Annual Report

& FINANCIAL STATEMENTS 2022

APS bank
values you can bank on

Table of Contents

Our Vision, Mission and Values IV

Group Highlights V

Chairman's Statement VI

CEO's Review VIII

Board of Directors XI

Executive Management XIV

Heads of Departments XVI

FINANCIAL STATEMENTS AND OTHER INFORMATION

Directors' Report 02

Remuneration Report 14

Corporate Governance Report 18

Statements of Profit or Loss 27

Statements of Comprehensive Income 28

Statements of Financial Position 29

Statements of Changes in Equity 30

Statements of Cash Flows 32

Notes to the Financial Statements 33

Five-Year Summaries 108

Independent Auditor's Report 114

Our Presence 121

This document is not the official version of the Annual Financial Statements for 2022. Official Annual Financial Statements for 2022 in line with the ESEF requirements may be accessed through the Bank's website www.apsbank.com.mt. The approved ESEF version should prevail in case of any conflicts with this document.

Our Vision, Mission and Values

OUR VISION

To be the **community bank** in Malta.

OUR MISSION

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

EXCELLENCE

Get it right the first time

AUTHENTICITY

Always do the right things

PASSION

Do what you love, care about others

INCLUSIVENESS

Build on the differences and break silos

CONTEMPORARY

Be relevant to today’s world

Group Highlights

LOANS AND ADVANCES TO CUSTOMERS
EUR

2022	2021
2,225M	1,932M

TOTAL ASSETS
EUR

2022	2021
3,112M	2,795M

SHAREHOLDER'S EQUITY
EUR

2022	2021
261.5M	220.8M

PROFIT AFTER TAX
EUR

2022	2021
5.8M	15.1M

ROAE
%

2022	2021
2.3%	7.1%

CAPITAL RATIO

2022	2021
18.8%	16.8%

AVERAGE NUMBER OF EMPLOYEES

2022	2021
548	508

EMPLOYEE NET PROMOTER SCORE (ENPS)

2022	2021
42	38

BONDS LISTED ON THE MALTA STOCK EXCHANGE
(ISIN: MT0002501204)
EUR

2022	2021
55M	55M

Key ● 2022 ● 2021

Chairman's Statement

WELCOME

It is a pleasure to be addressing you, our shareholders, through this Annual Report. On behalf of the Board of Directors and the management team, I would like to express our thanks and gratitude for the very strong support shown in our Initial Public Offering (IPO) in June 2022. The strong take-up of the Bank's issued share capital reflects the investor communities' confidence in the APS brand. For this, I reiterate my thanks.

BACKDROP TO THE YEAR UNDER REVIEW

Following Russia's invasion of Ukraine in February 2022, the global and EU economies were exposed to a complex set of variables involving an energy crisis with continued stresses in global supply chains resulting in hikes in prices for many goods and services. Global central banks broke the decade long experience of a zero-interest rate environment by embarking on interest rate increases in a bid to fight inflationary pressures which have not been seen in many, many years. The challenge and the main objective for central banks and for Governments across the globe have been the taming of inflation without stunting economic growth.

PERFORMANCE

APS Bank's solo performance registered a profit before tax of €28.9 million (versus prior year of €23.7 million) with a Group profit before tax figure of €15.7 million (versus prior year of €24.1 million). The Bank's solo performance was dampened by market losses arising out of the investment activities and subsidiaries' value in the Bank's books. The dilution in Group profits arises predominantly out of unrealised investment losses with minimal credit losses experienced. Expected credit losses relating to the Bank's lending activity in its widest sense, remain unremarkable. The Chief Executive Officer's report will address the Bank's performance in more detail. The Bank's operations will contribute circa €10 million in tax payments to the Inland Revenue.

The Bank's capital position was strengthened by the IPO in June 2022. The Bank's current level of capital is strong with a Tier 1 capital of 15.2% (versus prior year of 12.8%) and a Total Regulatory Capital of €284.1 million up on prior year of €231.3 million. The Board of Directors believes that the Bank's return on average equity of 8.3% for 2022, up from 7.7% in 2021 is a result that evidences the strength and sustainability of a robust business model that permits us to grow our core business and support our published dividend policy.

Apart from the financial results reported, the Bank's non-financial performance also continues to be a very strong one, with sustained touchpoints with society in general, and more specifically through the established annual event, the Malta Sustainability Forum (MSF). The Bank's extensive Corporate Social Responsibility (CSR) activities will be reported elsewhere in this Annual Financial Statements report. The Bank's commitment to support all cohorts of our society will continue to be a hallmark of our brand.

Refining a resilient business model, putting the customer first and accelerating transformation are some of our prioritised strategic objectives.

REWARDING SHAREHOLDERS

The Board is recommending a gross dividend to shareholders of €9.8 million up from €4.6 million in 2021 equating to a 2022 dividend per share of 2.68 euro cents gross or 1.74 euro cents net per share. We firmly believe that shareholders need to participate in the success achieved by the Bank. This dividend distribution reflects the strong performance of the Bank despite the many challenges faced in both local and international economic contexts. All the regulatory approvals for the payment of this scrip dividend have been obtained.

CORPORATE GOVERNANCE

The Board of Directors met 17 times during the year under review. Strategic focus, sustainable business planning and a strong oversight stance continue to be the guiding principles of your Board. Discussions and decisions are based on a wealth of experience, diversity, competence, and a forward-looking mindset, enabling the Board to guide, lead and challenge the management team in the pursuit of a successful and compliant outcome. The tried and tested corporate governance structure of the Bank continues to function effectively not only through the Board meetings but also through the seven Board Committees that are chaired and led by Directors with the contribution of members of the management function.

On behalf of the Board, I would like to thank Mr Victor Gusman for his 10-year contribution to the success of the Bank. During this time, Mr Gusman added value to the Board's discussions and decisions via his considerable business acumen and his knowledge of the Bank. We wish Mr Gusman a long and happy retirement. We would also like to welcome Mr Joseph Rapa to the Board. Mr Rapa's appointment will broaden and deepen expertise in risk management, internal controls and finance strategy. I am certain that Mr Rapa will add value to the workings of the Board.

FUTURE FOCUS

The latest growth rates for Malta and the Eurozone region published by the International Monetary Fund forecast growth rates for 2023 of circa 3% and circa 1% respectively. National Debt to Gross Domestic Product ratio for Malta is forecast at circa 58% for 2022 reaching circa 61% in 2024. The recent International Monetary Fund recommendations include an exit strategy for government subsidies in relation to energy costs via reforms that continue to protect vulnerable members of society. The environment that we operate in continues to be a challenging one with complex economic and financial variables, specific demands by the commercial community and the ongoing need to continue service and anticipate retail clients' needs.

The work of the Board is structured on a forward-looking strategic plan that focuses on sustainable growth in a compliant manner. Refining a resilient business model, putting the customer first and accelerating transformation are some of our prioritised strategic objectives. The Board's agenda is geared to deliver long-term value not only for the benefit of shareholders, but in line with the stakeholders' philosophy, the Bank targets all constituent parts of our economy, customers, employees, national economic wellbeing and helping the vulnerable sections of our community. In addition, your Board will continue to be guided by a robust set of values and principles.

The very recent outcome of the Financial Intelligence Analysis Unit's (FIAU) report on the Bank's anti-money laundering and combating of financial crime structures and systems, which also acknowledges the ongoing remedial actions made by the Bank over the past years, gives us the confidence that we are in a very strong position to fully comply with all regulatory requirements in the immediate future.

We cannot discuss future direction without referring to the ongoing and time-critical importance of Environmental, Social and Governance (ESG) issues that feed into a sustainable business strategy. Your Board and the management team are fully aware of our responsibility to aim for carbon neutrality, acting not only in line with regulations but also beyond these requirements. A fuller detailed report on the direction of travel that the APS Group is embarked upon can be found in another section of our Annual Financial Statements report for this year.

ACKNOWLEDGEMENTS

2022 has been yet another successful year notwithstanding the challenges that manifested themselves in all areas in which the Bank operates. I would like to sincerely thank my colleagues on the Board, the management team tirelessly led by our Chief Executive Officer, Marcel Cassar, and all the employees for their contributions. I am very proud to be part of this successful team.

Finally, I would like to sincerely reiterate my thanks to you all, our shareholders, for your support and backing.

Martin Scicluna
9 March 2023

CEO's Review

What looked like a promising start to the year on the back of a post-pandemic economic rebound soon came to face a new series of shocks.

Prominently, the Russian invasion of Ukraine and the amplified supply chain challenges in both energy and food prices fuelled inflationary pressures and resultant interventions from monetary authorities. As geopolitical tensions continued to heighten the risk of a recession with cross-border implications, central banks started raising interest rates after a decade characterised by low, zero or below. One can say that the negative global performance of most of 2022, the worst since the financial crisis of 2008, is stretching the resilience of even the strongest nations.

Such international developments are felt also in our widely open economy through higher costs of inputs and imported goods, being partly cushioned by government subsidies which however contribute to a build-up in public debt. In this difficult environment, Malta is experiencing higher economic growth, milder inflation and lower unemployment than its EU counterparts, aided in no small way by a stronger than expected tourism recovery and buoyant property market. The lifting of the FATF grey-listing in June also helped create a more benign outlook for the Maltese economy. But the challenges of sustainable progress, weighing under demographic and over-development pressures, plus the search for new segments of economic activity and expanding the human capital capability, are not to be under-estimated.

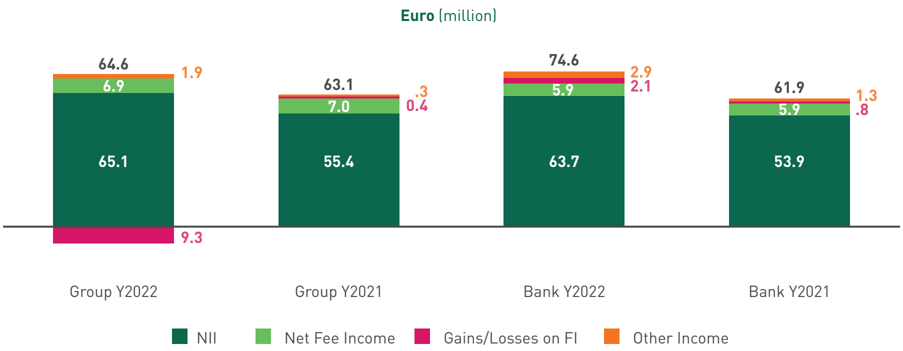
Navigating through these choppy waters we again delivered excellent results and the best Bank solo performance ever. This is thanks to a highly structured and comprehensive business planning process that looks over a 3-year horizon, rolled over annually to remain responsive to emerging trends and changes in the business and market environment. Apart from looking at the financial and operating performance of 2022, as usual this Review touches briefly on how we tackled key strategic objectives to deliver these successful results.

ROBUST OPERATING FUNDAMENTALS CONTRASTED BY INVESTMENT MARKET TURBULENCE

In 2022, APS Bank plc posted a €15.7 million pre-tax profit at Group level (2021: €24.1 million) and €28.9 million pre-tax profit at Bank level (2021: €23.7 million). These contrasting outcomes evince the trend already emerging clearly in the first half of the year, as global markets were confronted by persistent economic instability and rising inflationary pressures. Notwithstanding these challenges, the Bank delivered strong operating results, offset only by the unrealised negative market trends at Group level. Net interest income remained a key driver of the revenue mix, growing by 17.6% from €55.4 million in 2021 to €65.1 million in 2022.

