credited) directly in OCI. For details on other movements refer to Note 12.

29. OTHER RECEIVABLES

	The Group 2021 €000	The Group 2020 €000	The Bank 2021 €000	The Bank 2020 €000
Accrued income	**6,491**	6,312	**6,491**	6,312
Prepayments and other receivables	**2,661**	2,307	**1,489**	1,429
Amounts due from subsidiaries	**-**	-	**323**	233
	9,152	8,619	**8,303**	7,974

30. AMOUNTS OWED TO BANKS

	The Group / The Bank 2021 €000	2020 €000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand (Note 42)	**49,463**	10
- over 3 months but less than 1 year but not repayable on demand	**-**	9,294
- over 1 year	**7,745**	-
	57,208	9,304
Analysed by currency:		
- Euro	**22,228**	9,304
- Foreign	**34,980**	-
	57,208	9,304

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Term deposits	**812,181**	776,641	**812,181**	776,641
Repayable on demand	**1,619,576**	1,346,805	**1,620,892**	1,347,508
	2,431,757	2,123,446	**2,433,073**	2,124,149
Analysed by currency:				
- Euro	**2,358,371**	2,051,742	**2,359,687**	2,052,445
- Foreign	**73,386**	71,704	**73,386**	71,704
	2,431,757	2,123,446	**2,433,073**	2,124,149

32. DEBT SECURITIES IN ISSUE

	The Group / The Bank	
	2021	2020
	€000	€000
At 1 January	**54,558**	-
Debt securities issued	**-**	55,000
Net unamortised expenses	**39**	(442)
At 31 December	**54,597**	54,558

During 2020 the Bank issued 3.25% Unsecured Subordinated Bonds which are due to mature in 2030. The bonds may be early redeemed by the Bank on specific dates, subject to MFSA approval and subject to the Bank providing at least 30 days' written notice. The bonds are being classified as a financial liability at amortised cost and are denominated in Euro.

33. OTHER LIABILITIES

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Other liabilities	**10,450**	10,090	**10,404**	10,090

34. ACCRUALS

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Accrued interest payable	**4,244**	4,370	**4,244**	4,370
Other accruals	**9,081**	5,733	**8,980**	5,661
	13,325	10,103	**13,224**	10,031

NOTES TO THE FINANCIAL STATEMENTS (continued)

35. SHARE CAPITAL

	The Group / The Bank	
	2021	2020
	€000	€000
Authorised		
400,000,000 ordinary shares at €0.25 each (2020: 400,000,000 ordinary shares of €0.25 each)	**100,000**	100,000
Issued and fully paid		
249,715,662 ordinary shares of €0.25 each (2020: 249,019,200 ordinary shares of €0.25 each)	**62,429**	62,255

	The Group / The Bank	
	2021	2020
	Number of shares	Number of shares
	'000	'000
At 1 January	**249,019**	49,804
Cancellation of ordinary shares at €1.25 per share	**-**	(49,804)
Re-designation of ordinary shares at €0.25 per share	**-**	249,019
Scrip dividend (Note 13)	**697**	-
At 31 December	**249,716**	249,019

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

During 2021 the Bank increased its share capital by 696,462 shares through a scrip dividend paid to its Shareholders (Note 13).

Further information on the Bank's Shareholders is disclosed in the Directors' Report and in Note 47.

36. SHARE PREMIUM

	The Group / The Bank	
	2021	2020
	€000	€000
At 1 January	**10,140**	10,140
Scrip dividend (Note 13)	**313**	-
At 31 December	**10,453**	10,140

The share premium reserve is not available for distribution.

37. REVALUATION RESERVE

The Group and the Bank apply the revaluation model for the subsequent measurement of land and buildings classified in the statements of financial position within property and equipment.

	The Group / The Bank	
	2021	2020
	€000	€000
Revaluation reserve on:		
Financial instruments at FVTOCI	**10,268**	16,380
Land and buildings	**15,066**	15,880
	25,334	32,260

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

	The Group / The Bank			
	Land and buildings		Financial instruments at FVTOCI	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
At 1 January	**15,880**	16,126	**16,380**	14,580
Revaluation adjustment, gross of tax	**(863)**	(291)	**(6,672)**	1,446
Deferred tax thereon	**49**	45	**560**	354
At 31 December	**15,066**	15,880	**10,268**	16,380

The revaluation reserve is not available for distribution.

38. RETAINED EARNINGS

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

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

39. NON-CONTROLLING INTEREST

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

	APS Diversified Bond Fund		APS Global Equity Fund		Total	
	2021	2020	**2021**	2020	**2021**	2020
	€000	€000	**€000**	€000	**€000**	€000
At 1 January	**9,351**	6,029	**477**	-	**9,828**	6,029
Creation of shares	**4,453**	3,738	**4,900**	455	**9,353**	4,193
Redemption of shares	**(743)**	(535)	**(51)**	-	**(794)**	(535)
Dividends paid	**(164)**	(96)	**(54)**	-	**(218)**	(96)
Profit after tax	**(60)**	215	**523**	22	**463**	237
At 31 December	**12,837**	9,351	**5,795**	477	**18,632**	9,828

NOTES TO THE FINANCIAL STATEMENTS (continued)

40. CONTINGENT LIABILITIES

	The Group / The Bank	
	2021	2020
	€000	€000
Guarantees	**21,278**	20,923
Other contingent liabilities	**4,078**	2,205
	25,356	23,128

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

41. COMMITMENTS

	The Group / The Bank	
	2021	2020
	€000	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**802,552**	786,427

Capital commitments, if any, are disclosed in Notes 24 – 27.

42. CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	€000	€000
Cash in hand (Note 14)	**15,165**	15,064	**15,165**	15,064
Balances with Central Bank of Malta (excluding reserve deposit) (Note 14)	**173,072**	76,650	**173,072**	76,650
Loans and advances to banks (repayable within 3 months) (Note 15)	**32,327**	51,117	**30,862**	46,330
Amounts owed to banks (3 months or less) (Note 30)	**(49,463)**	(10)	**(49,463)**	(10)
Cash and cash equivalents included in the statements of cash flows	171,101	142,821	**169,636**	138,034

43. OPERATING SEGMENTS

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. Operating results of all operating segments are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Group has four reportable segments, as reported below. Based on internal reporting submitted to the Board of Directors, during the current reporting year, the Investments Segment was further split into two (as shown below). In identifying segments, Management follows the Group's service lines which make up its main products and services.

- **Retail:** offers a broad range of products and services to meet the personal banking of individual customers. This includes home loans, personal loans, overdraft facilities and deposits products.

NOTES TO THE FINANCIAL STATEMENTS (continued)

43. OPERATING SEGMENTS (continued)

- **Commercial:** offers banking products to meet the needs of commercial customers. This includes all lending facilities falling under the suite of the commercial products as well as deposit products.

- **Investment services:** provides a range of products and services to meet the investment need of clients including a broad range of investment and insurance products, as well as the pension plan product and discretionary investment services.

- **Liquidity management and structured loans:** includes the management of the financial investments portfolio, correspondent bank relationships and the trade finance and syndicated loan portfolios.

Each of these operating segments is managed separately as each requires a different client approach and expertise. As for intersegment transactions, Retail is being compensated for unutilised deposits which are being used by other segments as follows; Investment services amounting to €495K, Commercial amounting to €3,906K and Liquidity Management and Structured Loans amounting to €5,828K. The compensation rate is based on the price charged to unrelated customers in a stand-alone sale of identical services. The total amount of the intersegment transactions amount to €10,229K.

In addition, several costs, assets, and liabilities which are not directly attributable to the business activities of any operating segment are not allocated to a segment but rather included within the below table under the unallocated items. This primarily applies to the following items which are not included in the tables hereunder:

- Salaries pertaining to staff contributing to other cost centres;
- Recurrent costs of maintenance agreements for software and hardware support, attributed to other cost centres;
- Depreciation charge of fixed assets attributed to other cost centres;
- Property and Equipment; and
- Other assets and liabilities which include tax liability, accruals and accrued income.

All revenues, investment properties, property and equipment, intangible assets and right-of-use assets are attributed to Malta. The information in this note is based on internal management reports that are reviewed by the Group's Executive Committee.

NOTES TO THE FINANCIAL STATEMENTS (continued)

43. OPERATING SEGMENTS (continued)

	Retail		Commercial		Investment Services		Liquidity Management and Structured Loans		Total Reportable Segments	
	Dec-21	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000	**€000**	€000
Interest receivable and similar income from external customers	**34,536**	29,563	**25,444**	23,531	**-**	-	**9,161**	9,189	**69,141**	62,283
Interest payable	**(1,814)**	(1,701)	**(4,601)**	(4,628)	**(496)**	(566)	**(6,770)**	(6,442)	**(13,681)**	(13,337)
Net fee and commission income and other income	**83**	346	**2,710**	2,256	**3,737**	2,880	**1,162**	612	**7,692**	6,094
Operating income before net impairments	**32,805**	28,208	**23,553**	21,159	**3,241**	2,314	**3,553**	3,359	**63,152**	55,040
Impairment gains / (losses)	**2,902**	(3,590)	**(1,712)**	(1,628)	**-**	-	**298**	(319)	**1,488**	(5,537)
Net operating income	**35,707**	24,618	**21,841**	19,531	**3,241**	2,314	**3,851**	3,040	**64,640**	49,503
Personnel expenses	**(3,782)**	(3,767)	**(1,400)**	(1,309)	**(1,716)**	(1,489)	**(414)**	(392)	**(7,312)**	(6,957)
Other administrative and operating expenses	**(1,221)**	(976)	**(31)**	(20)	**(422)**	(200)	**(250)**	(274)	**(1,924)**	(1,470)
Operating expenses	**(5,003)**	(4,743)	**(1,431)**	(1,329)	**(2,138)**	(1,689)	**(664)**	(666)	**(9,236)**	(8,427)
Net operating profit before associates' results	**30,704**	19,875	**20,410**	18,202	**1,103**	625	**3,187**	2,374	**55,404**	41,076
Share of results from associates	**-**	-	**-**	-	**-**	-	**21**	(258)	**21**	(258)
Profit before tax as per segments	**30,704**	19,875	**20,410**	18,202	**1,103**	625	**3,208**	2,116	**55,425**	40,818
Less: Unallocated items	**-**	-	**-**	-	**-**	-	**-**	-	**(31,357)**	(25,021)
Profit before tax as per statements of profit or loss	**30,704**	19,875	**20,410**	18,202	**1,103**	625	**3,208**	2,116	**24,068**	15,797

	Retail		Commercial		Investment Services		Liquidity Management and Structured Loans		Total Reportable Segments	
	Dec-21	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20	**Dec-21**	Dec-20
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000	**€000**	€000
Total assets as per segments	**1,302,478**	1,064,431	**629,567**	624,572	**-**	-	**787,710**	658,715	**2,719,755**	2,347,718
Add: Unallocated items									**75,249**	73,265
Total assets as per statements of financial position									**2,795,004**	2,420,983
Investment in associates	**-**	-	**-**	-	**-**	-	**19,803**	18,641	**19,803**	18,641
Total liabilities as per segments	**2,243,360**	1,979,814	**188,397**	143,632	**-**	-	**112,357**	64,361	**2,544,114**	2,187,807
Add: Unallocated items									**30,068**	26,957
Total liabilities as per statements of financial position									**2,574,182**	2,214,764

NOTES TO THE FINANCIAL STATEMENTS (continued)

43. OPERATING SEGMENTS (continued)

	Dec-21 €000	Dec-20 €000
Profit before tax		
As per reportable segments	55,425	40,818
Unallocated items:		
Interest payable	(92)	(98)
Net fee and commission income and other income	88	203
Personnel expenses	(14,919)	(11,317)
Professional fees	(1,313)	(642)
Repairs and maintenance	(4,102)	(3,016)
Telecommunications	(721)	(601)
Other administrative expenses	(6,228)	(5,521)
Depreciation and amortisation	(4,070)	(4,029)
As per statements of profit or loss	24,068	15,797

	Dec-21 €000	Dec-20 €000
Total assets		
As per reportable segments	2,719,755	2,347,718
Unallocated items:		
Investment properties	6,053	1,830
Property and equipment	40,998	46,180
Intangible assets	11,746	8,848
Right-of use assets	5,051	5,235
Deferred tax assets	2,249	2,553
Other receivables	9,152	8,619
As per statements of financial position	2,795,004	2,420,983

	Dec-21 €000	Dec-20 €000
Total liabilities		
As per reportable segments	2,544,114	2,187,807
Unallocated items:		
Current tax	945	1,399
Lease liabilities	5,348	5,365
Other liabilities	10,450	10,090
Accruals	13,325	10,103
As per statements of financial position	2,574,182	2,214,764

44. RELATED PARTY DISCLOSURES

The Group's structure

These consolidated financial statements of the Group include the financial statements of APS Bank plc and its subsidiaries and associates, as disclosed in Notes 22 and 23 respectively.

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

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

Information on the Bank's Shareholders is disclosed in the Directors' Report and in Note 47.