An overall expansion of the Group's home finance and commercial loan books, and in the fixed-income portfolio, were the main contributors to the growth in interest revenue, as spreads on the syndicated loan book also improved. Interest income grew by 15.5% from €69.1 million in 2021 to €79.9 million in the year under review. On the other hand, interest expense of €14.8 million increased by 7.2% on the €13.8 million of 2021, demonstrating the Group's efficient management of its asset-liability mix and cost of funding in a period which saw interest rates move higher in years.

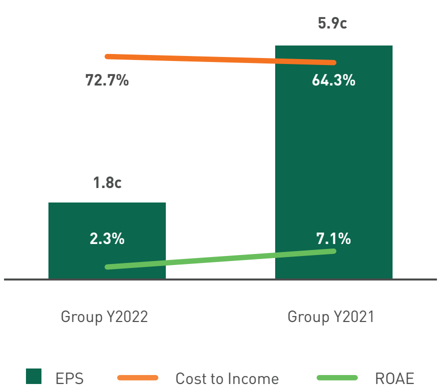
Net fee and commission income for the period was €6.9 million, marginally lower than the €7.0 million in 2021. While the general growth in local and foreign banking activities, card-related commissions and enlarged customer base brought new sources of fee-based banking income; this was offset by reductions in investment services fees, negatively impacted by the ongoing market volatility. Net gains on foreign exchange services also increased, from €0.4 million in 2021 to €1.3 million in 2022. In line with the trend of the first half of the year, albeit at a slower pace in Q4, the Group's results from financial instruments ended in red territory of €10.3 million. This was mainly due to the high economic uncertainty and instability of financial markets which negatively impacted the investment in APS Funds SICAV, consolidated at the level of the Group but not mirrored at the level of the Bank.

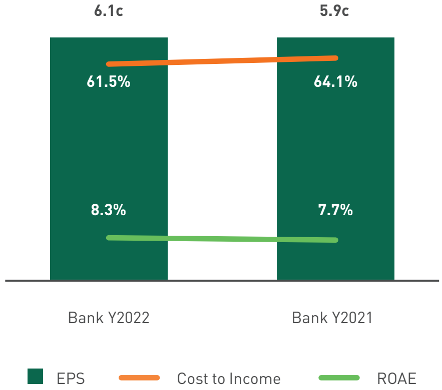


Operating expenses for the year grew by 15.9% to €47.0 million compared to €40.6 million in 2021. The main contributor to the increase is, as expected, the 'employee compensation and benefits' which grew by 19.4% to €26.1 million (2021: €21.8 million). The Group's investment in human capital is intensive and continuous with no stone left unturned to attract and retain the best talent, and to motivate, re-skill and up-skill staff in the face of a great attrition that has now become a global phenomenon. This is reflected in higher salaries at all levels, different benefits schemes (including the introduction of an Employee Share Incentive Plan (ESIP) in 2022 as well as investment in staff training, continuing education and well-being.

Increases were recorded across the board in other operating overheads, resulting not least from general inflation; these included regulatory and compliance costs, insurance, security and the ongoing investment in technology infrastructure, channels and digitisation, seeking the right balance between more efficiency and more sustainability (ESG/CSR) initiatives. As a result, the Group's cost-to-income ratio deteriorated from 64.3% in 2021 to 72.7% in 2022, in large part also due to the revenue drop resulting from the unrealised deterioration in fair value instruments. Conversely, the Bank's cost-to-income ratio improved from 2021's 64.1% to 61.5% in 2022.

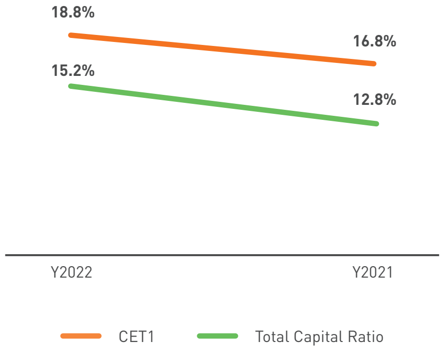
This year too, impairments against expected credit losses resulted in a writeback of €0.3 million, reflecting the performance of customer loans and advances and the Group's high credit underwriting standards and attitude to risk while still growing the book and actively pursuing new business opportunities.

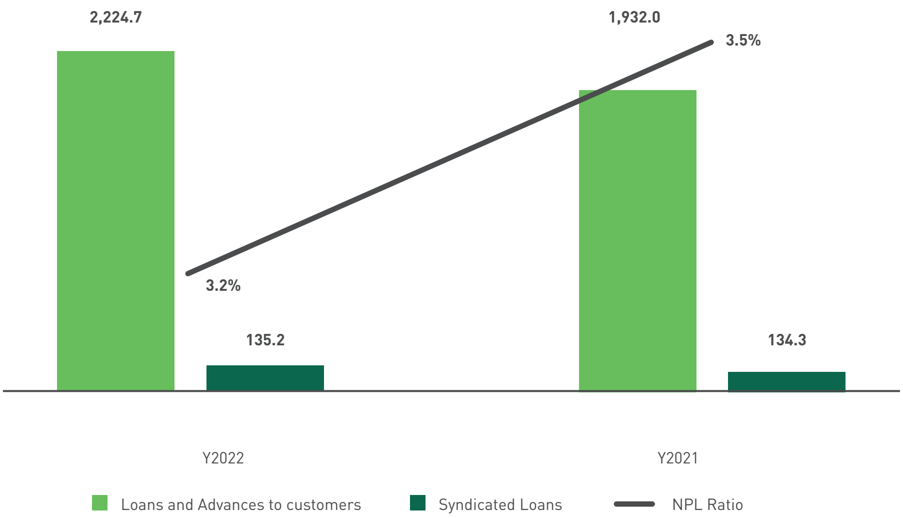




As at the end of the reporting period, Group total assets stood at €3.11 billion, a year-on-year growth of 11.3% on the €2.79 billion at the end of 2021. Loans and advances to customers grew by 15.1% to €2.22 billion while the fixed income portfolio, held mainly for liquidity and income diversification purposes, grew by 40.1% to €459.6 million, as improved yield pick-up opportunities were created especially in Q3 and Q4 of the year. These quarters also saw significant activity on the syndicated loans and trade finance desks which had an overall very busy year while cash and reserves with the Central Bank of Malta dropped further to close the year at €85.9 million, reflecting active liquidity management and the Group's support of Government borrowing programmes. Corresponding to the increase in the Group's asset base, amounts owed to customers grew by 11.5% or €278.9 million, to reach €2.71 billion, despite Q4 pressures arising from competing debt instrument issues in the local market.

Total equity amounted to €261.5 million, compared to December 2021's €220.8 million. As cautiously anticipated earlier in the year, market movements resulting from rising interest rates have had a direct, negative impact on reserves (through 'other comprehensive income'). These corrections, albeit unrealised and expected to reverse fully over time, were amply compensated by the €66 million equity capital raised from the successful IPO of June which was hugely oversubscribed within hours of opening. The same IPO had the effect of boosting the Bank's capital adequacy ratio (CAR) and CET1 ratio to 18.8% and 15.2% respectively by the end of Q3, a level which was maintained also at year-end.





More numbers and statistics can be found in the 'Financial Statements' section of the Annual Report and in the graphics accompanying this Review. This Review does not delve into performance indicators in any detail, nor does it repeat the information which is now contained in the Directors' Report and which the Group communicates on a very regular level across the various types of media. But the focus now turns on three of the carefully formulated strategic objectives for 2022 and touches very briefly on how we worked to achieve them.

REFINING THE BUSINESS MODEL TO WITHSTAND THE RESILIENCE TEST

Being preoccupied with keeping the customer always central to our activities, we embarked on various initiatives aimed at enriching the relationship by enlarging and improving our product suite. Having established investment services as a key area of focus for non-banking, low-capital-consuming income we refined our target cohorts for the offering of our pension plans to reflect better the changing country demographics – albeit with 2022 turning out to be a turbulent year for investors. At the same time, we maintained our keen interest, and competitive edge, on the social front with the various schemes in operation, mainly in partnership with Government.

We continued to improve our customer intelligence and data surveys as these are the cornerstone of our product proposition strategy. Whether traditional offerings like home finance, commercial loans, deposits or our investment and wealth management recommendations, or new ideas in the 'sustainability' space, our products engine continued being refined both in terms of resources, analytics, intelligence and centralisation of processes. Further strengthening and re-organisation of various operational units also took place, drawing efficiencies in tasks and procedures. Efforts were intensified on scaling up channels ranging from the network to Contact Centre which with a 12x7 offering is now closer to the description of a virtual branch.

DEVELOPING CORPORATE CULTURE AND EMBRACING NEW WAYS OF WORKING

At APS Bank, 'Culture' is a concept that cuts across the Group and fuses our corporate philosophy into one uniform, overarching message. It is rooted in a sense of engagement with our 'family' of staff, customers, business partners and now, thousands of shareholders and bondholders, and transmitted to the rest of the market as one culture. All of this is also reflected in our marketing, CSR and, increasingly, ESG campaigning. In an environment that can be best described as a 'war for talent', we succeeded in strengthening various functions and positions, supporting growth and bringing in specialist skills while offering a well-defined vision, excellent career prospects and employment conditions.

We also continued to provide generous programmes to promote the wholesome development of our employees, including coaching, training and education opportunities, family-friendly work arrangements and incentives that go beyond your normal reward structures. Amongst the many events and initiatives, worthy of highlighting are the highly organised Staff Townhalls, regular offsites at various management levels, professional staff surveys, talks, breakfasts, new website and enhanced social media presence, while it was heartening to see both the Social Activities and Sports Committees back to organising well-attended events for staff and their families.

HARVESTING INNOVATION AND ACCELERATING TRANSFORMATION

The year under review saw the continuation and acceleration of a growing pipeline of projects that are driving the Bank's transformation across many areas. Scrupulous analyses, well-curated proposals and detailed budgets support the millions of euros of investment in projects that range from backbone technology to more visible, customer interfacing solutions. The flow that drives the Bank's transformation programme is continuous: from smaller scale projects for peripheral systems and initiatives, to upgrades of existing core technologies, to implementations that are mandated by regulatory authorities or providers of payment systems infrastructures. Further enhancements were also carried out to 'myAPS' permitting customers more convenience and versatility to bank seamlessly over the internet and smart phones.

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. 2022 also saw further rolling out of Robotic Process Automation (RPA) in various areas of operations, and more use of AI such as the introduction of the APS Virtual Agent AVA, all of which facilitate the automation of routine tasks and improve efficiency. Worthy of note is the momentum now gained at the Marsa Digitisation and Documentation Centre, which is the nerve centre of the Bank-wide digitisation project.