44. RELATED PARTY DISCLOSURES (continued)

Related party transactions

The following tables provide the total amount of transactions, which have been entered into by the Group and the Bank with related parties for the year under review:

	The Group		The Bank	
	Dec-21	Dec-20	Dec-21	Dec-20
	€000	€000	€000	€000
Interest receivable on loans and advances:				
Shareholders	3	18	3	18
Key management personnel	16	23	16	23
Other related parties	60	96	60	96
Fee and commission income:				
ReAPS Asset Management Limited	-	-	1,230	938
APS Income Fund	663	654	-	-
APS Regular Income Ethical Fund	382	335	-	-
IVALIFE Insurance Limited	15	-	-	-
Shareholders	497	168	52	110
Other related parties	183	187	-	150
Interest payable:				
APS Income Fund	18	23	18	23
Shareholders	179	186	179	186
Key management personnel	7	9	7	9
Other related parties	38	60	38	60
Personnel expenses:				
Key management personnel	3,712	3,291	3,712	3,291
General administrative expenses:				
Shareholders	278	269	278	269

	The Group		The Bank	
	Dec-21	Dec-20	Dec-21	Dec-20
	€000	€000	€000	€000
Amounts due from related parties				
ReAPS Asset Management Limited	-	-	314	233
APS Income Fund	166	164	-	-
APS Regular Income Ethical Fund	106	88	-	-
IVALIFE Insurance Limited	18	-	-	-
Other related parties	65	37	-	-
Amounts due to related parties				
ReAPS Asset Management Limited	-	-	1,316	703
APS Income Fund	3,263	3,078	3,263	3,078
APS Regular Income Ethical Fund	1	-	1	-

44. RELATED PARTY DISCLOSURES (continued)

Related party transactions (continued)

Related party transactions in respect of Shareholders and key management personnel are included in the below tables.

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

The amounts disclosed in Note 9 and 10 are recognised as an expense during the reporting year and are paid to key management personnel of the Group. These only include short-term employee benefits. (2020: the same).

b) Transactions with Directors

	2021	2020
	€000	€000
Loans and advances	**690**	894
Commitments	**197**	432

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

c) Transactions with Executives

	2021	2020
	€000	€000
Loans and advances	**7,572**	4,734
Commitments	**699**	624

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

d) Balances with other related parties

	Balances as at 31.12.2021 €000	**Interest receivable 2021 €000**	Balances as at 31.12.2020 €000	Interest receivable 2020 €000
Amounts due from other related parties:				
Shareholders and entities with common directorship	**7,978**	**246**	7,362	203

	Balances as at 31.12.2021 €000	**Interest payable 2021 €000**	Balances as at 31.12.2020 €000	Interest payable 2020 €000
Amounts due to other related parties:				
-Shareholders	**16,353**	**179**	23,509	186
-Directors	**1,267**	**-**	831	3
-Other key management personnel	**2,005**	**7**	1,394	6
-Other related parties	**3,417**	**8**	2,223	11

44. RELATED PARTY DISCLOSURES (continued)

Related party transactions (continued)

There are no deposits held as collateral for loan commitments and overdraft facilities granted to related parties (2020: same). Also, included in Amounts owed to customers are term deposits of €4,067,231 (2020: €9,137,120), which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties include secured facilities of €7,975,996 (2020: €6,971,010) and €2,141 (2020: €391,328) unsecured facilities.

For the year ended 31 December 2021, the Bank recognised impairments on receivables from related parties amounting to €2,285 (2020: €5,122).

No guarantees were received by related parties as at end of December 2021 (2020: nil). Special guarantees given to related parties amount to €103,414 (2020: €101,162).

45. FAIR VALUES

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

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

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

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

	Fair value measurement hierarchy			
The Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	€000	€000	€000	€000
Assets as at 31 December 2021				
Property and Equipment (Note 25)				
- Land and buildings	-	-	29,159	29,159
Investment properties (Note 24)				
- Residential property	-	-	495	495
- Commercial property	-	-	5,558	5,558
Derivative assets not designated as hedges (Note 18)	-	552	-	552
Financial assets at FVTPL (Note 19)				
- Fixed income instruments and collective investment schemes	61,846	-	-	61,846
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 20)	227,103	-	-	227,103
- Equity and other non-fixed income instruments (Note 21)	-	-	307	307
Total	**288,949**	**552**	**35,519**	**325,020**
Liabilities as at 31 December 2021				
Derivative liabilities not designated as hedges (Note 18)	-	552	-	552
Total	**-**	**552**	**-**	**552**

45. FAIR VALUES (continued)

The Group	Level 1	Level 2	Level 3	Total
	Fair value measurement hierarchy			
	€000	€000	€000	€000
Assets as at 31 December 2020				
Property and Equipment (Note 25)				
- Land and buildings	-	-	34,394	34,394
Investment properties (Note 24)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 18)	-	499	-	499
Financial assets at FVTPL (Note 19)				
- Fixed income instruments and collective investment schemes	50,636	-	-	50,636
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 20)	211,751	-	-	211,751
- Equity and other non-fixed income instruments (Note 21)	-	-	303	303
Total	**262,387**	**499**	**36,527**	**299,413**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges (Note 18)	-	499	-	499
Total	**-**	**499**	**-**	**499**

The Bank	Level 1	Level 2	Level 3	Total
	Fair value measurement hierarchy			
	€000	€000	€000	€000
Assets as at 31 December 2021				
Property and equipment (Note 25)				
- Land and buildings	-	-	29,159	29,159
Investment properties (Note 24)				
- Residential property	-	-	495	495
- Commercial property	-	-	5,558	5,558
Derivative assets not designated as hedges (Note 18)	-	552	-	552
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 20)	227,103	-	-	227,103
- Equity and other non-fixed income instruments (Note 21)	-	-	307	307
Total	**227,103**	**552**	**35,519**	**263,174**
Liabilities as at 31 December 2021				
Derivative liabilities not designated as hedges (Note 18)	-	552	-	552
Total	**-**	**552**	**-**	**552**

NOTES TO THE FINANCIAL STATEMENTS (continued)

45. FAIR VALUES (continued)

The Bank	Fair value measurement hierarchy Level 1 €000	Level 2 €000	Level 3 €000	Total €000
Assets as at 31 December 2020				
Property and equipment (Note 25)				
- Land and buildings	-	-	34,394	34,394
Investment properties (Note 24)				
- Residential property	-	-	400	400
- Commercial property	-	-	1,430	1,430
Derivative assets not designated as hedges (Note 18)	-	499	-	499
Financial assets at FVTPL (Note 19)				
- Fixed income instruments and collective investment schemes	251	-	-	251
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 20)	211,751	-	-	211,751
- Equity and other non-fixed income instruments (Note 21)	-	-	303	303
Total	**212,002**	**499**	**36,527**	**249,028**
Liabilities as at 31 December 2020				
Derivative liabilities not designated as hedges (Note 18)	-	499	-	499
Total	**-**	**499**	**-**	**499**

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

Investment properties

For the year ended 31 December 2021, the independent architect based the valuations on the investment method and the comparative valuation methodology for both commercial and residential properties. The investment valuation methodology can be applied to determine the market value of a freehold or leasehold interest in property from its potential to generate future income. It is typically used for the main forms of properties where a tenant is providing the landlord with an investment return on his capital cost. Using this method, the comparable property transactions of sales and lettings are analysed to find the revenue. Under the comparative valuation methodology, the current value of the property is compared to another property with similar characteristics. This method involves comparing the subject property with similar properties that have been recently sold and those that are currently being offered for sale in the vicinity of other comparable localities. The characteristics, merits and demerits of these properties are noted, and appropriate adjustments thereof are then made to arrive at the value of the subject property. Market value in relation to the commercial property was based on the price of €4,115 per square metre whereas the price of residential property was of €2,346 per square metre.

For the year ended 31 December 2020, the independent architect confirmed that the valuation methodology and inputs used as at end of 31 December 2019 have not changed for both commercial and residential properties. Both commercial and residential properties were valued using the market value basis, as defined in the European Valuation Standards manual, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value in relation to the commercial property was based on the price of €2,471 per square metre whereas the price of residential property was of €1,896 per square metre.

NOTES TO THE FINANCIAL STATEMENTS (continued)

45. FAIR VALUES (continued)

Investment properties (continued)

The fair value movement on investment properties amounted to €201,000 (Note 24) during the year. 66% of the investment properties are being used in their highest and best use whereas 34% are either being refurbished or kept to be sold in future years.

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

As at the end of 31 December 2021 (2020: nil) the Group has no restrictions on the realisation of investment properties in Note 24.

The fair value movement in relation to 2021 is all attributable to assets held at year end and no fair value movement was recognised in respect of assets disposed during the year.

	Residential properties		Commercial properties	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
At 1 January	**400**	400	**1,430**	1,430
Improvements	**-**	-	**24**	-
Reclassification from property and equipment, net of depreciation	**-**	-	**3,998**	-
Fair value movement	**95**	-	**106**	-
At 31 December	**495**	400	**5,558**	1,430

Property and equipment – Land and buildings

For the year ended 31 December 2021, the independent architect based the valuations on the investment method and the comparative valuation methodology. The investment valuation methodology takes into consideration the rental value of the property by comparison and capitalizes it at an appropriate yield in order to render the current market value of the property. Under the comparative valuation methodology, the current value of the property is compared to another property with similar characteristics. This method involves comparing the subject property with similar properties that have been recently sold and those that are currently being offered for sale in the vicinity of other comparable localities. The characteristics, merits and demerits of these properties are noted, and appropriate adjustments thereof are then made to arrive at the value of the subject property. Market value was based on prices in the range of €1,444 and €11,240 per square metre.

For the year ended 31 December 2020, the independent architect confirmed that the valuation methodology and inputs used as at end of 31 December 2019 have not changed except for one property which valuation decreased by €291,000 (Note 37). As at end of 2019, the independent architect based his valuations on a market value basis, namely, the price at which land and buildings could be sold under private contract between a willing seller and an arm's length buyer on the date of the valuation, it being assumed that the property is publicly exposed to the market, that market conditions permit orderly disposal and that a normal period, having regard to the nature of the property, is available for the negotiation of sale. Market value was based on prices in the range of €1,172 and €10,909 per square metre.

The fair value of the land and buildings decreased by €1,784,000 (Note 25) during the year. Significant increases/(decreases) in estimated market rates per square metre in isolation would result in a significantly higher/(lower) fair value of the properties. The properties are being used at their highest and best use and valuation was done as at 31 December 2021.

45. FAIR VALUES (continued)

Derivative liabilities not designated as hedges
The valuation for derivative instruments was made on 31 December 2021 and 31 December 2020 on the basis of observable inputs using a discounted cash flow model by applying appropriate yield curves at the balance sheet date.

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

Fair value through other comprehensive income
Fair values of debt and equity instruments classified in this category are generally based on quoted market prices, if available.

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

At the reporting date, debt securities classified at amortised cost amounted to €101.0 million (2020: €104.3 million). Their market value amounted to €107.7 million (2020: €115.6 million) (Level 1), whilst their nominal value amounted to €98.3 million (2020: €100.8 million). For other details refer to Note 20.

Loans and advances to customers are stated at the amounts contractually due less provision to reflect the expected recoverable amounts. Their carrying amount is not deemed to differ materially from their fair value as these are re-priced to take into consideration changes in both the Bank's base rate and credit margins. Their fair value measurement is a Level 2 input.

At the reporting date, syndicated loans and trade finance classified at amortised cost amounted to €134.3 million (2020: €113.2 million). Their market value amounted to €134.6 million (2020: €113.3 million) (Level 2), whilst their nominal value amounted to €124.6 million (2020: €114.5 million). For other details refer to Note 17.

Amounts owed to banks and customers include deposit liabilities. Of this category of liability, 84% (2020: 82%) have contractual re-pricing within one year, whilst 16% (2020: 18%) re-prices between one year and over. For demand deposits and term deposits within one-year, fair value is taken to be the amount payable on demand at the reporting date (Level 2). For term deposits after one-year with a carrying amount of €401.2 million (2020: €392.1 million), fair value is €401.2 million (2020: €392.1 million). All term deposits at different maturities were revalued to reflect the current interest rates. Their fair value measurement is a Level 2 input.

Debt securities in issue have a carrying amount of €54.6 million (2020: €54.6 million) at 31 December 2021. The market value, based on quoted prices in an active market (Level 1), amounted to €56.4 at 31 December 2021 (2020: €56.1).

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

	2021	2020
	€000	€000
At 1 January	**303**	308
Fair value movements	**-**	(5)
Exchange rate movement	**4**	-
At 31 December	**307**	303

46. RISK MANAGEMENT

46.1 Risk management framework

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

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

46.2 Credit risk

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

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

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

	The Group / The Bank	
	Not later than one year	
	2021	2020
	€000	€000
Loan commitments	802,552	786,427
Guarantees, acceptance and other financial facilities	25,356	23,128
	827,908	809,555

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

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

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

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

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 is included in Note 46.2.1.1 ('Credit Risk Grading').

46.2.1 Credit Risk Measurement

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

46.2.1.1 Credit Risk Grading

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

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

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

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

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

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

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

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.1 Credit Risk Measurement (continued)

46.2.1.1 Credit Risk Grading (continued)

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

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

46.2.2 ECL Measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a SICR since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Note 46.2.2.1 describes how the Group determines when a SICR has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Note 46.2.2.2 describes how the Group defines credit-impairment and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECLs that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on ECLs on a lifetime basis. Please refer to Note 46.2.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 46.2.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

Further disclosure is also provided in Note 46.2.2.5 on how the Group determines appropriate groupings when ECL is measured on a collective basis and in Note 2.1 in the context of COVID-19.

The following diagram summarises the impairment requirements under IFRS 9:

Change in credit quality since initial recognition

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

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

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.1 Significant increase in Credit Risk (SICR)

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

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

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

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument, together with its internal grading/credit rating on initial recognition. For certain revolving facilities (e.g. overdrafts), the date when the facility was first entered into, could be a long time ago. Modifying the contractual terms of a financial instrument may also affect this assessment, as discussed in Note 2.3 *Modification of loans*.

Determining whether credit risk has increased significantly

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

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

Quantitative Criteria:

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

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.1 Significant increase in Credit Risk (SICR) (continued)

Qualitative Criteria:

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

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

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

The assessment of SICR incorporates forward-looking information and is performed on a regular basis.

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

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The average time between the identification of a significant increase in credit risk and default appears reasonable; and
- Exposures are not generally transferred directly from 12-month ECL measurement (Stage 1) to credit-impaired (Stage 3).

The Group has used the low credit risk exemption for the investments' portfolio in the current and prior year, meaning that such financial instruments were not subject to the SICR test.

The Group reviewed its assessment of SICR during 2021 and 2020 in order to take into account the effect of COVID-19, as explained in detail in Note 2.1, pages 65 to 71.

46.2.2.2 Definition of Default and credit impaired

Under IFRS 9, the Group will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- with respect to loans and advances to customers, the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has either exceeded a sanctioned limit or has been advised of a limit that is smaller than the current balance outstanding; or
- with regards to investments' portfolio and syndicated loans' portfolio, a payment by the counterparty or issuer is more than 30 days past due.

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.2 Definition of Default and credit impaired (continued)

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

At each reporting date, the Group assesses whether financial assets carried at amortised cost, debt financial assets carried at FVTOCI, loan commitments and financial guarantees are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

46.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month (12M) or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired.

ECLs are the discounted product of the PD, Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- PD estimates are estimates at a certain date, which, for loans and advances to customers, loan commitments and financial guarantees, are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. They are adjusted to reflect forward-looking information as described below. Market data, obtained from a third party service provider, is used for the PD of investment portfolio, balances with CBM and loans and advances to banks.
- EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation, and prepayments. The EAD of a financial asset is the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on historical

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

observations and forward-looking forecasts. For some financial assets, the Group determines EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

- LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates, against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the EIR as the discounting factor.

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

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

Subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

For retail overdrafts and certain corporate revolving facilities that include both a loan and an undrawn commitment component, the Group measures ECLs over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are risk managed on an individual basis; these facilities are however collectively assessed for IFRS 9 purposes. Although the Group can cancel these facilities with immediate effect, this contractual right is not enforced in the normal day-to-day management, but rather only when the Group becomes aware of an increase in credit risk at the facility level. This longer period will be estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECLs. These include a reduction in limits and cancellation of the facility.

46.2.2.4 Forward Looking Information

Under IFRS 9, the Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The assessment of SICR and the calculation of ECL, both incorporate forward-looking information. The Group performs a historical analysis and identifies the key economic variables affecting credit risk and ECLs for each portfolio. These economic variables and their associated impact on the PD, EAD and LGD may vary by financial instrument. The Group performs expert judgement in this process.

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.4 Forward Looking Information (continued)

A third party provider has been engaged to provide, on a regular basis, the forecasted macro-economic scenarios covering a ten-year time horizon. The 'base line' scenario represents the most-likely outcome and is the same scenario considered by the Group for the purposes of strategic planning and budgeting. Apart from the 'base line' scenario, the Group considers two other macro-economic scenarios, which represent more optimistic and more pessimistic outcomes.

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

The Group has identified key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has analysed relationships between macro-economic variables and credit risk and credit losses. These key drivers include inflation rates, unemployment rates and GDP forecasts.

The following table illustrates the macro-economic indicators incorporated in the IFRS 9 model, for each macro-economic scenario, as at 31 December 2021;

		Scenarios					
	Macro-Economic Variables		**2021**			2020	
		Baseline	**Upside**	**Downside**	Baseline	Upside	Downside
Indicators	GDP (%)	**7.32**	**8.02**	**6.4**	5.54	5.60	5.42
	Inflation rates (%)	**3.06**	**3.11**	**2.95**	4.42	5.08	3.67
	Unemployment rates (%)	**4.64**	**4.63**	**4.73**	5.48	5.35	5.75

This above data is reviewed and updated on a quarterly basis, nevertheless, for the ECL calculation as at the reporting date, the latest macro-economic data available was incorporated within the IFRS 9 model.

46.2.2.5 Grouping shared risk characteristics

For ECL provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. The characteristics and any supplementary data used to determine groupings are outlined below;

- Product type (e.g. residential/buy to let mortgage, credit cards);
- Credit risk grades;
- Industry – taking into consideration external information;
- Loan to value ("LTV") ratio band;
- Repayment type (e.g. bullet cash flow type);
- Collateral type; and
- Geographic region of exposure.

The groupings selected by the Group are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous. During the period, the Group has performed a modification within the segmentation of the loans and advances to customers' portfolio, as there were no sufficient historical data for particular segments to produce accurate results and at present, the groups are classified as follows;

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.2 ECL Measurement (continued)

46.2.2.5 Grouping shared risk characteristics (continued)

- Loans and advances to customers;
  a) Mortgages;
  b) Personal;
  c) Commercial;
- Loans and advances to banks;
- Debt instruments; and
- Syndicated loans.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

46.2.3 Credit Risk Exposure

46.2.3.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

With respect to financial instruments which expose the Group to credit risk, the maximum exposure equals the carrying amount of these instruments, except for loan commitments and financial guarantees.

Credit risks exposures relating to the statements of financial position assets and off-balance sheet items are as follows:

	The Group		The Bank	
	Maximum exposure		Maximum exposure	
	2021 €000	2020 €000	2021 €000	2020 €000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**192,558**	93,266	**192,558**	93,266
Cheques in course of collection	**2,881**	103	**2,881**	103
Loans and advances to banks	**32,296**	51,068	**30,831**	46,281
Loans and advances to customers (net)	**1,413,857**	1,173,021	**1,413,857**	1,173,021
Loans and advances to corporate entities (net)	**518,187**	515,982	**518,187**	515,982
Syndicated loans (net)	**134,262**	113,152	**134,262**	113,152
Derivative financial instruments	**552**	499	**552**	499
Other debt and fixed income instruments (net)	**328,041**	315,983	**328,041**	315,983
Financial assets at FVTPL	**61,846**	50,636	**-**	251
Other receivables	**9,152**	8,619	**8,303**	7,974
As at 31 December	**2,693,632**	2,322,329	**2,629,472**	2,266,512
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other contingent liabilities	**25,356**	23,128	**25,356**	23,128
Commitments	**802,552**	786,427	**802,552**	786,427
As at 31 December	**827,908**	809,555	**827,908**	809,555

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.2 Concentration of risk

The Group

Concentrations of risk	Financial Institutions	Manufac-turing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	192,570	-	-	-	-	-	-	192,570
Cheques in course of collection	2,881	-	-	-	-	-	-	2,881
Loans and advances to banks (gross)	32,327	-	-	-	-	-	-	32,327
Loans and advances to customers (gross)	3,726	22,747	200,116	41,121	6,099	314,624	1,362,938	1,951,371
Syndicated loans (gross)	27,494	68,701	-	-	2,652	36,405	-	135,252
Derivative financial instruments	552	-	-	-	-	-	-	552
Other debt and fixed income instruments (gross)	38,982	10,298	1,544	10,300	254,131	12,848	-	328,103
Financial assets at FVTPL	10,233	4,320	-	-	17,108	30,185	-	61,846
Other receivables	-	-	-	-	-	9,152	-	9,152
As at 31 December 2021	**308,765**	**106,066**	**201,660**	**51,421**	**279,990**	**403,214**	**1,362,938**	**2,714,054**
Financial guarantees and other contingent liabilities	743	514	7,946	1,155	-	11,903	3,095	25,356
Commitments	14,121	7,984	164,644	16,692	5,288	90,327	503,496	802,552
As at 31 December 2021	**14,864**	**8,498**	**172,590**	**17,847**	**5,288**	**102,230**	**506,591**	**827,908**

The Group

Concentrations of risk	Financial Institutions	Manufac-turing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	93,271	-	-	-	-	-	-	93,271
Cheques in course of collection	103	-	-	-	-	-	-	103
Loans and advances to banks	51,117	-	-	-	-	-	-	51,117
Loans and advances to customers (gross)	5,506	23,846	204,547	39,503	11,525	301,610	1,123,341	1,709,878
Syndicated loans (gross)	32,721	48,461	-	9,998	2,441	20,927	-	114,548
Derivative financial instruments	499	-	-	-	-	-	-	499
Other debt and fixed income instruments (gross)	36,226	10,087	2,878	11,951	240,281	14,635	-	316,058
Financial assets at FVTPL	13,468	1,535	-	-	12,862	22,771	-	50,636
Other receivables	-	-	-	-	-	8,619	-	8,619
As at 31 December 2020	**232,911**	**83,929**	**207,425**	**61,452**	**267,109**	**368,562**	**1,123,341**	**2,344,729**
Financial guarantees and other contingent liabilities	687	358	8,275	1,359	-	9,719	2,730	23,128
Commitments	30,649	10,959	170,419	18,472	918	75,477	479,533	786,427
As at 31 December 2020	**31,336**	**11,317**	**178,694**	**19,831**	**918**	**85,196**	**482,263**	**809,555**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.2 Concentration of risk (continued)

The Bank

Concentrations of risk	Financial Institutions	Manufac -turing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	192,570	-	-	-	-	-	-	192,570
Cheques in course of collection	2,881	-	-	-	-	-	-	2,881
Loans and advances to banks (gross)	30,862	-	-	-	-	-	-	30,862
Loans and advances to customers (gross)	3,726	22,747	200,116	41,121	6,099	314,624	1,362,938	1,951,371
Syndicated loans (gross)	27,494	68,701	-	-	2,652	36,405	-	135,252
Derivative financial instruments	552	-	-	-	-	-	-	552
Other debt and fixed income instruments (gross)	38,982	10,298	1,544	10,300	254,131	12,848	-	328,103
Other receivables	-	-	-	-	-	8,303	-	8,303
As at 31 December 2021	**297,067**	**101,746**	**201,660**	**51,421**	**262,882**	**372,180**	**1,362,938**	**2,649,894**
Financial guarantees and other contingent liabilities	743	514	7,946	1,155	-	11,903	3,095	25,356
Commitments	14,121	7,984	164,644	16,692	5,288	90,327	503,496	802,552
As at 31 December 2021	**14,864**	**8,498**	**172,590**	**17,847**	**5,288**	**102,230**	**506,591**	**827,908**

The Bank

Concentrations of risk	Financial Institutions	Manufac -turing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
	€000	€000	€000	€000	€000	€000	€000	€000
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	93,271	-	-	-	-	-	-	93,271
Cheques in course of collection	103	-	-	-	-	-	-	103
Loans and advances to banks (gross)	46,330	-	-	-	-	-	-	46,330
Loans and advances to customers (gross)	5,506	23,846	204,547	39,503	11,525	301,610	1,123,341	1,709,878
Syndicated loans (gross)	32,721	48,461	-	9,998	2,441	20,927	-	114,548
Derivative financial instruments	499	-	-	-	-	-	-	499
Other debt and fixed income instruments (gross)	36,226	10,087	2,878	11,951	240,281	14,635	-	316,058
Financial assets at FVTPL	-	-	-	-	251	-	-	251
Other receivables	-	-	-	-	-	7,974	-	7,974
As at 31 December 2020	**214,656**	**82,394**	**207,425**	**61,452**	**254,498**	**345,146**	**1,123,341**	**2,288,912**
Financial guarantees and other contingent liabilities	687	358	8,275	1,359	-	9,719	2,730	23,128
Commitments	30,649	10,959	170,419	18,472	918	75,477	479,533	786,427
As at 31 December 2020	**31,336**	**11,317**	**178,694**	**19,831**	**918**	**85,196**	**482,263**	**809,555**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.3 Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. Of the total loans and advances to customers, 87.38% (2020: 88.04%) were collateralised.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Cash and securities;
- Government guarantees;
- Mortgages over residential properties, with the substantial majority being situated in Malta;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities, equities and insurance policies.

Longer-term finance and lending to corporate entities are generally secured, however, revolving personal credit facilities are, generally, unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds, which are mainly secured by residential mortgages.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use. During 2021, no new properties have been repossessed (same in 2020).

The Group also makes use of master netting agreements with counter parties. As at 31 December 2021 and 31 December 2020 there were no financial assets or liabilities arising from these agreements.

A portion of the Group's financial assets originated by the mortgage business has sufficiently low LTV ratios, which results in no loss allowance being recognised in accordance with the Group's ECL model. The carrying amount of such financial assets is €1,214 million as at 31 December 2021 (2020 - €981 million).

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.3 Collateral and other credit enhancements (continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below.