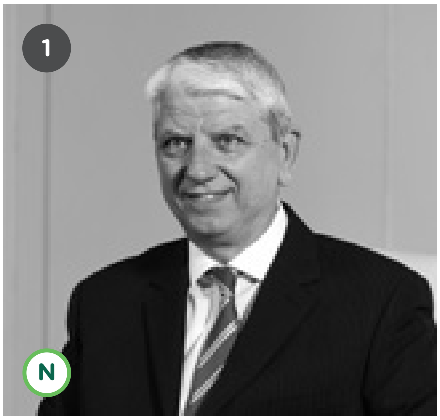
CONCLUDING REMARKS

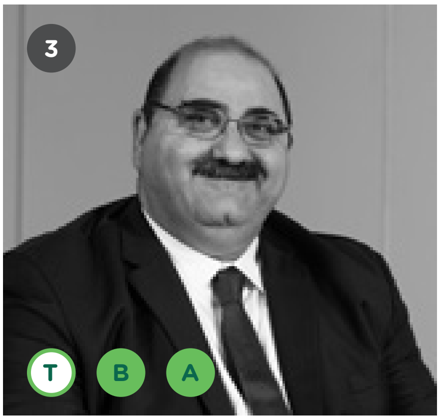
In last year's Review, I had remarked that 2022 was to be a landmark year for APS Bank as we planned to approach the market to raise equity capital for the first time in our 100+ year history. It was a long-awaited step that we saw not as some trophy but an integral part of the plan to grow the Bank also through the diversification of its shareholder base. And what a resoundingly successful, record-breaking IPO it was! If any confirmation was needed about the leading economic and societal role which the Bank and Group have assumed in recent years, that was it. We believe to have the vision and tenacity to fulfil the responsibility of not just widening our product range, technology model and serving the market, but increasingly of being a mainstay of support for Maltese businesses and families.

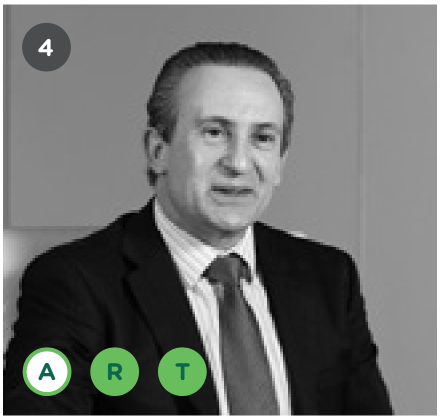
2022 saw policy makers and central bankers across borders persist in fighting inflation notwithstanding the implications for the capital markets and potentially, loan quality. In the Eurozone alone, since July the ECB increased its deposit rate progressively to 2.50% from -0.5%, making it the largest and fastest increase in rates in the monetary union's history. As banks adapt their models to the reality of higher interest rates, we shall manage this new scenario with the concerns of all our customers in mind. Despite the fair value impacts which such increases have had on our investment portfolios, we remain comfortable that they are underpinned by sound credit quality and that the slide in valuations will continue to be clawed back over the coming financial periods. Above all, we look forward to more exciting times for the APS Group, encouraged by strong customer confidence in our model and as opportunities to gain further market share continue to unfold.

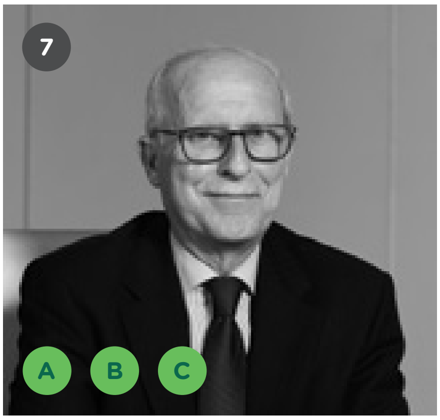
Marcel Cassar
9 March 2023

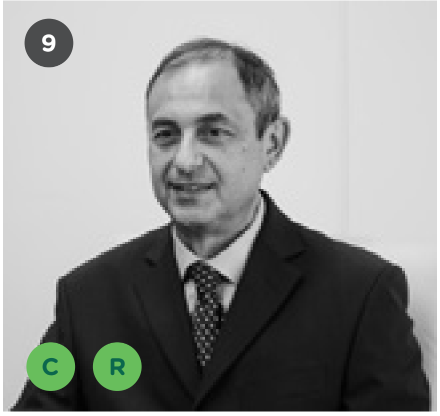
Board of Directors











LEGEND

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

1. MARTIN SCICLUNA
Chairman of the Board,
Non-Executive Director

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

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 become 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) Ltd;
- Non-Executive Director, Merck Capital Asset Management Ltd;
- Non-Executive Director, Member of Investments Committee - Thybo Malta Ltd.

2. VICTOR E. AGIUS
Non-Executive Director

Appointed to the Board in October 2018.

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 at the European Bank for Reconstruction and Development in London and 17 years with the Council of Europe Development Bank in Paris. Past appointments include senior directorship positions and extensive mission leadership responsibilities to over 60 countries in Africa, East Asia, Middle East and 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.

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. Since 2002, he has regularly lectured at University College London on ICT-related topics.

He holds a BSc (Hons) in Electrical Engineering from the University of Malta, an MSc in Operational Telecommunications from the University of Coventry (UK) and a PhD in Telecommunications Engineering from University College London (UK).

Significant External Appointments: None

*Rotated out from Risk Committee (Member) on 31 December 2022 and appointed to the Audit Committee (Member) as from 1 January 2023.

4. FRANCO AZZOPARDI
Non-Executive Director

Appointed to the Board in September 2008.

Bio: Franco spent 27 years up until 2007 working in public practice, ten years of which were with Deloitte Haskins and Sells, and later in a firm he co-founded in 1990. He is the former CEO of a leading logistics company in Malta. He is today a professional director and a registered fellow member of the UK Institute of Directors. He serves on Boards of Directors, and Audit and Risk Committees of regulated companies in various sectors including banking, insurance and payments. Franco also personally contributed towards the development of the Malta Institute of Accountants.

Franco is a Certified Public Accountant with an MSc in Finance from University of Leicester. He is a Fellow of the Malta Institute of Accountants, 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:

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

*Rotated out from the Risk Committee (Member) on 31 December 2022.

5. JUANITO CAMILLERI
Non-Executive Director

Appointed to the Board in September 2021.

Bio: 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 its Risk Committee. Over the years, Juanito served as a non-executive director and consultant on the boards of several public and private entities. Juanito is the Chairman and Resident Professor at the Centre for Entrepreneurship and Business Incubation at the University of Malta, serves as a non-executive member of the Board of Governors of St Edward's College and is the owner of Ta' Betta Wine Estates and St Anne's Clinic.

He holds a BSc (Hons) in Computer Science from the University of Kent at Canterbury and a PhD in Theoretical Computer Science from the University of Cambridge.

Significant Appointments:

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

6. LARAGH CASSAR
Senior Non-Executive Director

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

Bio: 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 mergers and acquisitions, 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.

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.

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.

Bio: Alfred 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. He is a member of the Kunsill Finanzjarju Djoċeżan.

Alfred is an Associate of the London Institute of Banking and Finance (ACIB) and holds a BSc Economics from the University of London.

Significant External Appointments:

- Non-Executive Director – Abbey Holdings Ltd;
- Member - Kunsill Finanzjarju Djoċeżan, Archdiocese of Malta.

8. MICHAEL PACE ROSS

Non-Executive Director

Appointed to the Board in November 2015.

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). 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. Michael holds a BA (Hons) in Economics and Management and an MBA from the University of Malta.

Significant External Appointments:

- Administrative Secretary - Archdiocese of Malta;
- Non-Executive Director - Amalgamated Investments SICAV plc;
- Non-Executive Director – Beacon Media Group Ltd;
- Company Secretary - AROM Holdings Ltd.

*Appointed on the Nominations and Remuneration Committee on 1 July 2022. Rotated out from the Risk Committee (Member) on 31 December 2022.

9. JOSEPH RAPA

Non-Executive Director

Appointed as Company Secretary in July 2018.

Bio: Joseph started his career in 1990 at the Economic Policy Department, Ministry of Finance, Malta. In 2012, he was appointed Director General, responsible for leading teams providing technical, economic and financial analysis, including advice to the ministry on macroeconomic management, fiscal policy and on macroprudential issues. Between March 2013 and May 2022, he served as Permanent Secretary at the Ministry for Health and was responsible for general management functions within the ministry, with responsibilities for human resources management, strategic management, financial budgeting/planning and management, as well as for the exercise of internal control. He currently carries out duties of oversight over the management of EU funds in Malta, within the Ministry for the Economy, European Funds and Lands. Joseph holds a BA (Hons) in Public Administration from the University of Malta, and an MBA from the Rotterdam School of Management Erasmus University.

Significant External Appointments:

- Member - Kunsill Finanzjarju Djoċeżan, Diocese of Gozo.

Retired Director:
Victor Gusman; retired on 31 December 2022

10. GRAZIELLA BRAY

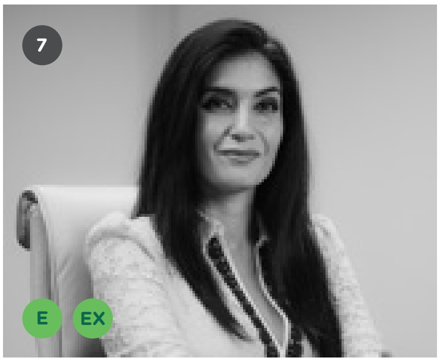
Company Secretary

Appointed as Company Secretary in July 2018.

Bio: Graziella joined APS 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 (MSE) Institute and as a freelance trainer.

Graziella graduated with a Doctor of Laws from the University of Malta in 2004.

Executive Management



1. MARCEL CASSAR

Chief Executive Officer

Bio: Marcel joined the Bank in 2016. His career started in 1987 with Price Waterhouse Malta followed by MIBA/MFSC, now the Malta Financial Services Authority (MFSA) (1991-1996). He was General Manager at Lombard Bank Malta plc (1996-2004) and First Executive Vice President and Chief Financial Officer at FIMBank plc (2004-2015). He has been a board member of the Malta Bankers' Association, including as Chairman (2018-2020, again since 2022), leading to a seat on the board of the Brussels-based European Banking Federation (EBF). Marcel is a CPA, a fellow of the Malta Institute of Accountants, and holds an MBA from the University of Wales and Manchester Business School (1995). He has lectured at FEMA and in the MA Financial Services course, University of Malta.

2. GIOVANNI BARTOLOTTA

Chief Risk Officer

Bio: Giovanni joined the Bank in 2018. Prior to joining, 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 14 years at FIMBank plc, as Executive Vice President and Global Head of Risk. Giovanni is responsible for leading and overseeing the second line of defence of the Bank, through the fostering of an appropriate risk culture within the institution and implementing effective risk management and compliance frameworks, within the boundaries of the risk appetite set by the Board. He holds a BA in Economics from SDA Bocconi, University of Milan and is currently a member of the Council of the Malta Association of Credit Management.

3. RAYMOND BONNICI

Chief People Officer

Bio: Raymond joined the Bank in 2016 as Head of Human Capital 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 business in six EU Member States. He currently oversees the sourcing of the Bank's employee talent and the human resource management functions. Raymond holds a BA in Youth and Community Studies from the University of Malta.

LEGEND

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

Chair   Non-voting

4. ANTHONY BUTTIGIEG
Chief Banking Officer

Bio: Anthony joined the Bank in 2016 as Head of Banking and was appointed to his present role in June 2019. His experience in the banking sector spans 45 years. His career started with Mid-Med Bank, which later became HSBC Bank (Malta) plc, where he held a number of senior and managerial roles. Anthony is responsible for the Bank's commercial business division, retail branches, contact centre and electronic channels. Anthony is an Associate of the Institute of Bankers.

5. EDWARD CALLEJA
Chief Operations Officer

Bio: Edward joined the Bank in 1992 and was appointed to his present role in August 2021. Edward started his career with Mid-Med Bank in 1981. Since then, 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. Edward is responsible for the efficient management of the Bank's operations, including the customer profiling unit. He holds a BA (Hons) in Accountancy from the University of Malta (1990), a Diploma in Management (2003) and an MBA from Henley Management College, UK (2005). He obtained his warrant as CPA in 1991 and became a Fellow of the Malta Institute of Accountants in 2011.

6. JONATHAN CARUANA
Chief Technology Officer

Bio: Jonathan joined the Bank in 1999 and was appointed to his present role in November 2016. He held various senior managerial positions in technology. He was appointed Information Systems Manager in 2008 and Head of Technology in 2015. Jonathan is responsible for both the technology and digital innovation domains of the Bank. He holds a BSc (Hons) in Computing from the University of Greenwich and an MSc in Software Engineering from the University of Hertfordshire.

7. LIANA DEBATTISTA
Chief Strategy Officer

Bio: Liana joined the Bank in 2003 and was appointed to her present role in October 2021. She held various managerial positions across multiple areas, including strategy, internal audit, and marketing, and was promoted to Head of Strategy & Propositions in 2020. Liana is responsible for business planning, corporate strategy formulation, product development, research, performance management and ESG. Liana has a BSc in Business & Computing (2001) and a BCom (Hons) in Management (2002), both from the University of Malta, and an MSc in Corporate Finance from the University of Liverpool (2015).

8. NOEL MCCARTHY
Chief Investments Officer

Bio: Noel joined the Bank in 2000 and was appointed to his present role in 2020. Noel has successively served in a number of senior positions, including as Chief Financial Officer. Noel oversees the Investment Management and Investment Distribution units, the activities of the subsidiary and affiliated companies and the Bank's property portfolio. He also serves as a Director in ReAPS Asset Management Ltd. Noel holds an MA in Financial Services from the University of Malta. He is a CPA and a Fellow of the Malta Institute of Accountants.

9. RONALD MIZZI
Chief Financial Officer

Bio: Ronald joined the Bank in 2020. Prior to this, Ronald was 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 responsible for leading and maintaining the effective governance and stewardship of the Bank's finance, asset-liability management and capital management programme. He is also responsible for the renovation and facility management of the Bank's head office and branch network as well as the security of physical assets. Ronald holds a BA (Hons) in Accountancy from the University of Malta and a Diploma in VAT Compliance from the Institute of Indirect Taxation (UK). He is a warranted CPA and holds a Practicing Certificate in Auditing, both issued by the Accountancy Board in Malta. He is a Fellow of the Malta Institute of Accountants and sits on the Institute's Financial Services Committee, Financial Reporting Committee and Disciplinary Appeals Board.

Heads of Departments

1. **WILHELM ATTARD**
Head of Support
MC

2. **KENNETH AZZOPARDI**
Head of Human Capital

3. **RACHAEL BLACKBURN**
Head of Culture

4. **CYNTHIA BORG**
Head of Financial Crime Compliance & MLRO
C CC

5. **ELAINE CALLEJA**
Head of Career Development

6. **ALEXANDER CAMILLERI**
Head of Operations
T

7. **GILBERT CARUANA**
Head of Finance
AL

8. **DANIEL CASSAR**
Head of Digital Transformation
T

9. **ANGELE DE MESQUITA**
Head of Transformation
T

10. **MARVIN FARRUGIA**
Head of Asset Liability Management
AL MC

11. **MARIO GAUCI**
Head of Commercial
B MC

12. **KENNETH GENOVESE**
Head of Investment Distribution
AL

13. **GORDON GILFORD**
Head of Electronic Channels
T

14. **DIONE STEPHAN GRAVINO**
Head of IT Infrastructure & Operations

15. **NIVES GRIXTI**
Head of Legal
E C B CC MC

16. **ZOLTAN HORVATH**
Head of Propositions
AL

17. **MARCO MICALLEF**
Head of Risk
R B MC

18. **SIMON MICALLEF**
Head of Customer Profiling
CC

19. **AARON MIFSUD**
Head of Retail
AL MC

20. **RODNEY NAUDI**
Head of Operational Risk and Security Governance
T

21. **JOSEF PORTELLI**
Head of Investment Management
AL

22. **RONALD PSAILA**
Head of Business Solutions

23. **RICHARD SCERRI**
Head of Internal Audit

24. **DORIANNE TABONE**
Head of Regulatory Compliance
C CC

LEGEND

A Audit Committee

R Risk Committee

C Conduct Committee

AL Assets-Liabilities Committee

N Nominations & Remuneration Committee

E ESG Committee

B Board Credit Committee

MC Management Credit Committee

T Technology & Innovation Committee

EX Executive Committee

CC Compliance Committee

Chair

Non-voting

Financial Statements and Other Information

Directors' Report

CONSTITUTION AND PRINCIPAL ACTIVITIES

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

The Bank is a public limited company. It is licensed by 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 licensed 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, the APS Regular Income Ethical Fund, and the APS Global Equity Fund being associates of the Group; and the APS Diversified Bond Fund being subsidiary of the Group.

IVALIFE was incorporated in December 2019 as a private limited liability company and is licensed 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

In the first half of 2022, the Bank embarked on Phase 3 of the Capital Development Plan via an IPO. At the Annual General Meeting (AGM) held on 28 April 2022, the shareholders approved an increase to the Bank's authorised share capital to €125,000,000, divided into 500,000,000 shares of €0.25c each, and the issuance of 110,000,000 shares and the subsequent listing of the said shares on the Official List of the MSE. Consequently, on 17 June 2022, the Bank listed its entire shareholding on the MSE. Trading commenced on 20 June 2022. Following an interim dividend distributed in shares in the second half of 2022, the Bank increased its issued share capital to 366,917,168 shares of €0.25c each. The share capital consists of one class of ordinary shares, with equal voting rights. Further information on the Bank's authorised and issued share capital are disclosed in Note 37 to the financial statements.

The shares are freely transferable on the MSE. However, as part of the IPO, AROM Holdings Ltd and the Diocese of Gozo have undertaken not to offer, sell, grant any option, right or warrant to purchase or otherwise transfer, assign or dispose of, any of the shares they held in the Bank on 24 May 2022, for a period of 24 months from the date when the shares were admitted to listing on the Official List, and this undertaking shall subsist notwithstanding any provisions of the Companies Act and the Memorandum and Articles of Association and/or the Capital Markets Rules that would otherwise have permitted such transfer, assignment or disposal. As an exception to the lock-in, AROM Holdings Ltd and the Diocese of Gozo may transfer, sell, assign or dispose of any of these shares in the Bank where such transfer, sale, assignment or disposal is made (1) consequent to the enforcement, as a result of default of the underlying obligation by the pledgor, of a bona fide pledge made to a credit institution licensed in Malta or holding an equivalent authorisation in an EU member state or EEA state; or (2) in the context of an internal corporate restructuring exercise of either of the said shareholders, where the beneficial interest in the relevant shares does not change.

Following the equity listing, AROM Holdings Ltd and the Diocese of Gozo are the two shareholders with a holding exceeding 5%. The below table provides a comparative overview of the shareholding held throughout 2022.

	No. of shares held 1 January 2022	% holding 1 January 2022	No. of shares held 31 December 2022	% holding 31 December 2022
AROM Holdings Ltd (wholly owned by the Archdiocese of Malta)	**198,367,765**	**79.44%**	**202,339,143**	**55.15%**
Diocese of Gozo	**45,449,032**	**18.00%**	**46,358,922**	**12.63%**

The following table includes the number of shares held by Directors as at 31 December 2022:

Director	No. of shares
Martin Scicluna	30,601*
Joseph C. Attard	32,131
Laragh Cassar	16,524
Alfred DeMarco	12,240
Victor Gusman	28,051

*held jointly with spouse

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.

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, THEIR APPOINTMENT AND POWERS

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 by letter in respect of each qualifying shareholding held, in every case subject to regulatory approval. Consequently, at the last AGM held on 28 April 2022, AROM Holdings Ltd held 79.44% shareholding in the Bank and therefore appointed seven Board Directors, whereas the Diocese of Gozo held 18% shareholding and therefore appointed one Director. The ninth Director was appointed by aggregating the remaining shareholding percentages of these two shareholders. Following the IPO, the two shareholders diluted their shareholding and therefore, currently AROM Holdings Ltd is able to appoint five Directors, the Diocese of Gozo one Director, and the other three Directors are appointed by a combination of aggregation of remaining shareholding and nomination by the public float. The provisions relating to the appointment of Directors are found in Articles 102 to 115 of the Bank's Articles of Association.

The Articles of Association also provide that the largest single shareholder of the Bank (holding at least 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.

The Directors who served during the financial year were:
Martin Scicluna
Victor E. Agius
Joseph C. Attard
Franco Azzopardi
Juanito Camilleri
Laragh Cassar
Alfred DeMarco
Victor Gusman
Michael Pace Ross

Victor Gusman retired on 31 December 2022. Joseph Rapa was appointed to office on 1 January 2023. All the above Directors, bar Mr Gusman, continue to serve at the date of approval of the Directors' Report. Bio notes on these Directors are found on pages XII to XIII.

The powers of Directors are provided in Articles 128-136 of the Bank's Articles of Association. In terms of Article 19 of the said Articles of Association, the Bank may, acquire any of its own shares in line with the provisions of the Companies' Act (Cap 86).

There are no agreements between the Bank and the Directors providing for compensation on resignation or termination of directorship.

EMPLOYEE SHARE INCENTIVE PLAN (ESIP)

At the 2022 AGM, the shareholders approved the establishment of an ESIP (the Plan) and applicable rules for the period 2022-2026. By virtue of this Plan, the Board of Directors of the bank may grant shares to eligible employees subject to ESIP rules. The rules provide the conditions on the share awards released to eligible employees over a 3-year period, which are then vested at the eligible employee's discretion. During the vesting period the eligible employee has no voting rights.

COLLECTIVE AGREEMENT

The Bank's Collective Agreement regulates redundancies, early termination, resignation or termination of employees. Further information on the Collective Agreement is found in the Remuneration Report.

There are no further disclosures to make under Capital Markets Rules 5.64

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 Bank's branch network in Malta and Gozo, which the Bank is continuously investing in to ensure presence and accessibility in various locations.

All the Bank's 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.

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.

Early 2023 saw the launch of the Responsible Lending Policy (RLP), a first for Malta. The purpose of this policy, which brings together practices already adopted by the Bank for some years, is to provide clear and transparent assessment criteria for evaluating lending proposals from an ESG perspective. The Bank's ESG and Executive Committees have approved the implementation and distribution of the RLP, which has been articulated in line with European Banking Authority (EBA) Guidelines on Loan Origination and Monitoring, outlining responsible lending standards across Europe.

2. COMMUNICATING BRAND, PURPOSE AND CORPORATE CULTURE

The Culture Department is responsible for the Bank's brand and marketing, CSR, the voice of the customer (VOC) and corporate culture change programmes. These four units adopt communication and brand management strategies, to ensure that internal and external communications are aligned with the Bank's purpose and strategic priorities.