The Group / The Bank

31 December 2021 Credit-impaired assets	Gross Exposure €000	Impairment allowance €000	Carrying amount €000	Fair value of collateral held €000
Loans to individuals:				
- Overdraft	1,814	1,521	293	198
- Term Loans	2,699	792	1,908	1,941
- Home Loans	7,808	2,280	5,528	5,490
Loans to corporate entities:				
- Small and medium-sized enterprises (SMEs)	65,789	13,204	52,583	53,242
Total credit-impaired assets	**78,110**	**17,797**	**60,312**	**60,871**

The Group / The Bank

31 December 2020 Credit-impaired assets	Gross Exposure €000	Impairment allowance €000	Carrying amount €000	Fair value of collateral held €000
Loans to individuals:				
- Overdraft	1,961	1,536	425	399
- Term Loans	1,822	697	1,125	1,119
- Home Loans	10,022	2,475	7,547	7,600
Loans to corporate entities:				
- Small and medium-sized enterprises (SMEs)	31,682	11,531	20,151	20,759
Total credit-impaired assets	**45,487**	**16,239**	**29,248**	**29,877**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.3 Collateral and other credit enhancements (continued)

The Group / The Bank

The following table shows the distribution of LTV ratios for the Group's home loans and term loans credit-impaired portfolio:

	Credit-impaired (Gross carrying amount)	
Home loans portfolio- LTV distribution	**2021**	2020
	€000	€000
Lower than 50%	**2,736**	3,901
50 to 60%	**298**	1,018
60 to 70%	**576**	582
70 to 80%	**1,384**	787
80 to 90%	**1,372**	1,870
90 to 100%	**933**	1,339
Higher than 100%	**509**	525
Total	**7,808**	10,022

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.4 Credit quality

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVTOCI. Unless specifically indicated, for financial assets, the amount in the table represents gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in previous notes.

The Bank

31 December 2021	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total €000
Loans and advances to customers at amortised cost				
Grade 1-4: Low risk	1,741,052	-	-	1,741,052
Grades 5-6: Watch & substandard	-	132,210	-	132,210
Grade 7: Doubtful	-	-	54,274	54,274
Grade 8: Classified	-	-	23,835	23,835
Loss allowance	(678)	(852)	(17,797)	(19,327)
Carrying amount	**1,740,374**	**131,358**	**60,312**	**1,932,044**
Debt securities – At amortised cost				
Investment grade	100,700	-	-	100,700
Sub-investment grade	300	-	-	300
Loss allowance	(62)	-	-	(62)
Carrying amount	**100,938**	**-**	**-**	**100,938**
Debt securities - FVTOCI				
Investment grade	227,058	-	-	227,058
Sub-investment grade	45	-	-	45
Carrying amount	**227,103**	**-**	**-**	**227,103**
Syndicated loans				
Grade 1-4: Low risk	35,845	-	-	35,845
Investment grade	7,514	-	-	7,514
Sub-investment grade	74,206	17,687	-	91,893
Loss allowance	(849)	(141)	-	(990)
Carrying amount	**116,716**	**17,546**	**-**	**134,262**
Cash and balances with Central Bank of Malta				
Investment grade	207,735	-	-	207,735
Sub-investment grade	-	-	-	-
Loss allowance	(12)	-	-	(12)
Carrying amount	**207,723**	**-**	**-**	**207,723**
Loans and advances to banks				
Investment grade	30,842	-	-	30,842
Sub-investment grade	20	-	-	20
Loss allowance	(31)	-	-	(31)
Carrying amount	**30,831**	**-**	**-**	**30,831**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.4 Credit quality (continued)

The Bank

31 December 2020	12-month ECL €000	Lifetime ECL not credit-impaired €000	Lifetime ECL credit-impaired €000	Total €000
Loans and advances to customers at amortised cost				
Grade 1-4: Low risk	1,308,717	-	-	1,308,717
Grades 5-6: Watch & substandard	-	355,675	-	355,675
Grade 7: Doubtful	-	-	21,150	21,150
Grade 8: Classified	-	-	24,336	24,336
Loss allowance	(589)	(4,047)	(16,239)	(20,875)
Carrying amount	**1,308,128**	**351,628**	**29,247**	**1,689,003**
Debt securities – At amortised cost				
Investment grade	104,007	-	-	104,007
Sub-investment grade	300	-	-	300
Loss allowance	(75)	-	-	(75)
Carrying amount	**104,232**	**-**	**-**	**104,232**
Debt securities - FVTOCI				
Investment grade	209,342	-	-	209,342
Sub-investment grade	1,683	726	-	2,409
Carrying amount	**211,025**	**726**	**-**	**211,751**
Syndicated loans				
Grade 1-4: Low risk	23,997	-	-	23,997
Investment grade	24,000	-	-	24,000
Sub-investment grade	30,918	35,633	-	66,551
Loss allowance	(646)	(750)	-	(1,396)
Carrying amount	**78,269**	**34,883**	**-**	**113,152**
Cash and balances with Central Bank of Malta				
Investment grade	108,335	-	-	108,335
Sub-investment grade	-	-	-	-
Loss allowance	(5)	-	-	(5)
Carrying amount	**108,330**	**-**	**-**	**108,330**
Loans and advances to banks				
Investment grade	46,302	-	-	46,302
Sub-investment grade	28	-	-	28
Loss allowance	(49)	-	-	(49)
Carrying amount	**46,281**	**-**	**-**	**46,281**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.3 Credit Risk Exposure (continued)

46.2.3.4 Credit quality (continued)

The following table provides an analysis of the performing and non-performing exposures of the Group's and Bank's lending portfolio:

The Group/The Bank	Total	Of which forborne	Total	Of which forborne
	2021	2021	2020	2020
	€000	€000	€000	€000
Performing				
Stage 1	1,741,052	24,688	1,308,717	596
Stage 2	132,209	81,628	355,675	1,596
Non-Performing				
Stage 3	78,110	48,963	45,486	15,142
Total gross/forborne exposures	**1,951,371**	**155,279**	**1,709,878**	**17,334**

46.2.4 Loss Allowance

The loss allowance recognised during the period is impacted by a variety of factors, as described below and in Note 2.1:

- Transfers between Stage 1 and Stage 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period and the consequent "step up" (or "step down") between 12-month and Lifetime ECL.
- Additional allowance for new financial instruments recognised during the period, as well as releases for financial instruments derecognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurements of ECL due to changes made to models and assumptions.
- Discount unwind within ECL due to passage of time, as ECL is measured on a present value basis.
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements.
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	589	4,047	16,239	20,875
Movements in loss allowance				
Transfers:				
Transfer to/(from) stage 1	53	-	-	53
Transfer to/(from) stage 2	-	(3,195)	-	(3,195)
Transfer to/(from) stage 3	-	-	(25)	(25)
Write-offs	-	-	(521)	(521)
New financial assets originated or purchased	205	49	454	708
Financial assets derecognised during the period	(166)	(296)	(37)	(499)
(Decreases)/increases due to change in credit risk	(4)	247	1,688	1,931
Loss allowance as at 31 December 2021	**677**	**852**	**17,798**	**19,327**

The Group/The Bank

Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020	699	123	15,049	15,871
Movements in loss allowance				
Transfers:				
Transfer to/(from) stage 1	(119)	-	-	(119)
Transfer to/(from) stage 2	-	3,073	-	3,073
Transfer to/(from) stage 3	-	-	(49)	(49)
Write-offs	-	-	(215)	(215)
New financial assets originated or purchased	207	890	515	1,612
Financial assets derecognised during the period	(86)	(16)	(410)	(512)
(Decreases)/increases due to change in credit risk	(112)	(23)	1,349	1,214
Loss allowance as at 31 December 2020	**589**	**4,047**	**16,239**	**20,875**

The Group/The Bank

Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	75	-	-	75
Financial assets derecognised during the period	(2)	-	-	(2)
Decreases due to change in credit risk	(11)	-	-	(11)
Loss allowance as at 31 December 2021	**62**	**-**	**-**	**62**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020	46	-	-	46
New financial assets originated or purchased	16	-	-	16
Increases due to change in credit risk	13	-	-	13
Loss allowance as at 31 December 2020	**75**	**-**	**-**	**75**

The Group/The Bank

Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	237	9	-	246
Movements in loss allowance				
Transfers:				
Transfer from stage 2	-	(9)	-	(9)
New financial assets originated or purchased	34	-	-	34
Financial assets derecognised during the period	(17)	-	-	(17)
Decreases due to change in credit risk	(39)	-	-	(39)
Loss allowance as at 31 December 2021	**215**	**-**	**-**	**215**

The Group/The Bank

Debt securities at FVTOCI	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020	143	-	-	143
Movements in loss allowance				
Transfers:				
Transfer to stage 1	(9)	-	-	(9)
Transfer from stage 2		9	-	9
New financial assets originated or purchased	79	-	-	79
Financial assets derecognised during the period	(18)	-	-	(18)
Increases due to change in credit risk	42	-	-	42
Loss allowance as at 31 December 2020	**237**	**9**	**-**	**246**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	665	731	-	1,396
New financial assets originated or purchased	354	4	-	358
Financial assets derecognised during the period	(152)	(627)	-	(779)
(Decreases)/increases due to change in credit risk	(18)	33	-	15
Loss allowance as at 31 December 2021	**849**	**141**	**-**	**990**

The Group/The Bank

Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2020	714	547	-	1,261
Movements in loss allowance				
Transfers:				
Transfer from stage 1	(115)	-	-	(115)
Transfer to stage 2	-	105	-	105
New financial assets originated or purchased	336	18	-	354
Financial assets derecognised during the period	(289)	(1)	-	(290)
Increases due to change in credit risk	19	62	-	81
Loss allowance as at 31 December 2020	**665**	**731**	**-**	**1,396**

The Group/The Bank

Loans and advances to banks	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	49	-	-	49
New financial assets originated or purchased	1	-	-	1
Financial assets derecognised during the period	(2)	-	-	(2)
Decreases due to change in credit risk	(17)	-	-	(17)
Loss allowance as at 31 December 2021	**31**	**-**	**-**	**31**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Loans and advances to banks	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
New financial assets originated or purchased	49	-	-	49
Loss allowance as at 31 December 2020	**49**	**-**	**-**	**49**

The Group/The Bank

Cash and balances with the Central Bank of Malta	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2021	5	-	-	5
Increases due to change in credit risk	7	-	-	7
Loss allowance as at 31 December 2021	**12**	**-**	**-**	**12**

The Group/The Bank

Cash and balances with the Central Bank of Malta	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
New financial assets originated or purchased	5	-	-	5
Loss allowance as at 31 December 2020	**5**	**-**	**-**	**5**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The following tables further explain changes in the gross carrying amount of each portfolio to help explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

The Group/The Bank

Loans and advances to customers at amortised cost	**Stage 1** 12-month ECL €000	**Stage 2** Lifetime ECL €000	**Stage 3** Lifetime ECL (but not POCI) €000	**Total** €000
Gross carrying amount as at 1 January 2021	1,308,717	355,675	45,486	1,709,878
Movements in loss allowance				
Transfers:				
Transfer to stage 1	170,022	-	-	170,022
Transfer from stage 2	-	(213,113)	-	(213,113)
Transfer to stage 3	-	-	32,164	32,164
Write-offs	-	-	(521)	(521)
New financial assets originated or purchased	420,899	17,533	1,662	440,094
Financial assets derecognised during the period	(154,694)	(27,264)	(2,675)	(184,633)
(Decreases)/increases due to changes in credit risk	(3,891)	(623)	1,994	(2,520)
Gross carrying amount as at 31 December 2021	**1,741,053**	**132,208**	**78,110**	**1,951,371**

The Group/The Bank

Loans and advances to customers at amortised cost	**Stage 1** 12-month ECL €000	**Stage 2** Lifetime ECL €000	**Stage 3** Lifetime ECL (but not POCI) €000	**Total** €000
Gross carrying amount as at 1 January 2020	1,418,679	13,767	41,569	1,474,015
Movements in loss allowance				
Transfers:				
Transfer from stage 1	(262,260)	-	-	(262,260)
Transfer to stage 2	-	253,416	-	253,416
Transfer to stage 3	-	-	5,046	5,046
Write-offs	-	-	(215)	(215)
New financial assets originated or purchased	278,772	89,284	1,357	369,413
Financial assets derecognised during the period	(135,241)	(672)	(2,495)	(138,408)
Increases/(decreases) due to changes in credit risk	8,767	(120)	224	8,871
Gross carrying amount as at 31 December 2020	**1,308,717**	**355,675**	**45,486**	**1,709,878**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2021	104,307	-	-	104,307
Financial assets derecognised during the period	(1,011)	-	-	(1,011)
Changes to modifications that did not result in derecognition	(2,296)	-	-	(2,296)
Gross carrying amount as at 31 December 2021	**101,000**	**-**	**-**	**101,000**

The Group/The Bank

Debt securities at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	79,617			79,617
New financial assets originated or purchased	27,359	-	-	27,359
Financial assets derecognised during the period	(2,000)	-	-	(2,000)
Changes to modifications that did not result in derecognition	(669)	-	-	(669)
Gross carrying amount as at 31 December 2020	**104,307**	**-**	**-**	**104,307**

The Group/The Bank

Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2021	80,335	34,213	-	114,548
New financial assets originated or purchased	83,907	2,142	-	86,049
Financial assets derecognised during the period	(50,159)	(19,110)	-	(69,269)
Increases/(decreases) due to change in credit risk	4,902	(978)	-	3,924
Gross carrying amount as at 31 December 2021	**118,985**	**16,267**	**-**	**135,252**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Group/The Bank

Syndicated loans	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	112,172	15,042	-	127,214
Movements in loss allowance				
Transfers:				
Transfer from stage 1	(16,524)	-	-	(16,524)
Transfer to stage 2	-	16,524	-	16,524
New financial assets originated or purchased	44,179	4,111	-	48,290
Financial assets derecognised during the period	(59,406)	(44)	-	(59,450)
Changes in model/risk parameters	(100)	(1,420)	-	(1,520)
Foreign exchange and other movements	14	-	-	14
Gross carrying amount as at 31 December 2020	**80,335**	**34,213**	**-**	**114,548**

The Group/The Bank

Cash and Balances with Central Bank of Malta	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2021	108,331	-	-	108,331
New financial assets originated or purchased	99,404	-	-	99,404
Gross carrying amount as at 31 December 2021	**207,735**	**-**	**-**	**207,735**

The Group/The Bank

Cash and Balances with Central Bank of Malta	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	162,403	-	-	162,403
Financial assets derecognised during the period	(54,072)	-	-	(54,072)
Gross carrying amount as at 31 December 2020	**108,331**	**-**	**-**	**108,331**

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.4 Loss Allowance (continued)

The Bank

Loans and advances to Banks	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2021	46,330	-	-	46,330
New financial assets originated or purchased	933	-	-	933
Financial assets derecognised during the period	(12,623)	-	-	(12,623)
Changes in model/risk parameters	(3,778)	-	-	(3,778)
Gross carrying amount as at 31 December 2021	**30,862**	**-**	**-**	**30,862**

The Bank

Loans and advances to Banks	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Gross carrying amount as at 1 January 2020	54,841	-	-	54,841
Financial assets derecognised during the period	(8,511)	-	-	(8,511)
Gross carrying amount as at 31 December 2020	**46,330**			**46,330**

46.2.5 Write-off Policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include:

- ceasing enforcement activity; and
- situations where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group does not have any enforcement activities on written-off activities, meaning that the Group does not seek to recover amounts which it is legally owed in full, once these are written off.