Brand and Marketing

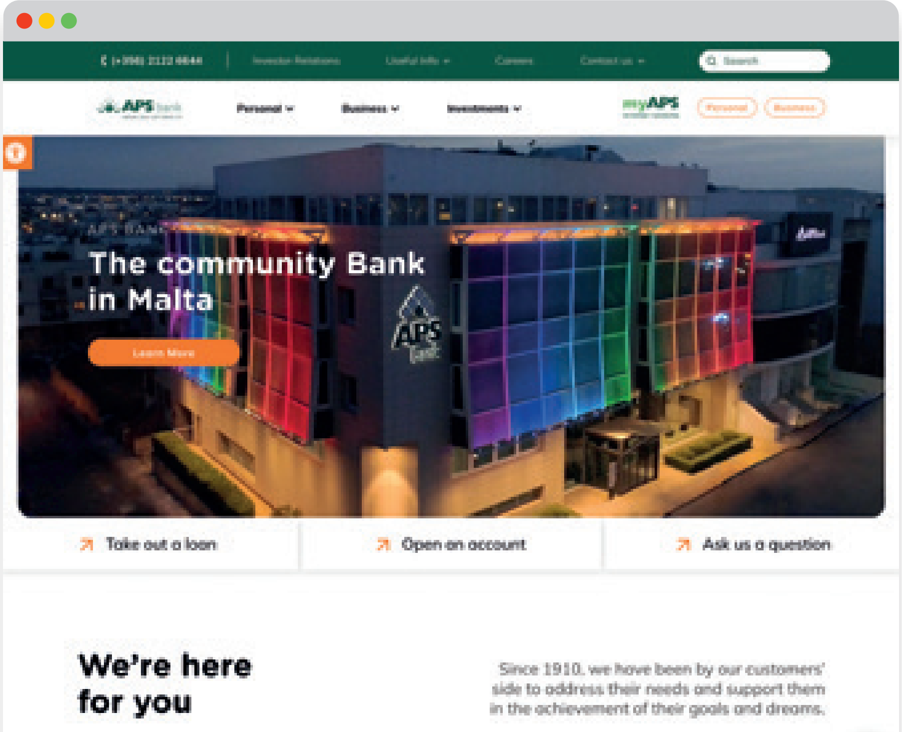
The APS Bank brand is a vital medium to communicate the Bank's vision, mission and values. In 2022, the Brand & Marketing function focused on further elevating the brand in its communication strategy, while complementing product specific messages.

This was done through the launch of the Bank's new website offering a simple and intuitive user experience, the continuation of the Bank's brand campaign across integrated media channels and multiple product-specific campaigns – such as the launch of the Bank's new credit cards and IPO.

The brand messaging was further sustained with the launch of a new Christmas advert focusing on the true meaning and value of Christmas. This year, the focus was on raising awareness about the stark reality of different experiences of the festive season, while encouraging people to support each other and come together.

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 three CSR pillars to support arts and culture, 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 main CSR initiatives in 2022 included the MSF and the APS Summer Festival.

The MSF was launched by the 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. Since its inception, MSF has evolved from an annual, calendar event, to a platform providing year-round communication and a trusted reference on all aspects of sustainability. In 2022, MSF adopted the overarching theme 'Sustain tomorrow, today.' Three events were delivered: two online, focusing on carbon neutrality and water security and a third as an in-person conference on the subject of pension adequacy and sustainability. The conference also saw the launch of the first Pension Engagement Index commissioned by APS Bank.

The third edition of the APS Summer Festival was held during the last fortnight of July 2022, on campus at the University of Malta. 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 a safe and sustainable way. Following a call for applications, the selected performances catered for varied audiences, from children of tender age, through to older adults.

Voice of the Customer

The Bank's vision, mission and values are also engrained in the VOC function as it catalyses its 'Customer First' strategy, ensuring that the voices of the Bank's customers are heard and channelled throughout the organisation to deliver an optimal experience. Responsible for directly assisting customers who have feedback or complaints on any point in the customer journey, VOC handles each individual case through to resolution, ensuring a fair outcome for all concerned.

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. VOC coordinates various research initiatives annually to identify ways to optimise the Bank's customers' experience. These exercises include mystery shopping, regular customer satisfaction surveys (CSAT) and focus groups. 2022 saw the expansion of the Bank's feedback touchpads throughout the Branch network. The customer sentiment feedback collated from the touchpads is now displayed as a score on the in-branch digital screens.

Corporate Culture Change Programme

The Corporate Culture Change Management Programme, aims to cultivate the Bank's corporate culture as defined in the APS Bank Culture Deck through various activities and strategic corporate culture communications. The Programme is designed to embed the Bank's vision, mission and values in the thinking, behaviour and actions of employees, optimising employee experience and engagement. The 2022 Programme included Executive Breakfasts, #APSlife consumer-graded internal communications such as the Bank's in-house podcast, workshops, and talks and presentations for senior and middle management.

2022 also saw the launch of the annual APS Bank Values Awards where awards were given

to employees who walk the talk on living and breathing the Bank's values.

Developing an Environmental, Social and Governance Strategy (ESG)

The ESG strategy is owned by the Chief Strategy Officer and implemented by a dedicated ESG Unit which was set up in 2022. Oversight of the strategy is provided to both the ESG Committee and the Executive Committee.

The ESG Unit, within the Strategy Department, is responsible for formulating and executing the Bank's ESG strategy across all its functions. The role encompasses formulating an ESG- led growth business strategy, mapping the delivery of regulatory ESG reporting as well as leading an ESG engagement with both internal and external stakeholders of the Bank.

The ESG Unit is responsible to serve as secretariat of the ESG Committee and owns the management of the ESG action tracker.

The Strategy and Propositions functions are responsible for the integration of ESG-related factors where required within the Bank's suite of products and services.

The ESG Unit manages the Bank's participation and membership of the Malta ESG Alliance (MESGA) of which APS Bank is a founding member. MESGA was set up in July 2022 by 13 founding members from various sectors across Malta who are committed to collaborate and work collectively to lead and drive national ESG goals.

3. CLIMATE CHANGE AND ESG RELATED RISKS

Transitioning to a low-carbon and circular economy entails both risks and opportunities for the economy at large and for financial institutions operating in it, while physical damage caused by climate change and environmental degradation can also have a significant impact on the real economy and the financial system. Throughout the years, the focus on sustainability has been growing, resulting in the need for businesses to act and be part of the solution to pressing environmental and social issues.

The Group recognises the pace of such trends and the need for a Sustainable and Responsible banking strategy in line with the Group's Vision and Mission, which is that of being the community bank in Malta. The Group is committed to continue to support business and economic growth, but 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 the environment we live in, for our lives and that of our descendants.

The Group is aware of its exposure to the ESG risks and is closely following regulatory guidelines, developments, and supervisory expectations. As such, measures to mitigate its exposure to these risks form an integral part of the Group's risk management framework.

Climate and environmental risk drivers can result – in terms of monetary and other impacts – into traditional financial risk categories, rather than representing a new type of risk, thereby climate-related financial risk is integrated into the Group's risk management framework through the management of the various risk types, including credit risk, market risk, liquidity risk, operational risk and reputational risk. climate risk drivers can affect the group's credit risk through its counterparties, its market risk through the value of financial assets, and its liquidity risk through its deposits, funding costs and withdrawal of credit or liquidity lines.

The RLP sets out, in a clear and transparent manner, the assessment criteria to be used when evaluating lending proposals from an ESG perspective. In line with the mentioned Policy, the evaluation of proposals using ESG assessment criteria has the ultimate objective of grading a borrower and its financing proposal against pre-determined ESG sustainability criteria and metrics. When evaluating new investment opportunities, management reviews research reports published by external credit rating agencies to get a better understanding not only on the financial aspect of the government or company but also with respect to their ESG criteria.

The Group has in place an Environmental & Social Management Systems (ESMS) Policy. The ESMS Policy aims to ensure compliance with relevant regulatory requirements, including best practice Exclusion Lists and Standards to actualise environmental and social directives, laws and regulations.

The Sustainability Risk Policy of the Group outlines its approach to sustainability within its risk management framework. It applies as standard to all investments and advice in financial products provided by the Group. This ensures that the sustainability risk profile of the Group is fully aligned with its risk appetite, while providing a clear rationale for investment decisions taken. The Treasury bond book is mainly composed of high-quality government and supranational bonds and to a lesser extent investment grade corporate bonds. Before bonds are purchased, the Treasury Unit reviews research reports published by external credit rating agencies to get a better understanding not only on the financial aspect of the government or company but also with respect to their ESG criteria. In line with the Group's risk appetite and Treasury Policy, the Treasury Unit takes a conservative stance with respect to the Treasury bond book, hence market and liquidity risk are mitigated as the exposure to issuers with a low ESG score is heavily curtailed. ESG is also one of the reputational dimensions considered in the Reputational Risk Management Matrix as part of the Reputational Risk Policy. Integrated ESG strategy is an integral part of the Group's Business Plan 2023-2025.

The Risk Department monitors and reports the Bank's sectorial exposure periodically and benchmarks this to ESG-related ratings issued by external credit rating agencies. Local exposures within the lending portfolio are categorised according to the CO2 emitted by each sector of economic activity in producing one unit of Gross Value Added (GVA). The Bank performs an internal adequacy assessment on the Bank's capital and liquidity positions, with the results being reported in the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) documents. These processes include an assessment of the Bank's exposure to ESG risk and the management thereof, to ensure that the risk is managed within the Bank's risk appetite and that the Bank's capital adequately covers its exposure to such risk. As part of the 2023 ICAAP and ILAAP documents, the Bank will include a tailored and in-depth review of the potential vulnerabilities resulting from transition risk through stress testing, as mandated by ECB Guidelines. Through this stress scenario, the Bank will understand and monitor its resilience in the context of stressed macro-economic and financial conditions. The assessment is performed on the basis of both quantitative and qualitative analysis and consideration is also given to the changing external and internal conditions and supervisory expectations.

In 2023, the Group published a report which includes regulatory Pillar 3 disclosures on ESG governed by Part Eight of the Capital Requirements Regulation (CRR) II No. 2019/876 and in line with the guidelines published by the EBA on prudential disclosures on ESG risks. This report includes data on climate-material sectors which show how climate risk drivers may impact the balance sheet and how these risks are being mitigated. This report is available on the Bank's website.

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 was for a period of three years 2020-2022 with negotiations concluding for the period 2023-2025.

b) Community Relations

The Bank has over the years supported a number of community projects and initiatives and continues to increase engagement 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, in line with the Bank's social support philosophy. The Bank's employees are 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 critically consider particular issues concerning the demographic, economic, social and political networks in the Maltese islands and in the European Union (EU).

c) Consumer Relationships

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 its 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 allow 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, and 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. The EAP has been enhanced over the last few years 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.

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.

IDENTIFICATION AND MANAGEMENT OF PRINCIPAL RISKS

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 4-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 and/or fresh retail credit facilities;
i) six monthly sample of credit facilities sanctioned by the first line of defence;
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; and
m) risk-based credit pricing model to determine the Return on Equity of fresh credit limits and/or new lending products/schemes.

Financial Crime Compliance Risk

APS Bank plc is committed towards combatting financial crime and complying with all applicable laws and regulations relating to financial crime to protect the Bank, its customers and its employees from financial crime related risks, namely:

- money laundering and funding of terrorism;
- breach of international & local sanctions;
- bribery & corruption; and
- external fraud.

The Bank has therefore implemented the highest standard of financial crime risk management practices to ensure full compliance with applicable anti financial crime laws and regulation.

The Financial Crime Compliance Function is 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 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 and statutory obligations.

The FCC Function, headed by the Head of FCC and Money laundering Reporting officer (MLRO) of the Bank reports to the Chief Risk Officer of the Bank and the Board of Directors.

The FCC function is split into four distinct units which manage the following risks:

- 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; and
- 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.

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; and
- 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 level.

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.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and prices of equities, bonds and commodities.

The Group's exposure to market risk is limited since its trading portfolio is minimal. This is consistent with the Group's Risk Appetite. In accordance with Article 94 of the CRR, the Group is exempted from the trading book capital requirements.

The Group's exposure to market risk is mainly related to:

i. Interest rate risk – the risk that the Group's financial position and cash flow 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.

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 while 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.

The Bank performs an 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 I and Pillar II 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.

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, while 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 ALM, and is reported to Executive Committee, ALCO and Risk Committee on a quarterly basis.

Regulatory Compliance Risk

The performance of banking/financial activities exposes the Bank to regulatory risk. The Basel Committee on Banking Supervision (BCBS) has described Compliance Risk as:

'The risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards, and codes of conduct applicable to its banking activities.'

Regulatory Compliance Risks have been identified as:

- **Risk to reputation** - Risk of damage to the Bank's integrity or reputation as a result of negative publicity, whether founded or not, failure to act in accordance with policies and procedures, or non-compliance with applicable laws, rules, regulations and guidance.
- **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.

In order to mitigate regulatory compliance risk, the Bank has established a Regulatory Compliance Unit (Regulatory Compliance or RC). Regulatory Compliance is an integral part of good governance. The Unit's purpose is to support the Bank in remaining compliant with the applicable rules, regulations, and guidelines. As a second line of defence function, RC's role is to identify, evaluate, and address regulatory risks.

In performing its functions, RC, to the extent applicable, follows the practices indicated in ESMA Guidance on MiFID II Compliance Function, the EBA Guidelines on Internal Governance and the BCBS Guidance for the Compliance function of Banks.

The key functions of Regulatory Compliance are the following:

- Advice
  - Track and advise/update senior management with developments to the current regulatory framework as may be applicable to the Bank – liaising with the other Units/Departments in the Bank and the issuing regulatory body as may be appropriate;
  - Provide guidance and advice in respect of business initiatives intended to ensure that activities are carried out within the boundaries of the applicable regulatory framework;
- Identification, measurement and assessment of compliance risk
  - Identify, document and assess compliance risks arising from:
    - Business activities – including new products and business practices;
    - Establishment of new types of business or customer relationships;
    - Material changes to current relationships.
- Monitoring, Testing and Reporting
  - Conduct sufficient and representative compliance testing/reviews;
  - Report to senior management and the Board of Directors, on a regular basis, the outcome of monitoring and testing/reviews.

Thereby helping the Bank to carry on business successfully and in conformity with external and internal standards.

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

- Conduct of business and treating customers fairly;
- Conflicts of Interest;
- Market Abuse;
- Marketing and Promotions;
- Product Oversight Governance; and
- GDPR.

Regulatory Compliance

Regulatory Compliance is headed by the Head of RC and Compliance Officer of the Bank which reports to the Chief Risk Officer of the Bank and the Board of Directors. The Unit is divided into Regulatory Development and Regulatory Oversight.

- **Regulatory Development Section** is in charge of researching and keeping abreast with regulatory developments. These developments are analysed and communicated to the respective departments within the Bank, through internal Briefing/Guidance Notes for implementation in the Banks' policies and procedures. The Department owning the implementation of such regulation carries out a gap analysis and the Regulatory Development Section ensures that the implementation is concluded in a timely manner and that any policies and procedures adopted are in line with the current regulation.
- **Regulatory Oversight Section** is in charge of conducting oversight monitoring on the various functions within the Bank to ensure that the operational procedures are in line with the regulatory requirements through a set Compliance Monitoring Programme and Ad hoc reviews. This section also provides assistance and advice when it comes to new Projects, Product Launches and Complaints Management and is also responsible for Regulatory Reporting and Tax Compliance.

Both sections are interdependent and provide support to each other on an ongoing basis. In addition to the above, the GDPR function also falls within the remit of RC, and this is represented by the Data Protection Officer (DPO).

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.

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.

The Operational Risk and Security Governance Unit (ORSG) has developed a framework for the second line of defence monitoring of Reputational Risk. The framework sets out a risk dashboard which presents metrics that capture the eight reputational risk dimensions defined by the Reputational Risk Policy:

- Corporate Governance;
- Strategy and Leadership;
- Financial Performance and Profitability;
- Products and Services;
- Image, Brand, Communications, Marketing and Customer Relations;
- Ethical, ESG and CSR;
- Innovation, Opportunities and Technology; and
- Employee and Corporate Culture.

As of 2023, this risk dashboard will be compiled on a quarterly basis and aims to provide quantitative measurement of reputational risk as well as providing insight and identifying potential issues or gaps that can lead to reputational damage.

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 behaviour;
- 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; and
- 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.

Key Performance Indicators (KPIs)

The Group has in place a set of KPIs that include:

	2022 %	2021 %
CET1	**15.2**	12.8
Solvency Ratio	**18.8**	16.8
LCR	**127.6**	142.9
Profitability ROAE	**2.3**	7.1

Further analysis and KPIs are found in CEO's Review, Financial Overview and Notes to the financial statements.

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 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 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 2022.

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 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 58.0%.

The proportion in total assets of exposures to taxonomy-eligible economic activities stands at 3.5%.

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 14.7%.

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 20%.

Finally, the Bank's exposure to on demand inter-bank loans as a percentage of total assets stood at 0.9%. 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 the environmental objectives. That Delegated Act provides the list of economic activities for which the European Commission has provided a common classification vis-à-vis the environmental 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.

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

Having seen a strong post-COVID recovery, 2022 started with promising prospects for the Maltese economy. However, this has been tainted by the pressures from the prolonged Russia-Ukraine war, hitting the EU economy through high inflationary pressures. Against these strong headwinds, the Maltese economy performed well in 2022, with gross domestic product (GDP) growing by 6.8%, according to the CBM projections. Factors which contributed to such robust performance include strong domestic demand – also supported by price-mitigating fiscal measures, which however added to the public debt burden, and dynamic net exports – aided by a stronger-than-expected rebound in tourism. The faster recovery in 2022 also leads to a downward reassessment of GDP growth for 2023 (projected however at a still respectable +3.6%), driven by a deterioration in the international environment and the effects of high inflation on Malta's trading partners. The removal of Malta from the FATF grey-list in June 2022 should also help supporting financial services and other international business activities, particularly inward foreign investments, into 2023.

For the year ended 31 December 2022, APS Bank registered a profit after tax of €19.2 million, an increase of €4.1 million (27.4%) over the financial year ended 31 December 2021. This strong performance was offset by unprecedented financial market volatility which impacted the returns of investments held by the Group - in turn registering €5.8 million in profit after tax and contracting by €9.3 million when compared to 2021 results.

Net interest income remains the largest driver in the Group's revenue mix. Total net interest income for 2022 was €65.1 million, €9.7 million or 17.6% higher than 2021. Amid the current challenging economic and interest-rate environment, the continued growth in the Group's lending book created opportunities for wider spread. Efficient management of cost of funds remains key to the Group, which is further affirmed through the marginal increase in total interest payable which as at end of December 2022 amounted to €14.8 million, being only 7.2% higher over the €13.8 million registered as at end December 2021.

Fee and commission income increased by 1.5% on 2021, however this was offset by higher related expenses on the roll-out of new products - mainly card charges, pension scheme fees and payment fees - amounting to €2.3 million (2021: €2.0 million). As a result, net fee and commission income amounted to €6.9 million compared to €7.0 million of 2021.

By the end of 2022, the Group's other operating income remained in red territory of €7.3 million (2021: +€0.8 million) as financial markets performance deteriorated on heightened macro-economic and geo-political uncertainty which negatively impacted the investment in the Group's sub funds. Excluding such net losses, other operating income from business activities amounted to €3.0 million (2021: €0.9 million), mainly attributable to foreign exchange results of €1.3 million, net gains of €1.0 million from derecognition of financial assets and €0.5 million from other operating income.

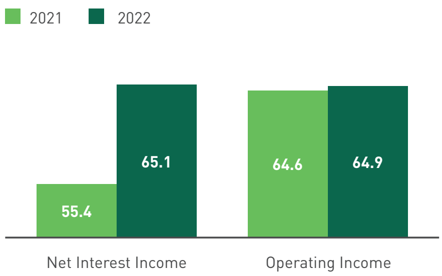
Impairment against expected credit losses consisted of a writeback of €0.3 million (2021: €1.5 million). This reflects the performance of the Group's loans and advances book, and its credit quality, even in such challenging times, further asserting the management's prudent approach towards risk.

Operating expenditure for the year under review was €47.0 million, up by €6.4 million or 15.9% on 2021. Employee compensation and benefits remain a key contributor to such increase which has been brought about by higher labour costs, as the Group remains committed in attracting and retaining highly skilled resources while investing in their training and wellbeing. In addition, the Group increased its contribution to the Deposit Compensation Scheme (DCS) and incurred higher technology costs - the latter in line with various initiatives undertaken to improve the customer experience and achieve greater efficiency through automation, digitisation of records, centralisation of processes and use of robotics and new technologies.

The cost-to-income ratio for the year is distorted by the impact from the sub-funds. Eliminating this, the cost-to-income ratio related to ongoing business activities was 62.8%, down by 1.3% over the ratio of 2021.

ReAPS Asset Management Ltd, as the Investment Manager of APS Funds SICAV plc and other investment portfolios, generated €0.3 million profit before tax (2021: €0.7 million). Largely due to the financial market

Group Revenue (€ million)



instability, total net assets managed by APS Funds SICAV plc as at end of December 2022 stood at €158.2 million, retracting by 19.1% over the comparative period.

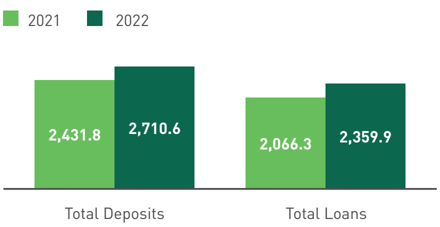
FINANCIAL POSITION

During the financial year ended 31 December 2022, Group total assets exceeded the €3 billion mark - at year-end standing at €3.1 billion, growing by €317.1 million, or 11.3% year-on-year. This expansion was mainly steered by the increase in the lending book, which reached €2.4 billion (2021: €2.1 billion). Lending to the household sector remained key to the increase, followed by commercial real estate activity. Syndicated loans also supported this expansion with further growth as opportunities for spread improved. The treasury fixed-income portfolio has also seen a significant increase during the year with total growth of €131.6 million, reaching €459.6 million. Offsetting this increase in the Group's liquidity stock and lending portfolio were cash and reserves with the CBM which at the end of year stood at €85.9 million, decreasing by €121.8 million when compared to the €207.7 million at December 2021.

At Group level, total liabilities, amounted to €2.9 billion, further expanding by 10.7% over the end-2021 balance of €2.6 billion. Attributing to this were the amounts owed to customers which by end of 2022 stood at €2.7 billion (2021: €2.4 billion). Short-term funding in the form of overnight deposits largely drove this growth, contributing to 67.7% from the total increase in deposit funding over the 12-month period, also improving the portfolio mix and the Group's cost of funding.

The Group's equity at year-end amounted to €261.5 million, rising by €40.6 million or 18.4% over the prior year-end. The month of June saw the Bank conclude the final phase of its 2018-2022 Capital Development Plan, through a highly successful and heavily over-subscribed IPO which raised €66 million of new equity. An interim dividend distributed in October through the issuance of new ordinary shares further boosted the equity position. At year-end, the Bank's capital adequacy ratio was 18.8% (2021: 16.8%) and CET1 ratio of 15.2% (2021: 12.8%).