46.2.6 Modification of Financial Assets

The Group sometimes modifies the terms of loans provided to customers. The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified but the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- internal grading/credit rating at the reporting date based on the modified terms; with
- internal grading/credit rating on initial recognition at the original contractual terms.

46. RISK MANAGEMENT (continued)

46.2 Credit risk (continued)

46.2.6 Modification of Financial Assets (continued)

The Group renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if:

- the debtor is currently in default on its debt or if there is a high risk of default;
- there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms; and
- the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, revision of interest rate, or changing the timing of interest payments. Both retail and corporate loans are subject to the forbearance policy. The appropriate committee, depending on the facility amount and type of facility, reviews reports on forborne facilities on a regular basis.

For financial assets modified as part of the Group's forbearance policy, the credit grading will reflect whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group will evaluate the borrower's payment performance against the modified contractual terms and consider various behavioural indicators.

Generally, forbearance is a qualitative indicator of default and credit impairment and expectations of forbearance are relevant to assessing whether there is a significant increase in credit risk. Following forbearance, a customer needs to demonstrate consistently good payment behaviour over a period of one year before the exposure is no longer considered to be in default/credit-impaired.

46.3 Liquidity risk

Liquidity risk is the risk that Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial assets. It arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due. To limit this risk, the Group has arranged for diversified funding sources. The Group also manages this risk by matching the maturities of assets and liabilities.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The disclosures made in the financial statements showing maturities are intended to show the timing of cash flows arising from assets and liabilities.

In November 2020, the Group issued €55,000,000 3.25% Unsecured Subordinated Bonds 2025-2030. Further disclosure on these subordinated bonds is included in Note 46.6 ('Capital Management').

The Group's Liquidity Coverage Ratio ("LCR") remained relatively stable and within the Bank's risk appetite and applicable regulatory limit. Further information on the LCR is included in the 'Pillar 3 Disclosures' Report as published on the Bank's website. The proceeds from the subordinated bonds were applied in two areas: (i) Investment Grade Assets within the Group's investments portfolio and (ii) the lending portfolio.

The table overleaf analyses the carrying amounts of assets and liabilities into relevant maturity groupings, based on the remaining period to the contractual maturity date. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table below does not reflect the expected cash flows indicated by its deposit retention history.

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

The Group

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2021						
Assets						
Cash and balances with Central Bank of Malta	207,723	-	-	-	-	207,723
Cheques in course of collection	2,881	-	-	-	-	2,881
Loans and advances to banks	32,296	-	-	-	-	32,296
Loans and advances to customers (net)	16,007	99,065	111,479	1,705,493	-	1,932,044
Syndicated loans (net)	25,582	36,102	50,468	22,110	-	134,262
Derivative financial instruments	-	-	552	-	-	552
Other debt and fixed income instruments (net)	10,949	29,979	153,555	133,558	-	328,041
Financial assets at FVTPL	(194)	-	8,767	30,388	22,885	61,846
Equity and other non-fixed income instruments	-	-	-	-	307	307
Investment in associates	-	-	-	-	19,803	19,803
Other assets	8,110	1,040	-	-	66,099	75,249
	303,354	**166,186**	**324,821**	**1,891,549**	**109,094**	**2,795,004**
Liabilities and equity						
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to customers	1,758,809	272,826	399,097	1,025	-	2,431,757
Debt securities in issue	-	-	-	54,597	-	54,597
Lease liabilities	-	596	2,068	2,684	-	5,348
Other liabilities	1,481	794	2,694	220	19,531	24,720
Equity	-	-	-	-	220,822	220,822
	1,809,753	**281,961**	**404,411**	**58,526**	**240,353**	**2,795,004**
Gap	**(1,506,399)**	**(115,775)**	**(79,590)**	**1,833,023**	**(131,259)**	**-**

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

The Group

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Assets						
Cash and balances with Central Bank of Malta	108,330	-	-	-	-	108,330
Cheques in course of collection	103	-	-	-	-	103
Loans and advances to banks	51,068	-	-	-	-	51,068
Loans and advances to customers (net)	16,670	104,519	120,788	1,447,026	-	1,689,003
Syndicated loans (net)	3,501	38,607	59,053	11,991	-	113,152
Derivative financial instruments	-	122	377	-	-	499
Other debt and fixed income instruments (net)	1,663	12,454	145,480	156,386	-	315,983
Financial assets at FVTPL	446	432	11,504	22,383	15,871	50,636
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in associates	-	-	-	-	18,641	18,641
Other assets	7,556	1,061	-	-	64,648	73,265
	189,337	157,195	337,202	1,637,786	99,463	2,420,983
Liabilities and equity						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,444,788	286,996	379,201	12,461	-	2,123,446
Debt securities in issue	-	-	-	54,558	-	54,558
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,790	1,110	2,488	382	15,822	21,592
Equity	-	-	-	-	206,219	206,219
	1,446,588	298,070	383,809	70,475	222,041	2,420,983
Gap	(1,257,251)	(140,875)	(46,607)	1,567,311	(122,578)	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

The Bank

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2021						
Assets						
Cash and balances with Central Bank of Malta	207,723	-	-	-	-	207,723
Cheques in course of collection	2,881	-	-	-	-	2,881
Loans and advances to banks	30,831	-	-	-	-	30,831
Loans and advances to customers (net)	16,007	99,065	111,479	1,705,493	-	1,932,044
Syndicated loans (net)	25,582	36,102	50,468	22,110	-	134,262
Derivative financial instruments	-	-	552	-	-	552
Other debt and fixed income instruments (net)	10,949	29,979	153,555	133,558	-	328,041
Equity and other non-fixed income instruments	-	-	-	-	307	307
Investment in subsidiaries	-	-	-	-	45,251	45,251
Investment in associates	-	-	-	-	16,761	16,761
Other assets	6,940	1,040	-	-	66,420	74,400
	300,913	**166,186**	**316,054**	**1,861,161**	**128,739**	**2,773,053**
Liabilities and equity						
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to customers	1,760,125	272,826	399,097	1,025	-	2,433,073
Debt securities in issue	-	-	-	54,597	-	54,597
Lease liabilities	-	596	2,068	2,684	-	5,348
Other liabilities	1,295	794	2,694	220	19,383	24,386
Equity	-	-	-	-	197,889	197,889
	1,810,883	**281,961**	**404,411**	**58,526**	**217,272**	**2,773,053**
Gap	**(1,509,970)**	**(115,775)**	**(88,357)**	**1,802,635**	**(88,533)**	**-**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

The Bank

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Assets						
Cash and balances with Central Bank of Malta	108,330	-	-	-	-	108,330
Cheques in course of collection	103	-	-	-	-	103
Loans and advances to banks	46,281	-	-	-	-	46,281
Loans and advances to customers (net)	16,670	104,519	120,788	1,447,026	-	1,689,003
Syndicated loans (net)	3,501	38,607	59,053	11,991	-	113,152
Derivative financial instruments	-	122	377	-	-	499
Other debt and fixed income instruments (net)	1,663	12,454	145,480	156,386	-	315,983
Financial assets at FVTPL	251	-	-	-	-	251
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in subsidiaries	-	-	-	-	45,251	45,251
Investment in associates	-	-	-	-	15,261	15,261
Other assets	6,681	1,061	-	-	64,878	72,620
	183,480	**156,763**	**325,698**	**1,615,403**	**125,693**	**2,407,037**
Liabilities and equity						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,445,491	286,996	379,201	12,461	-	2,124,149
Debt securities in issue	-	-	-	54,558	-	54,558
Lease liabilities	-	548	1,743	3,074	-	5,365
Other liabilities	1,743	1,110	2,488	382	15,752	21,475
Equity	-	-	-	-	191,687	191,687
	1,447,244	**298,070**	**383,809**	**70,475**	**207,439**	**2,407,037**
Gap	**(1,263,764)**	**(141,307)**	**(58,111)**	**1,544,928**	**(81,746)**	**-**

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2021 and 31 December 2020 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table below does not reflect the expected cash flows:

The Group

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2021						
Liabilities						
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to customers	1,759,437	273,623	401,795	1,034	-	2,435,889
Debt securities in issue	-	1,788	7,150	61,747	-	70,685
Lease liabilities	-	701	2,387	2,897	-	5,985
Other liabilities	1,481	794	2,694	220	19,531	24,720
	1,810,381	**284,651**	**414,578**	**65,898**	**19,531**	**2,595,039**

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Liabilities						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,449,431	292,734	381,837	13,024	-	2,137,026
Debt securities in issue	-	1,788	7,150	63,495	-	72,433
Lease liabilities	-	656	2,084	3,368	-	6,108
Other liabilities	1,790	1,110	2,488	382	15,822	21,592
	1,451,231	**305,704**	**393,936**	**80,269**	**15,822**	**2,246,962**

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2021 and 31 December 2020 based on contractual undiscounted repayment obligations:

The Bank

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2021						
Liabilities						
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to customers	1,760,753	273,623	401,795	1,034	-	2,437,205
Debt securities in issue	-	1,788	7,150	61,747	-	70,685
Lease liabilities	-	701	2,387	2,897	-	5,985
Other liabilities	1,295	794	2,694	220	19,383	24,386
	1,811,511	**284,651**	**414,578**	**65,898**	**19,383**	**2,596,021**

	Less than three months	Between three months and one year	Between one year and five years	More than five years	Others	Total
	€000	€000	€000	€000	€000	€000
At 31 December 2020						
Liabilities						
Amounts owed to banks	10	9,294	-	-	-	9,304
Derivative financial instruments	-	122	377	-	-	499
Amounts owed to customers	1,450,134	292,734	381,837	13,024	-	2,137,729
Debt securities in issue	-	1,788	7,150	63,495	-	72,433
Lease liabilities	-	656	2,084	3,368	-	6,108
Other liabilities	1,743	1,110	2,488	382	15,752	21,475
	1,451,887	**305,704**	**393,936**	**80,269**	**15,752**	**2,247,548**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

Asset encumbrance

In accordance with Appendix 3 of BR07/2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised under the Banking Act 1994* and the CRR, credit institutions shall ensure compliance with the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets.

The Group's encumbered assets relate to debt securities which are pledged in favour of the European Central Bank for the purposes of existing and potential long term re-financing operations and also cash in favour of the Depositor Compensation Scheme.

The Group	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets as at 31 December 2021	€000	€000	€000	€000
Equity instruments	-	-	20,110	558
Debt securities	152,565	159,235	237,321	180,213
Other assets	2,281	-	2,382,727	-
Assets of the reporting institutions	**154,846**	**159,235**	**2,640,158**	**180,771**

The Group	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets as at 31 December 2020	€000	€000	€000	€000
Equity instruments	-	-	18,944	554
Debt securities	159,873	171,054	206,745	164,790
Other assets	1,400	-	2,034,021	-
Assets of the reporting institutions	**161,273**	**171,054**	**2,259,710**	**165,344**

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.3 Liquidity risk (continued)

The Bank **Assets as at 31 December 2021**	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
Equity instruments	-	-	62,319	558
Debt securities	147,883	154,553	180,158	180,213
Other assets	2,281	-	2,380,412	-
Assets of the reporting institutions	150,164	154,553	2,622,889	180,771

The Bank **Assets as at 31 December 2020**	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	€000	€000	€000	€000
Equity instruments	-	-	60,815	554
Debt securities	151,537	162,718	164,696	164,790
Other assets	1,400	-	2,028,589	-
Assets of the reporting institutions	152,937	162,718	2,254,100	165,344

In the above table, the unencumbered assets disclosed under *Other Assets* include loans and advances, cash and short- term funds, property, plant and equipment, tax assets and other assets.

The table below discloses the liabilities associated with the Bank's encumbered assets.