Group Loans & Deposits (€ million)



DIVIDEND

The Directors are recommending a gross dividend of 2.68 euro cents per ordinary share (net dividend of 1.74 euro cents per ordinary share) is paid to ordinary shareholders. This dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The total gross dividend to be paid is €9,846,153 (total net dividend of €6,400,000) with a recommendation to pay it as scrip, that is each shareholder having the option to receive the dividend in cash or through the issuance of new ordinary shares at an attribution price.

OUTLOOK

The global economy entered 2023 with some positive signs as inflation and energy prices eased from their peak levels and supply chain disruptions seemed to stabilise. China's ending of its zero-COVID policy also provides some growth impulses although its full impact is yet to unfold. But the overall macroeconomic environment remains challenging for economies, business, and consumers as persistent inflation, rising interest rates and ongoing geopolitical uncertainties continue to dent private consumption and investment in many parts of the world.

While a full-blown global recession is a less likely scenario, the outlook for world economic growth is expected to be the weakest for decades, apart from the outlier years of 2009 and 2020. Closer to home, economic sentiment in Malta - while not insulated from these difficulties - stayed positive. This is driven by a good performance in the retail and services sectors, particularly an encouraging rebound in tourism, and sustained government support to households and businesses. However, challenges lie ahead as pressures mount for Malta to reform its corporate tax system and reduce energy subsidies.

The Group approaches this demanding landscape on a solid footing, backed by strong 2022 results, robust capitalisation and liquidity. But it is also the time to maintain a conservative approach to risk and a prudent credit underwriting policy in view of the vulnerabilities that may trigger pressures on asset quality. Interest rate dynamics have also entered a new phase, with intensified competitive pressures on the funding side, not only from banks but also other economic actors, including government due to its borrowing requirements. Pricing pressures are also noticeable from retail and commercial borrowers while the syndicated loan book should provide further opportunities to find spread. On the whole, a challenging outlook which will require judicious strategic choices and decision-making firmly anchored in our values and the overarching aim of providing a simpler, contemporary and complete banking experience.

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.

As required by the Companies Act (Cap 386) and 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 Group is able to continue operating as a going concern for the foreseeable future.

STATEMENT OF RESPONSIBILITY

This Statement of Responsibility is required in terms of the Companies Act (Cap 386) and the 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 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 Group and 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 judgements and estimates;
- the financial statements are prepared on a going concern basis; and
- account has been taken of income and charges relating to the accounting period, irrespective of the date of receipt or payment.

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

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

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 2022, 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

a) During February 2023, the Bank paid an administrative penalty to the FIAU amounting to €228,706. The penalty was applied following an inspection which was carried out in 2020. The Bank had fully cooperated with the FIAU during the inspection and had taken immediate remedial action soon after the review was concluded. The Bank did not appeal this decision and settled the penalty once notification was received. There were no breaches of licence requirements nor any other regulatory sanctions against the Bank.

b) 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 Ltd have signified their willingness to continue in office as auditors of the Group 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
Chairman

Franco Azzopardi
Director

9 March 2023

Remuneration Report

REMUNERATION POLICY

The Remuneration Policy of APS 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 (Chief Executive Officer, Chief Officers and Heads of Department), risk takers and staff engaged in control functions.

The application of the principles of Directive 2013/36/EU, the EBA Guidelines on sound remuneration policies and Banking Rule 21 (BR21/2022) – Remuneration Policies and Practices, 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 (renewal currently under negotiation), 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 last updated and approved on the 24 March 2022 by the Board of Directors to include an ESIP, and applicable Rules for the period 2022–2026. The Remuneration Policy was approved by the shareholders at the 2022 AGM. The Remuneration Policy will be updated and submitted to a vote at the general meeting to reflect the provisions under Chapter 12 of the Capital Markets Rules.

Fixed Remuneration

The base salary provides a predictable base level of income reflecting each staff member's level of responsibility, capabilities, skills and experience. Base salaries are reviewed annually, and increases are granted in line with performance and when a staff member assumes increased responsibilities or significantly deepens knowledge and expertise. Base salaries may also be reviewed when there is a material change in the remuneration levels of comparable roles in the respective market. Base salaries are set for a number of different levels within approved salary ranges. Fixed remuneration includes 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 25% 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 their 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.

Employee Share Incentive Plan

During 2022 the shareholders approved the establishment of an ESIP and applicable rules for the period 2022-2026 at its AGM. By virtue of this Plan, the Board of Directors of the Bank may grant shares to eligible employees subject to rules. The implementation of these rules was delegated by the Board of Directors to the Nominations and Remuneration Committee.

The rules regulate share awards based on an eligible employee's performance for any applicable year. An eligible employee will therefore be awarded share awards subject to the attainment of the stipulated performance criterion for that year. The plan contemplates loss of benefits to varying degrees depending on the circumstances, including to those eligible employees who do not remain in the employ of the Group. Share awards have a vesting period of three years.

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.

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, onboarding 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 this report. The target population defined as 'Identified Staff' for the purposes of this disclosure represents 6.9% 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 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 tables below and overleaf show total fixed and variable remuneration for Identified Staff during the financial year 2022 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 apart from the occupational pension scheme and share awards.

In line with Annex XXXIII of the EBA Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013, the Bank is required to disclose information in respect of special payments made to Identified Staff. No severance payments or sign-on payments were made and no payments of €1 million and over were made. Therefore, the REM2 table and the REM 4 table are not required for this Remuneration Report.

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.

The below tables present remuneration disclosures in respect of the Bank's Remuneration Policy.

		Management Body Supervisory Function	Management Body	Other Senior Management	Other Identified Staff
Fixed Remuneration	Number of identified staff	9	9	25	6
	Total fixed remuneration of which:	**418,000**	**1,872,663**	**2,473,071**	**231,413**
	Cash based	418,000	1,835,253	2,379,647	226,438
	Other forms	-	37,410	93,424	4,975
Variable Remuneration	Number of identified staff	9	9	25	6
	Total fixed remuneration of which:	**-**	**303,768**	**517,255**	**30,659**
	Cash based	-	216,968	284,755	26,691
	Share-linked instruments or equivalent non-cash instruments	-	86,800	232,500	3,968
Total remuneration			**2,176,431**	**2,990,326**	**262,072**

Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which vesting in subsequent financial years
Management Body Management function	86,800	86,800
Other senior management	232,500	232,500
Other identified staff	3,968	3,968
Total amount	**323,268**	**323,268**

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.

	MB Supervisory function	MB Management function	Total MB	Investment Banking	Retail Banking	Asset management	Corporate functions	Independent internal control functions	Total
Total number of identified staff	**9**	**9**	**18**	**2**	**3**	**6**	**11**	**9**	**49**
Of which:									
Other senior management	-	-	-	2	3	1	11	8	
Other identified staff	-	-	-	-	-	5	-	1	

Total number of identified staff	**418,000**	**2,176,431**	**2,594,431**	**272,924**	**372,066**	**343,982**	**1,247,865**	**1,015,561**	**5,846,829**
Of which:									
Variable remuneration	-	303,768	303,768	49,934	63,065	44,852	217,422	172,641	
Fixed remuneration	418,000	1,872,663	2,290,663	222,990	309,001	299,130	1,030,443	842,920	

Notes to the table:

- Total fixed remuneration comprises benefits, specifically car allowances.
- Fixed occupational pension contribution is subject to eligibility criteria.
- Share awards are vested over the next three years, in line with the vesting periods declared at time of award.
- Variable remuneration for identified staff includes performance related bonuses and share awards.

NOMINATIONS & REMUNERATION REPORT AS AT 31 DECEMBER 2022

1. TERMS OF REFERENCE AND MEMBERSHIP OF THE NOMINATIONS AND REMUNERATION COMMITTEE

This Remuneration Report is being prepared in terms of Appendix 12.1 of the Capital Markets Rules. 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 functions respectively; (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. The members of the Committee are Martin Scicluna as Chairman, Victor Gusman, Laragh Cassar and Michael Pace Ross. Michael Pace Ross was appointed Committee member on 1 July 2022, in preparation for the retirement of Victor Gusman who retired as Non-Executive Director on 31 December 2022. 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 Committee is found in the "Statement of Compliance with the Code of Principles of Good Corporate Governance" under Principle 4, on pages 19 and 20.

2. MEETINGS

The Committee held six meetings during the period under review. All members were present at these meetings, except for Dr Cassar who was absent for two meetings. Dr Cassar's absence was pre-authorised. The Chief Executive Officer, Chief People Officer and Company Secretary were invited to the meetings to contribute as necessary.

3. NOMINATIONS

In line with the requirement of the Capital Markets Rule 8.B.7, the work carried out by the Committee relating to nominations throughout 2022 is being presented under the following main headings:

Board Composition and Succession

Throughout the year, the Committee ensured that the Bank had, and will continue to have, a strong and effective Board in place, with all the necessary competencies, experience, and skills.

The Committee maintains a Nominations Pool which contains a list of suitable individuals who can be considered for eventual Board appointments on an 'as required' basis. Individuals are not aware that they are included in the Nominations Pool. Once a vacancy at Board level materialises, appropriate assessments and approaches are made to identify an individual that displays the required personal traits and fits in with collective suitability benchmarks. The process complies with both regulatory requirements and with best practice corporate governance codes generally.

Further to Victor Gusman's communication of his intention to retire as Non-Executive Director on 31 December 2022, the Committee embarked on the appointment of a replacement Director. In terms of Article 103 of the Bank's Articles of Association, the Diocese of Gozo, as qualifying shareholder having originally nominated Mr Gusman, appointed Joseph Rapa as Non-Executive Director in his stead. This appointment was thoroughly assessed by the Committee, followed by a 'fit and proper' recommendation, which was eventually authorised by the Board of Directors. Mr Rapa's appointment became effective as from 1 January 2023 following due process through the MFSA Personal Questionnaire process. Mr Rapa's biography may be found on page XIII.

Diversity

In line with both regulatory expectations and in line with corporate governance best practices, the Committee addressed the topics of succession planning with a focus on diversity, particularly diversity of gender and diversity of age, director appointment tenure and educational and professional background, always underpinned by the fundamental pre-requisite of competence. Currently, one member of the Board is female. The Committee is fully aware and cognisant of regulatory and corporate governance guidelines that require more balance in all aspects of diversity. The appropriate action is being taken to ensure improvements in diversity criteria. Following the appointment of Joseph Rapa, the average age and the average tenure have both improved.

The Committee approved the Bank's Diversity, Equity and Inclusion Policy that supports the Bank in fostering, cultivating, and preserving a culture of diversity, equity, and inclusion among all its staff members. It aims to create an inclusive environment that respects the dignity and diversity of all its people, in line with the Bank's Values and its Culture Deck.

4. REMUNERATION STATEMENT

4.1 Remuneration Policy – Senior Management

The Board of Directors (Board) determines the framework of the overall remuneration policy for executives based on recommendations from the Nominations and Remuneration Committee.

The Committee, on the recommendations of the Chief Executive Officer, then establishes the individual remuneration arrangements of the Group's senior management, namely the Executives and Heads of Departments. The Remuneration Policy applies consistently to all employees within the Group. Its objective is to align employees' remuneration with the Group's performance, business strategy and business models, risk appetite framework, values and long-term goals. The overriding principle of the Remuneration Policy is that individual performance is evaluated according to both quantitative/financial and qualitative/competency measures.