	The Group		The Bank	
	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
Encumbered assets/collateral received and associated liabilities as at 31 December 2021	€000	€000	€000	€000
Carrying amount of selected financial liabilities	1,250,571	154,846	1,250,571	150,164

	The Group		The Bank	
	Matching liabilities	Encumbered Assets	Matching liabilities	Encumbered Assets
Encumbered assets/collateral received and associated liabilities as at 31 December 2020	€000	€000	€000	€000
Carrying amount of selected financial liabilities	1,108,909	161,273	1,108,909	152,937

46. RISK MANAGEMENT (continued)

46.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and the prices of equities, bonds and commodities.

The Group's exposure to market risk is mainly in the form of interest rate risk and foreign exchange risk. The risk associated with the Group's exposure in equities is not considered to be material. Also, as disclosed in Note 18, the Bank enters into derivative contracts to economically hedge against movement in certain cash flows on financial liabilities having embedded derivatives which are separately accounted for.

46.4.1 Interest rate risk

Interest rate risk is the risk of the exposure of the Group's financial condition to unfavourable movements in interest rates.

The Group manages its exposure to interest rate risk using interest rates repricing gaps and both economic value and earnings based measures. The Group's interest rate risk management framework is in line with the relevant guidelines issued by the EBA. Further information is provided in the Pillar 3 Disclosures Report as published on the website.

The following tables show the impact on the Group's economic value and net interest income under different interest rate scenarios, as mandated by the relevant EBA Guidelines.

	Parallel shock up €000	Parallel shock down €000	Short rates up €000	Short rates down €000	Steepener €000	Flattener €000
Sensitivity of reported equity to interest rates movements At 31 December 2021						
Average for the period	7,502	58	21,488	(4,980)	(18,356)	20,738
Maximum for the period	12,755	2,265	22,973	(2,696)	(16,053)	22,187
Minimum for the period	3,182	(1,846)	20,386	(8,218)	(20,292)	18,997

	Parallel shock up €000	Parallel shock down €000	Short rates up €000	Short rates down €000	Steepener €000	Flattener €000
Sensitivity of reported equity to interest rates movements At 31 December 2020						
Average for the period	(2,107)	1,960	(16,903)	3,668	14,663	(16,215)
Maximum for the period	9,148	3,510	(14,178)	4,899	18,414	(12,555)
Minimum for the period	(11,423)	(1,592)	(21,698)	1,406	9,892	(18,701)

46. RISK MANAGEMENT (continued)

46.4 Market risk (continued)

46.4.1 Interest rate risk (continued)

	Parallel shock up €000	Parallel shock down €000
Sensitivity of projected net interest rate income to interest rates movements At 31 December 2021		
Average for the period	1,554	(360)
Maximum for the period	1,662	(166)
Minimum for the period	1,473	(471)

	Parallel shock up €000	Parallel shock down €000
Sensitivity of projected net interest rate income to interest rates movements At 31 December 2020		
Average for the period	619	(188)
Maximum for the period	1,693	(56)
Minimum for the period	80	(415)

The below tables set out interest sensitive assets and liabilities categorised by repricing dates.

The Group

At 31 December 2021	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000	Others €000
Assets					
Cash and balances with Central Bank of Malta	173,060	-	-	-	-
Loans and advances to banks	32,296	-	-	-	-
Loans and advances to customers	1,519,670	239,872	168,461	4,041	-
Syndicated loans	134,262	-	-	-	-
Financial assets at FVTPL	2,215	20,239	20,971	6,090	12,331
Debt securities	40,928	153,555	125,220	8,338	-
	1,902,431	**413,666**	**314,652**	**18,469**	**12,331**
Liabilities					
Amounts owed to banks	57,208	-	-	-	-
Amounts owed to customers	1,287,398	1,142,815	944	600	-
Debt securities in issue	-	54,597	-	-	-
	1,344,606	**1,197,412**	**944**	**600**	**-**
Net interest rate risk GAP at 31 December 2021	**557,825**	**(783,746)**	**313,708**	**17,869**	**12,331**

46. RISK MANAGEMENT (continued)

46.4 Market risk (continued)

46.4.1 Interest rate risk (continued)

The Group

At 31 December 2020	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000	Others €000
Assets					
Cash and balances with Central Bank of Malta	76,650	-	-	-	-
Loans and advances to banks	51,068	-	-	-	-
Loans and advances to customers	1,472,719	210,951	1,276	4,057	-
Syndicated loans	113,152	-	-	-	-
Financial assets at FVTPL	2,746	19,752	18,200	403	9,535
Debt securities	14,118	145,480	131,150	25,235	-
	1,730,453	**376,183**	**150,626**	**29,695**	**9,535**
Liabilities					
Amounts owed to banks	9,304	-	-	-	-
Amounts owed to customers	1,116,045	994,548	12,253	600	-
Debt securities in issue	-	54,558	-	-	-
	1,125,349	**1,049,106**	**12,253**	**600**	**-**
Net interest rate risk GAP at 31 December 2020	**605,104**	**(672,923)**	**138,373**	**29,095**	**9,535**

46. RISK MANAGEMENT (continued)

46.4 Market risk (continued)

46.4.1 Interest rate risk (continued)

The Bank

At 31 December 2021	Up to 1 year €000	1 – 5 years €000	5 – 10 years €000	More than 10 years €000	Others €000
Assets					
Cash and balances with Central Bank of Malta	173,060	-	-	-	-
Loans and advances to banks	30,831	-	-	-	-
Loans and advances to customers	1,519,670	239,872	168,461	4,041	-
Syndicated loans	134,262	-	-	-	-
Financial assets at FVTPL	-	-	-	-	-
Debt securities	40,928	153,555	125,220	8,338	-
	1,898,751	**393,427**	**293,681**	**12,379**	**-**
Liabilities					
Amounts owed to banks	57,208	-	-	-	-
Amounts owed to customers	1,288,714	1,142,815	944	600	-
Debt securities in issue	-	54,597	-	-	-
	1,345,922	**1,197,412**	**944**	**600**	**-**
Net interest rate risk GAP at 31 December 2021	**552,829**	**(803,985)**	**292,737**	**11,779**	**-**

46. RISK MANAGEMENT (continued)

46.4 Market risk (continued)

46.4.1 Interest rate risk (continued)

The Bank **At 31 December 2020**	**Up to 1 year** €000	**1 – 5 years** €000	**5 – 10 years** €000	**More than 10 years** €000	**Others** €000
Assets					
Cash and balances with Central Bank of Malta	76,650	-	-	-	-
Loans and advances to banks	46,281	-	-	-	-
Loans and advances to customers	1,472,719	210,951	1,276	4,057	-
Syndicated loans	113,152	-	-	-	-
Financial assets at FVTPL	251	-	-	-	-
Debt securities	14,118	145,480	131,150	25,235	-
	1,723,171	**356,431**	**132,426**	**29,292**	**-**
Liabilities					
Amounts owed to banks	9,304	-	-	-	-
Amounts owed to customers	1,116,748	994,548	12,253	600	-
Debt securities in issue	-	54,558	-	-	-
	1,126,052	**1,049,106**	**12,253**	**600**	**-**
Net interest rate risk GAP at 31 December 2020	**597,119**	**(692,675)**	**120,173**	**28,692**	**-**

The carrying amount of assets and liabilities that carry a variable interest rate is €1.8 billion and €1.6 billion, respectively (2020: €1.5 billion and €1.3 billion).

46. RISK MANAGEMENT (continued)

46.4 Market risk (continued)

46.4.2 Currency risk

Currency risk is the risk of the exposure of the Group's financial position, financial performance and cash flow to unfavourable movements in foreign exchange rates.

The Group's financial assets and liabilities are substantially held in Euro. Limits are set on the level of exposure, both by individual currency and in total. The exposure is also monitored through regular sensitivity analysis.

The aggregate amount of assets and liabilities denominated in foreign currencies translated into Euro are as follows:

	2021			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	19,230	39,398	15,644	74,272
Liabilities	19,227	39,388	15,531	74,146

	2020			
	USD	GBP	Other	Total
	€000	€000	€000	€000
Assets	32,447	39,661	18,470	90,578
Liabilities	32,445	39,656	18,291	90,392

The minimal currency exposure is not expected to leave any significant impact on the Group's income.

Additional disclosures on currency composition of year-end balances are disclosed in Notes 15, 16, 17, 19, 20, 21, 30 and 31.

46.5 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including internal audit verifications. Further information on the Group's exposure to operational risk, and the management thereof, is included in the 'Pillar 3 Disclosures' Report as published on the Bank's website.

46. RISK MANAGEMENT (continued)

46.6 Capital management

The Group continuously aims at building and sustaining a strong capital base and at applying it efficiently throughout its activities to attain its strategic objectives, optimise shareholder value whilst ensuring the sustainability of the Bank's business model and risk profile. A strong and prudent capital base is one of the pillars of the Group's business model and maintaining adequate capital ratios will continue being key to enable the Group to steer through currently challenging economic conditions.

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 the COVID-19. Banks were allowed, amongst other measures, to fully use capital and liquidity buffers, including Pillar 2 Guidance ("P2G"). Banks also benefited from relief in the composition of capital for Pillar 2 requirements.

Notwithstanding the above measures, during 2021 the Group operated at all times above the level of capital including the capital buffers. Further information on the capital buffers is included in the 'Pillar 3 Disclosures' Report as published on the Bank's website.

Further to the above, the ECB recommended that banks exercise extreme prudence on dividends and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions to the recommended prudent amounts, until 30 September 2021.

During the current financial year, the Group continued to perform the Internal Capital Adequacy Assessment Process ("ICAAP"), in compliance with Banking Rule BR/12/2022 - The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994, as mandated by the Capital Requirements Directive. The objective of the ICAAP is to inform the Board of Directors of the ongoing assessment of the Group's risks, how the Group mitigates those risks and how much capital is necessary having considered other mitigating factors. This process takes into consideration Pillar I risks, as well as other material risks (Pillar II risks) including concentration risk, interest rate risk, IT and Cyber risks, reputation risk and other key risks. Thus, the ICAAP serves as a key decision-making tool. The ICAAP demonstrated that the Group is well capitalised. The document was approved by the Board of Directors and submitted to the MFSA.

Further information on the Group's capital position may be found in the 'Pillar 3 Disclosures' Report as published on the Bank's website which is prepared in line with the Pillar III requirements of Banking Rule BR/07/2014 – Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994 and governed by the Capital Requirements Regulation ("CRR").

The capital adequacy ratio measures the Group's own funds as a percentage of the total risk-weighted assets and off-balance sheet items. The ratio for the year under review has been prepared in compliance with the Capital Requirements Regulation and Capital Requirements Directive IV. During the year under review and the prior year, the Group has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Group as at the reporting date.

46. RISK MANAGEMENT (continued)

46.6 Capital management (continued)

	The Group		The Bank	
	2021	2020	**2021**	2020
	€000	€000	**€000**	€000
Total exposure (on and off-balance sheet)	**2,893,229**	2,505,549	**2,871,279**	2,491,603
Risk weighted amounts:				
Credit risk calculation - standardised approach	**1,289,850**	1,149,649	**1,273,347**	1,140,147
Operational risk - basic indicator approach	**107,039**	94,564	**106,307**	94,277
Foreign exchange risk	**129**	187	**129**	187
Total credit, operational and foreign exchange risk	**1,397,018**	1,244,400	**1,379,783**	1,234,611
CET 1/Tier 1 Capital	**181,000**	179,609	**176,722**	174,915
Tier 2 Capital	**54,597**	54,558	**54,597**	54,558
Total Own Funds	**235,597**	234,167	**231,319**	229,473
Capital Adequacy Ratio				
Tier 1 Ratio	**12.96%**	14.43%	**12.81%**	14.17%
Total Capital Ratio	**16.86%**	18.82%	**16.76%**	18.59%

The Group's 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 issued €55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. The subordinated bonds qualify as Tier 2 Capital, which rank after the claims of all depositors (including financial institutions) and all other creditors.

Further information on the composition and features of the Bank's capital instruments is provided in the following two tables.

No changes were made in the objectives, policies and processes governing the Group's capital management from the previous years.

The original own funds calculation comprises retained earnings which are adjusted to exclude the amount specified in favour of the Depositor's Compensation Scheme Reserve in line with the legislation (Note 20).

During 2020, the Bank revised the Credit Conversion Factor ("CCF") of undrawn credit facilities for particular products from 0% to 50%.

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.6 Capital management (continued)

The Group	**2021**	2020
	€000	€000
CET1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	**72,882**	72,395
Retained earnings	**93,141**	82,386
Accumulated other comprehensive income	**25,334**	32,260
Funds for general banking risk	**1,700**	1,700
	193,057	188,741
CET1 capital: regulatory adjustments		
Intangible assets	**(11,746)**	(8,849)
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016/101	**(311)**	(283)
	(12,057)	(9,132)
CET 1/Tier 1 Capital	**181,000**	179,609
Tier 2 capital		
Debt securities in issue	**54,597**	54,558
Total Capital	**235,597**	234,167
Total Risk Weighted Assets	**1,397,018**	1,244,400
Capital Ratios		
CET1/Tier 1 Capital Ratio	**12.96%**	14.43%
Total Capital Ratio	**16.86%**	18.82%
Amounts below the thresholds for deduction:		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have significant investments in those entities (not included in CET 1 capital)	**8,331**	6,693

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.6 Capital management (continued)

The Bank	2021 €000	2020 €000
CET1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	72,882	72,395
Retained earnings	88,843	77,683
Accumulated other comprehensive income	25,334	32,260
Funds for general banking risk	1,700	1,700
	188,759	184,038
CET1 capital: regulatory adjustments		
Intangible assets	(11,746)	(8,848)
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016/101	(291)	(275)
	(12,037)	(9,123)
CET 1/Tier 1 Capital	176,722	174,915
Tier 2 capital		
Debt securities in issue	54,597	54,558
Total Capital	231,319	229,473
Total Risk Weighted Assets	1,379,783	1,234,611
Capital Ratios		
CET1/Tier 1Capital Ratio	12.81%	14.17%
Total Capital Ratio	16.76%	18.59%
Amounts below the thresholds for deduction:		
Direct and indirect holdings of the capital of financial sector entities where the institution does not have significant investments in those entities (not included in CET 1 capital)	8,331	6,693

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.6 Capital management (continued)

In line with the CRR, the following table discloses the main features and the terms and conditions of Bank's Tier 1 and Tier 2 instruments.

Capital Instruments Main Features		
Issuer	APS Bank plc	APS Bank plc
Unique identifier	213800A1O379I6DMCU10	213800A1O379I6DMCU10
Governing law(s) of the instrument	Maltese law	Maltese law
Regulatory treatment		
Transitional CRR rules	CET 1	Tier 2
Post-transitional CRR rules	CET 1	Tier 2
Eligible at solo/(sub-)consolidated/solo& (sub-)consolidated	Solo & consolidated	Solo & consolidated
Instrument type	Ordinary shares	Debt securities in issue
Amount recognised in regulatory capital	62,429	55,000
Nominal amount of instrument	62,429	55,000
Issue price	N/A	55,000
Redemption price	N/A	100
Accounting classification	Shareholder's equity	Amortised cost
Original date of issuance	1 June 1970*	19 November 2020
Perpetual or dated	Perpetual	Dated
Original maturity date	No	19 November 2030
Issuer call subject to prior supervisory approval	No	Yes
Optional call date, contingent call dates and redemption amount	No	19 November 2025 at 100
Subsequent call dates, if applicable	No	19 November 2026, 19 November 2027, 19 November 2028, 19 November 2029
Coupons / dividends		
Fixed or floating dividend/coupon	Floating	Fixed
Coupon rate and any related index	N/A	3.25%, no index
Existence of a dividend stopper	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No
Noncumulative or cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
Write-down features	No	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated to creditors and depositors	Subordinated to creditors, senior secured and depositors
Non-compliant transitioned features	No	N/A

*Various, latest date of capital injection was 28 May 2019. Furthermore, during 2021 a scrip dividend was distributed to shareholders.

NOTES TO THE FINANCIAL STATEMENTS (continued)

46. RISK MANAGEMENT (continued)

46.6 Capital management (continued)

Full Reconciliation of Own Funds Items to Audited Financial Statements of the Group as at 31 December 2021 is presented below:

	Balance in accordance with IFRS	Reconciling items	Balance in accordance with regulatory scope
	€000	€000	€000
Share capital (Note 35)	62,429	-	62,429
Debt securities in issue (Note 32)	54,597	-	54,597
Share premium (Note 36)	10,453	-	10,453
Revaluation reserve (Note 37)	25,334	-	25,334
Retained earnings (Note 38)	103,974	(6,131)	97,843
of which general banking reserves (Note 38)	1,700	-	1,700
of which general reserve	1	-	1
Intangible assets (Note 26)	11,746	-	11,746
Prudent valuation adjustment	-	(311)	(311)

47. ULTIMATE CONTROLLING PARTY

The financial statements of APS Bank plc are included in the consolidated financial statements of AROM Holdings Limited, a company registered in Malta, a copy of which can be obtained from the Malta Business Registry. The Bank's immediate parent is AROM Holdings Limited. The ultimate controlling party of APS Bank plc is the Archdiocese of Malta.

The registered address of both AROM Holdings Limited and the Archdiocese of Malta is Archbishop's Curia, St. Calcedonius Square, Floriana.

48. COMPARATIVE INFORMATION

Certain items of the comparative period have been reclassified to conform to the presentation of the current year's financial statements. These include reclassifications in the Other Comprehensive Income and under Notes 10,22,23 and 46.

Furthermore, certain line items in the Income Statements were reordered and certain additional subtotals are being presented since the revised presentation is relevant and more appropriate.

FIVE YEAR SUMMARIES - STATEMENTS OF PROFIT OR LOSS

The Group

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Interest receivable and similar income	**69,135**	62,280	58,021	49,963	42,396
Interest payable	**(13,773)**	(13,434)	(13,379)	(12,149)	(9,592)
Net interest income	**55,362**	48,846	44,642	37,814	32,804
Other operating income	**7,781**	6,298	12,039	6,905	9,946
Total operating income	**63,143**	55,144	56,681	44,719	42,750
Other operating charges	**(40,584)**	(33,551)	(30,354)	(24,575)	(22,363)
Share of results of associate, net of tax	**21**	(258)	1,585	38	441
Net impairment gains/(losses)	**1,488**	(5,538)	(1,074)	(1,555)	(2,470)
Profit before tax	**24,068**	15,797	26,838	18,627	18,358
Income tax expense	**(8,967)**	(5,707)	(7,268)	(6,043)	(5,250)
Profit for the year	**15,101**	10,090	19,570	12,584	13,108

The Bank

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Interest receivable and similar income	**67,640**	61,140	56,674	48,958	42,284
Interest payable	**(13,773)**	(13,434)	(13,379)	(12,182)	(9,592)
Net interest income	**53,867**	47,706	43,295	36,776	32,692
Other operating income	**8,060**	6,600	9,586	8,888	10,256
Total operating income	**61,927**	54,306	52,881	45,664	42,948
Other operating charges	**(39,678)**	(33,246)	(30,163)	(24,427)	(22,200)
Net impairment gains/(losses)	**1,488**	(5,538)	(1,074)	(1,555)	(2,470)
Profit before tax	**23,737**	15,522	21,644	19,682	18,278
Income tax expense	**(8,696)**	(5,589)	(7,182)	(5,974)	(5,190)
Profit for the year	**15,041**	9,933	14,462	13,708	13,088

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	**15,165**	15,064	11,225	10,387	13,089
Balances with Central Bank of Malta	**192,558**	93,266	151,178	165,021	76,450
Cheques in course of collection	**2,881**	103	128	69	39
Loans and advances to banks	**32,296**	51,068	59,840	50,384	33,246
Loans and advances to customers	**1,932,044**	1,689,003	1,458,144	1,253,883	998,377
Syndicated loans	**134,262**	113,152	125,953	61,610	26,213
Derivative financial instruments	**552**	499	721	822	3,008
Financial assets at fair value through profit or loss	**61,846**	50,636	41,478	36,241	37,045
Other debt and fixed income instruments	**328,041**	315,983	238,166	251,040	252,324
Equity and other non-fixed income instruments	**307**	303	308	1,272	1,793
Investment in associate	**19,803**	18,641	19,257	17,748	18,224
Intangible assets	**11,746**	8,848	7,320	5,861	5,093
Investment properties	**6,053**	1,830	1,830	1,860	4,203
Non-current assets held for sale	**-**	-	-	2,600	-
Property and equipment	**40,998**	46,180	43,851	22,286	17,706
Right-of-use assets	**5,051**	5,235	2,592	-	-
Deferred tax assets	**2,249**	2,553	460	3,853	2,985
Other receivables	**9,152**	8,619	6,478	6,293	6,650
TOTAL ASSETS	**2,795,004**	2,420,983	2,168,929	1,891,230	1,496,445
LIABILITIES					
Derivative financial instruments	**552**	499	721	822	3,008
Amounts owed to banks	**57,208**	9,304	24,512	74,473	111,132
Amounts owed to customers	**2,431,757**	2,123,446	1,928,971	1,650,308	1,225,576
Debt securities in issue	**54,597**	54,558	-	-	-
Current tax	**945**	1,399	463	1,389	198
Lease liabilities	**5,348**	5,365	2,629	-	-
Other liabilities	**10,450**	10,090	10,966	11,892	9,530
Accruals	**13,325**	10,103	8,752	10,102	10,598
TOTAL LIABILITIES	**2,574,182**	2,214,764	1,977,014	1,748,986	1,360,042
EQUITY					
Share capital	**62,429**	62,255	62,255	57,605	57,605
Share premium	**10,453**	10,140	10,140	1,770	1,770
Revaluation reserve	**25,334**	32,260	30,706	12,398	15,896
Retained earnings	**103,974**	91,736	82,785	68,478	60,032
Non-controlling interest	**18,632**	9,828	6,029	1,993	1,100
TOTAL EQUITY	**220,822**	206,219	191,915	142,244	136,403
TOTAL LIABILITIES AND EQUITY	**2,795,004**	2,420,983	2,168,929	1,891,230	1,496,445
MEMORANDUM ITEMS					
Contingent liabilities	**25,356**	23,128	22,855	23,269	10,834
Commitments	**802,552**	786,427	755,638	711,160	552,000

THE BANK'S STATEMENTS OF FINANCIAL POSITION

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
ASSETS					
Cash, treasury bills and balances with Central Bank of Malta	15,165	15,064	11,225	9,490	9,999
Balances with Central Bank of Malta	192,558	93,266	151,178	165,021	76,450
Cheques in course of collection	2,881	103	128	69	39
Loans and advances to banks	30,831	46,281	54,841	49,384	32,246
Loans and advances to customers	1,932,044	1,689,003	1,458,144	1,253,883	998,377
Syndicated loans	134,262	113,152	125,953	61,610	26,213
Derivative financial instruments	552	499	721	822	3,008
Financial assets at fair value through profit or loss	-	251	464	879	942
Other debt and fixed income instruments	328,041	315,983	238,166	251,040	252,324
Equity and other non-fixed income instruments	307	303	308	1,272	1,793
Investment in subsidiaries	45,251	45,251	40,251	40,251	40,251
Investment in associate	16,761	15,261	15,261	14,886	14,886
Intangible assets	11,746	8,848	7,318	5,858	5,089
Investment properties	6,053	1,830	1,830	1,860	4,203
Non-current assets held for sale	-	-	-	2,600	-
Property and equipment	40,998	46,180	43,851	22,286	17,706
Right-of-use assets	5,051	5,235	2,592	-	-
Deferred tax assets	2,249	2,553	460	3,853	2,985
Other receivables	8,303	7,974	5,907	5,845	6,122
TOTAL ASSETS	2,773,053	2,407,037	2,158,598	1,890,909	1,492,633
LIABILITIES					
Derivative financial instruments	552	499	721	822	3,008
Amounts owed to banks	57,208	9,304	24,512	74,473	111,132
Amounts owed to customers	2,433,073	2,124,149	1,929,504	1,653,309	1,226,382
Debt securities in issue	54,597	54,558	-	-	-
Current Tax	758	1,354	452	1,321	138
Lease liabilities	5,348	5,365	2,629	-	-
Other liabilities	10,404	10,090	10,966	11,892	9,530
Accruals	13,224	10,031	8,712	10,077	10,533
TOTAL LIABILITIES	2,575,164	2,215,350	1,977,496	1,751,894	1,360,723
EQUITY					
Share capital	62,429	62,255	62,255	57,605	57,605
Share premium	10,453	10,140	10,140	1,770	1,770
Revaluation reserve	25,334	32,260	30,706	12,398	15,896
Retained earnings	99,673	87,032	78,001	67,242	56,639
TOTAL EQUITY	197,889	191,687	181,102	139,015	131,910
TOTAL LIABILITIES AND EQUITY	2,773,053	2,407,037	2,158,598	1,890,909	1,492,633
MEMORANDUM ITEMS					
Contingent liabilities	25,356	23,128	22,855	23,269	10,834
Commitments	802,552	786,427	755,638	711,160	552,000

THE GROUP'S FIVE-YEAR SUMMARY - STATEMENTS OF CASH FLOWS

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**49,036**	(12,347)	(57,230)	141,844	(6,037)
Investing activities					
Dividends received	**597**	544	195	596	126
Interest income from debt securities	**7,054**	6,684	7,811	9,546	12,074
Purchase of debt and other fixed income instruments	**(44,389)**	(134,778)	(26,435)	(45,614)	(12,739)
Proceeds on maturity and disposal of debt and other fixed income instruments	**23,838**	55,957	40,490	41,197	79,412
Purchase of financial assets at FVTPL	**(46,241)**	(39,165)	(34,520)	(30,124)	(38,595)
Proceeds on disposal of financial assets at FVTPL	**34,605**	31,496	34,224	26,741	2,766
Purchase of equity and other fixed income instruments	**-**	(950)	-	-	-
Proceeds on disposal of equity and other non-fixed income instruments	**-**	1,000	880	397	2,055
Investment in associate	**(1,500)**	-	(375)	-	-
Purchase of property and equipment	**(653)**	(6,034)	(6,781)	(7,543)	(4,064)
Proceeds on disposal of property and equipment	**-**	-	-	7	31
Net cash flows (used in)/from investing activities	**(26,689)**	(85,246)	15,489	(4,797)	41,066
Financing activities					
Dividends paid	**(2,144)**	(91)	(3,171)	(2,135)	(1,478)
Amounts received on creation of units in subsidiary	**9,386**	4,207	3,865	-	-
Amounts paid on redemption of units in subsidiary	**(794)**	(535)	(228)	(64)	(50)
Net proceeds from issue from debt securities in issue	**-**	55,000	-	-	-
Net proceeds from issue of units in subsidiary	**-**	-	-	1,017	1,152
Proceeds from issue of share capital	**-**	-	13,020	-	-
Cash payment for the principal portion of lease liability	**(515)**	(496)	(394)	-	-
Net cash flows from/(used in) financing activities	**5,933**	58,085	13,092	(1,182)	(376)
Net increase/(decrease) in cash and cash equivalents	**28,280**	(39,508)	(28,649)	135,865	34,653
Cash and cash equivalents at 1 January	**142,821**	182,329	210,978	75,113	40,460
Cash and cash equivalents at 31 December	**171,101**	142,821	182,329	210,978	75,113

THE BANK'S FIVE-YEAR SUMMARY – STATEMENTS OF CASH FLOWS

	2021	2020	2019	2018	2017
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**48,158**	(13,136)	(58,177)	141,044	(5,697)
Investing activities					
Dividends received	**1,273**	1,236	1,572	1,604	588
Interest income from debt securities	**7,054**	6,684	7,811	9,546	12,074
Purchase of debt and other fixed income instruments	**(44,389)**	(134,778)	(26,435)	(45,614)	(12,739)
Proceeds on maturity and disposal of debt and other fixed income instruments	**23,838**	55,957	40,490	41,197	79,412
Purchase of equity and other non-fixed income instruments	**-**	(950)	-	-	-
Proceeds on disposal of equity and other non-fixed income instruments	**-**	1,000	880	397	2,055
Purchase of financial assets at FVTPL	**-**	-	-	(184)	(502)
Proceeds on disposal of financial assets at FVTPL	**249**	221	213	221	2,350
Purchase of property and equipment	**(653)**	(6,034)	(6,781)	(7,543)	(4,059)
Proceeds on disposal of property and equipment	**-**	-	-	7	31
Investment in associates	**(1,500)**	-	(375)	-	-
Investment in subsidiaries	**-**	(5,000)	-	-	(40,000)
Net cash flows (used in)/from investing activities	**(14,128)**	(81,664)	17,375	(369)	39,210
Financing activities					
Dividends paid	**(1,913)**	-	(3,575)	(2,617)	(1,950)
Proceeds from issue of debt securities in issue	**-**	55,000	-	-	-
Proceeds from issue of share capital	**-**	-	13,020	-	-
Cash payment for the principal portion of lease liability	**(515)**	(496)	(394)	-	-
Net cash flows (used in)/from financing activities	**(2,428)**	54,504	9,051	(2,617)	(1,950)
Net increase/(decrease) in cash and cash equivalents	**31,602**	(40,296)	(31,751)	138,058	31,563
Cash and cash equivalents at 1 January	**138,034**	178,330	210,081	72,023	40,460
Cash and cash equivalents at 31 December	**169,636**	138,034	178,330	210,081	72,023

THE GROUP'S FIVE-YEAR SUMMARY - ACCOUNTING RATIOS

	2021	2020	2019	2018	2017
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.3**	2.3	2.6	2.4	2.9
Operating expenses to total assets	**1.5**	1.4	1.4	1.3	1.5
Cost to income ratio	**64.3**	60.8	53.6	55.0	52.3
Profit before tax to total assets	**0.9**	0.7	1.2	1.0	1.2
Return on average equity after tax	**7.1**	5.1	11.7	9.0	9.9

	2021	2020	2019	2018	2017
Shares in issue (thousands)*	**249,716**	249,019	249,019	249,019	249,019
Net assets per share	**81c**	79c	75c	56c	54c

THE BANK'S FIVE-YEAR SUMMARY - ACCOUNTING RATIOS

	2021	2020	2019	2018	2017
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.2**	2.3	2.5	2.4	2.9
Operating expenses to total assets	**1.4**	1.4	1.4	1.3	1.5
Cost to income ratio	**64.1**	61.2	57.0	53.5	51.7
Profit before tax to total assets	**0.9**	0.6	1.0	1.0	1.2
Return on average equity after tax	**7.7**	5.3	9.0	10.1	10.1

	2021	2020	2019	2018	2017
Shares in issue (thousands)*	**249,716**	249,019	249,019	249,019	249,019
Net assets per share	**79c**	77c	73c	56c	53c

* Number of shares in issue and the net assets per share for 2017 to 2019 have been restated to reflect the number of shares in issue as a result of the 2020 re-designation of the ordinary shares.

Return on average equity before tax of the Bank is calculated as the return as a percentage of the 12 months ending equity balances. The average capital employed of the Group is calculated as the average of the opening and closing equity balances.

OUR PRESENCE

HEAD OFFICE
APS Centre
Tower Street, Birkirkara, BKR 4012

COMMERCIAL BUSINESS
APS Centre
Tower Street, Birkirkara, BKR 4012

RETAIL BRANCHES

1. **ATTARD**
   St. Catherine's Street, Attard, ATD 2609

2. **BIRKIRKARA (SWATAR)**
   APS Centre
   Tower Street, Birkirkara, BKR 4012

3. **MOSTA**
   9, Rotunda Square, Mosta, MST 9042

4. **PAOLA**
   146/147, Antoine De Paule Square, Paola, PLA 1260

5. **QORMI**
   70-72, St. Sebastian Street, Qormi, QRM 2335

6. **RABAT**
   25, Saqqajja Street, Rabat, RBT 1192

7. **SLIEMA**
   226, Tower Road, Sliema, SLM 1600

8. ST. PAUL'S BAY
   Mosta Road, St. Paul's Bay, SPB 3115

9. **VALLETTA**
   17/18, Republic Street, Valletta, VLT 1111

10. **VICTORIA (GOZO)**
    10, Main Gate Street, Victoria, VCT 1341

11. **ZEJTUN**
    12, Republic Square, Zejtun, ZTN 1011

REGISTERED OFFICE

APS Centre
Tower Street, Birkirkara, BKR 4012

E - info@apsbank.com.mt

B - APSBMTMT

Registration number: C2192

Deloitte.

Deloitte Audit Limited
Deloitte Place,
Triq L-Intornjatur,
Central Business District,
CBD 3050
Malta

Tel: +356 2343 2000, 2134 5000
Fax: +356 2133 2606
info@deloitte.com.mt
www.deloitte.com/mt

Company Ref No: C51312
VAT Reg No: MT2013 6121
Exemption number: EXO2155

Independent auditor's report

to the members of
APS Bank p.l.c.

Report on the Audit of the Financial Statements

Opinion

We have audited the individual financial statements of APS Bank p.l.c. ('the Bank') and the consolidated financial statements of the Bank and its subsidiaries (together, the Group), set out on pages 58 to 173, which comprise the statements of financial position as at 31 December 2021, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank and the Group as at 31 December 2021, and of the Bank's and the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and have been properly prepared in accordance with the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371).

Basis for Opinion

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

Key Audit Matters

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

Deloitte.

Independent auditor's report (continued)

to the members of
APS Bank p.l.c.

Impairment of loans and advances to customers

At 31 December 2021 the Bank and Group reported total gross loans and advances to customers of EUR1,951,371,000 (2020: EUR1,709,878,000) and EUR19,327,000 (2020: EUR20,875,000) of expected credit loss provisions.

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

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

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

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

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

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

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Economic scenarios:
We reviewed the inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios.

Post model adjustments:
In addition to assessing the continuing appropriateness of management's assumptions, we evaluated and tested updates to key parameters and new assumptions including changes to the significant increase in credit risk (SICR) assessment, largely driven by the continued impact of the COVID-19 pandemic. We assessed the completeness and appropriateness of the post model adjustments intended to address early identification of SICR events in respect of those customers who had experienced increased credit risk by reference to the request for legislative moratoria as well as further support measures granted following the expiration of the legislative moratoria. Our assessment included a review of the methodology applied in order to determine whether this appeared to be reasonable in the circumstances and also whether this was aligned to the requirements of IFRS9. We also tested the application of this approved methodology in order to gain reasonable assurance that it was applied accurately.

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

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

The Bank and Group's disclosures about impairment are included in Notes 2.3, 11 and 46, which include the directors' assessment of the adequacy of the impairment provisions.

Other information
The directors are responsible for the other information. The other information comprises the Chairman's Statement, the CEO's Review, the Board of Directors page, the Executive Management page, the Directors' Report which includes the statement of directors' responsibilities, the Remuneration Report, the Corporate Governance Statement of Compliance and the Five-Year Summaries, which we obtained prior to the date of this auditor's report. However, the other information does not include the individual and consolidated financial statements, our auditor's report and the relevant tagging applied in accordance with the requirements of the European Single Electronic Format, as defined in our *Report on Other Legal and Regulatory Requirements*.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

In accordance with the requirements of sub-article 179(3) of the Companies Act (Cap. 386) in relation to the Directors' Report on pages 16 to 34, in our opinion, based on the work undertaken in the course of the audit:

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

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

Responsibilities of the Directors and the Audit Committee for the Financial Statements

As explained more fully in the Statement of directors' responsibilities on pages 33 to 34, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Companies Act (Cap.386) and the Banking Act (Cap.371), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions in accordance with articles 179, 179A and 179B of the Companies Act (Cap. 386). Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's or the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's or the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank or the Group to cease to continue as a going concern. Accordingly, in terms of generally accepted auditing standards, the absence of any reference to a material uncertainty about the Bank's or the Group's ability to continue as a going concern in our auditor's report should not be viewed as a guarantee as to the Bank's or the Group's ability to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on compliance of the Annual Financial Report with the requirements of the European Single Electronic Format Regulatory Technical Standard as specified in the Commission Delegated Regulation (EU) 2019/815 (the "ESEF RTS")

Pursuant to Capital Markets Rule 5.55.6 issued by the Malta Financial Services Authority, we have undertaken a reasonable assurance engagement in accordance with the requirements of the Accountancy Profession (European Single Electronic Format) Assurance Directive issued by the Accountancy Board in terms of the Accountancy Profession Act (Cap. 281), hereinafter referred to as the "ESEF Directive 6", on the annual financial report of the Bank and the Group for the year ended 31 December 2021, prepared in a single electronic reporting format.

Solely for the purposes of our reasonable assurance report on the compliance of the annual financial report with the requirements of the ESEF RTS, the "Annual Financial Report" comprises the Directors' Report, the Statement of Directors' responsibilities, the Corporate Governance Statement of Compliance, the annual financial statements, the prescribed disclosures of material contracts, General Company Information, and the Independent auditor's report, as set out in Capital Markets Rules 5.55.

Responsibilities of the Directors for the Annual Financial Report
The directors are responsible for:

- the preparation and publication of the Annual Financial Report, including the consolidated financial statements and the relevant tagging requirements therein, as required by Capital Markets Rule 5.56A, in accordance with the requirements of the ESEF RTS,
- designing, implementing, and maintaining internal controls relevant to the preparation of the Annual Financial Report that is free from material non-compliance with the requirements of the ESEF RTS, whether due to fraud or error,

and consequently, for ensuring the accurate transfer of the information in the Annual Financial Report into a single electronic reporting format.

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Auditor's responsibilities for the Reasonable Assurance Engagement
Our responsibility is to obtain reasonable assurance about whether the Annual Financial Report, including the consolidated financial statements and the relevant electronic tags therein comply, in all material respects, with the ESEF RTS, based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with the requirements of ESEF Directive 6.

The nature, timing and extent of procedures we performed, including the assessment of the risks of material non-compliance with the requirements of the ESEF RTS, whether due to fraud or error, were based on our professional judgement and included:

- Obtaining an understanding of the Bank's and the Group's internal controls relevant to the financial reporting process, including the preparation of the Annual Financial Report, in accordance with the requirements of the ESEF RTS, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.

- Obtaining the Annual Financial Report and performing validations to determine whether the Annual Financial Report has been prepared in accordance with the requirements of the technical specifications of the ESEF RTS.

- Examining the information in the Annual Financial Report to determine whether all the required tags therein have been applied and evaluating the appropriateness, in all material respects, of the use of such tags in accordance with the requirements of the ESEF RTS.

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

Reasonable Assurance Opinion
In our opinion, the Annual Financial Report for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the ESEF RTS.

This reasonable assurance opinion only covers the transfer of the information in the Annual Financial Report into a single electronic reporting format as required by the ESEF RTS, and therefore does not cover the information contained in the Annual Financial Report.

Report on Corporate Governance Statement of Compliance

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

Our responsibility is laid down by Rule 5.98 of the Capital Markets Rules, which requires us to include a report to shareholders on the Corporate Governance Statement of Compliance in the Company's Annual Financial Report.

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

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

In our opinion, the Corporate Governance Statement of Compliance set out on pages 42 to 57 has been properly prepared in accordance with the requirements of Rules 5.94 and 5.97 of the Capital Markets Rules.

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

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

Matters on which we are required to report by exception pursuant to the Companies Act (Cap. 386) in addition to those reported above
We have responsibilities to report to you if in our opinion:

- proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

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

Auditor tenure
We were first appointed to act as statutory auditor to audit the Bank's and the Group's financial statements by the members of the Bank on 27 July 2017 for the financial year ended 31 December 2017, and were subsequently reappointed as statutory auditor by the members of the Bank on an annual basis. The period of total uninterrupted engagement as statutory auditor is 5 financial years.

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

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

10 March 2022