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

For the purposes of this Remuneration Statement, references to 'executives' shall mean the Chief Executive Officer and the eight members of the Executive Committee. Executives are in full employment with the Bank on indefinite contracts. They enjoy health insurance arrangements, death in service benefits, an occupational pension scheme, as all Bank employees, and participate in the ESIP.

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

Apart from the occupational pension scheme and ESIP, no discretionary pensions or other supplementary pension benefits were payable to the Executives in 2022. 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.

Variable Remuneration of Executives

The total Variable Remuneration of Executives including share awards is proposed by the Chief Executive Officer, reviewed by the Committee, and confirmed by the Board. During 2022 the Executives were awarded a performance bonus linked to the performance and achievement of their objectives and share awards vesting over a period of three years (2023-2025). The objectives were based partly on financial targets and partly on qualitative performance review.

Total emoluments received by Executives during the financial year ended 31 December 2022 are reported in the Remuneration Report.

4.2 Remuneration Policy – Chief Executive Officer

The Chief Executive Officer's remuneration is agreed by the Board of Directors. It is composed of fixed and variable remuneration and other benefits, including a pension scheme and eligibility to the ESIP. Total remuneration, including all benefits, awarded in 2022 are shown in the table below.

	€
Fixed pay	360,000
Fringe benefits (Car and pension scheme)	33,336
Variable pay (Performance bonus and esip)	62,400
Aggregate	**455,736**

The amounts above represents the remuneration package of the Chief Executive Officer accruing for the financial year ending 31 December 2022.

The Chief Executive Officer is employed on a five-year fixed-term contract expiring on the 31 December 2026. The performance assessment of the Chief Executive Officer involved the evaluation of the targets achieved against a number of pre-set objectives and behaviours, including business growth in line with the Bank's strategic plan, engagement with other key stakeholders and regulators, and ensuring adherence to risk management and compliance measures. The extent to which the Chief Executive Officer would have reached each objective is discussed and reviewed by the Board of Directors. These objectives are reviewed on a quarterly basis to ensure ongoing review and alignment with expected performance.

4.3 Directors' Fees and Executives' Emoluments

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 awards or pension benefits. In terms of non-cash benefits, Directors are entitled to health insurance and to a refund of out-of-pocket expenses. All Directors are non-employees and receive a fee for their services as Directors.

The remuneration of the Chairman and Directors of the Bank for 2022 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 are 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.

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

Board Fees	**€**
Chairman	45,000
All other Directors	202,333
Board Committees Fees	
Chairman of the Board	5,250
All other Directors	165,417

The Bank's Directors' Fees for the year ended 31 December 2022 are as follows:

	€
Martin Scicluna	50,250
Franco Azzopardi	47,000
Victor E. Agius	51,000
Joseph C. Attard	49,000
Laragh Cassar	46,333
Alfred De Marco	43,000
Victor Gusman	40,000
Michael Pace Ross	46,500
Juanito Camilleri	44,917
TOTAL	**418,000**

In accordance with the requirements emanating from Appendix 12.1 of the Capital Markets Rules, the contents of the Remuneration Report within this Remuneration Report have been reviewed by the external auditor to ensure compliance with such requirements.

Corporate Governance Report

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

The Board of Directors of APS Bank plc 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, 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 2. 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 on page 25.

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.

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 3. There is a strong, value-adding Board, with a diverse range of skills, experiences, background and competencies, ensuring effective and efficient decision-making. The Board supports open and honest conversations to ensure that decisions taken are in the long-term interest of the Bank.

The Board requirements are clearly documented in the Bank's Articles of Association, which has been revamped following the Bank's equity listing in mid-2022, and in the Bank's Board Charter which has been updated and approved together with a Schedule of Matters Reserved for the Board.

Furthermore, the Board delegates specific responsibilities to various Board and Management Committees, as illustrated by the governance structure chart on page 21. Supplementary information on delegated authorities and responsibilities is provided in Principle 4.

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 Chief Executive Officer

The Bank's organisational structure incorporates the positions of a Chairman and a Chief Executive Officer, which are separate and distinct positions, occupied by different individuals, having a clear division of responsibilities.

The Chairman is appointed from among the Directors by the largest shareholder, holding at least 25% of the ordinary issued share capital of the Bank. The Chairman is responsible for leading the Board and setting its agenda for meetings, ensuring that the Directors receive precise, timely and objective information so that they can properly discharge their duties, while encouraging their active engagement at meetings and on issues of a complex or contentious nature.

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

To allow the respective responsibilities to be discharged effectively and yet ensure an effective flow of information, the Chairman and the Chief Executive Officer maintain regular dialogue outside the Boardroom.

Principle 3: Composition of the Board

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

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, and ensuring diligent monitoring of internal control functions. All Directors have adequate knowledge of the KPIs and have the required understanding of the business risks involved.

The Board contains a mix of longer-serving Directors and more-recently appointed ones, balancing 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 appreciate effectively the business risk and KPIs affecting the Bank's ability to achieve its objectives. This is complemented with an ongoing evaluation of the skills, competences, knowledge, experience, tenure and independence to fulfil boardroom responsibilities. The Nominations and Remuneration Committee maintains a skills matrix with key skills, experiences and attributes that have been identified as particularly valuable to effective oversight of the Bank and execution of the strategy. The element of diversity is top on the agenda. A diversity policy governs the principles of diversity, equity and inclusion. The skills matrix is reviewed annually following the finalisation of the Board and Individual Annual Evaluation. Board succession planning has been a key area of focus throughout this reporting year, given the retirement of Victor Gusman on 31 December 2022, coupled with two Directors who are not seeking re-election at the 2023 AGM. Further information on the Nomination and Remuneration Committee proceedings is found in the Nomination and Remuneration Committee Reports.

In accordance with the Code Provision 3.2, the independent Non-Executive Directors of the Bank as at 31 December 2022 were:

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

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. On 31 December 2022, Victor Gusman retired from the Board. In terms of Article 103 of its Articles of Association, the Diocese of Gozo, as qualifying shareholder having originally nominated Victor Gusman, appointed Joseph Rapa as Non-Executive Director in his stead. Joseph Rapa is considered to be a non-independent Director. A copy of Joseph Rapa's bio is found on page XIII. Additionally, Alfred DeMarco sits on the Kunsill Finanzjarju Djoċeżan within the Archdiocese of Malta, and therefore he too is regarded as being non-independent. This notwithstanding, the Board does not consider that the roles of these Directors 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.

Furthermore, Franco Azzopardi and Alfred DeMarco have expressed their intention not to seek re-appointment at the forthcoming AGM. A process is currently underway for two Non-Executive Directors to be appointed in their stead.

Principle 4: The Responsibilities of the Board

In its primary responsibility to set 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 so doing, the Board works closely with the senior management team, led by the Chief Executive Officer, 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 codes 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, as well as people management.

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

Further information on the Board's responsibilities on internal controls and risk management is found on pages 25 to 26.

As detailed in Principle 1, 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. The infographic overleaf depicts the Bank's governance framework.

Principle 5: Board Meetings

The Board meets regularly to discharge its duties effectively, typically monthly. Stemming from the Bank's COVID-19 safety protocol, 2022 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 12 times, with another five additional meetings held on an ad hoc basis. During 2022, the average rate of attendance was 93%. Due to unforeseen circumstances, Laragh Cassar was indisposed for seven meetings, having informed the Board of this accordingly, who took cognisance of this. She appointed the Chairman as her alternate Director throughout her period of absence.

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 BOARD

The main role of the Board of Directors is to perform the duties of strategic planning and oversight.

THE BOARD COMMITTEES

The Board has the following seven Board Committees to which it delegates certain responsibilities.
A more detailed overview of the Terms of Reference and membership of Board Committees is found on the Bank's website.

Audit Committee	Risk Committee	Nominations and Remuneration Committee	Conduct Committee	Board Credit Committee	Environmental, Social and Governance Committee	Technology & Innovation Committee
Assists the Board in monitoring the integrity of the financial reporting process, including the audit of the annual accounts and review of any interim reporting, and ensuring an effective system of internal controls and the effectiveness of the Internal and External Auditors.	Has a wide mandate for risk oversight, including credit risk, market risk, reputational risk, operational risk, technology and cyber risk, concentration risk, liquidity risk as well as compliance and reputational matters, and reviews the Bank's risk management framework accordingly.	Keeps the Board composition under review and carries out the process for Board appointments and assists the Board on senior management appointment and succession planning Recommends the compensation framework of Board and senior executives.	Acts as first point of reference on Board governance policies and procedures, codes of conduct and conflicts of interest. Performs oversight on matters of ethics, brand, values, reputation, and culture keeping consumer (customers') protection primary.	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. Reviews emerging issues and concerns relating to the performance of the portfolio, including to specific sectoral exposures.	Considers the material ESG issues and policies relevant to the Bank's business activities and promotes initiatives to raise ESG performance. Oversees the implementation of social sustainability initiatives and commitments, including performance, challenges and opportunities, to ensure their effectiveness in delivering social impact.	Oversees management with regard to IT-related risks, security and business continuity plans. 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.

THE CHIEF EXECUTIVE OFFICER

The Chief Executive Officer is responsible for the development and implementation of the Group's strategy and overall commercial objectives.
In ensuring that this role is carried out effectively, the Board has set-up the following Management Committees.
A more detailed overview of the Terms of Reference and membership of Management Committees is found on the Bank's website.

Executive Committee	Assets-Liabilities Committee	Management Credit Committee	Compliance Committee	Weekly Management Meeting
Acts as consultative body and advisor to the Chief Executive Officer on matters such as strategy, operations and business. Focuses on the four Ps, namely Performance, Products, Projects and People, and these four broad areas describe adequately the coverage of this Committee.	Generally responsible for the asset liability management (ALM) strategy, policy, surveying of market developments, including the Bank's Base Rate and funding strategy. Focuses on liquidity management and contingency planning, determines the liquidity strategy.	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.	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. The Compliance Committee reports to the Risk Committee.	Reports to EXCO, with which it also works very closely. The 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.

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

Audit
Audit Committee

Risk
Risk Committee

ESG
Environmental, Social and Governance Committee

NR
Nominations & Remunerations Committee

Conduct
Conduct Committee

BCC
Board Credit Committee

TAIC
Technology & Innovation Committee

EXCO
Executive Committee

Compliance
Compliance Committee

MCC
Management Credit Committee

ALCO
Assets-Liabilities Committee

Chair

Non-voting

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

Board Attendance at Meetings as at 31 December 2022

Board Member	Attendance out of 17 meetings (including *ad hoc* meetings)
Martin Scicluna	17/17
Victor E. Agius	17/17
Joseph C. Attard	17/17
Franco Azzopardi	16/17
Juanito Camilleri	17/17
Laragh Cassar	10/17
Alfred DeMarco	17/17
Victor Gusman	16/17
Michael Pace Ross	15/17

Board agendas and packs are circulated in advance to permit Board Directors to prepare themselves for the discussions that take place during the meetings. Over a 12-month period, Board agendas covered the following topics: create long-term value; responsibility towards stakeholders; instil values and shape culture; scrutinise performance; exercise accountability and set strategy. Structured reporting from the Committees, Subsidiaries and Associates are a regular agenda item of each Board meeting. The Chief Executive Officer 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, faithfully recording 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 2022, in addition to its scheduled meetings, the Board also met with the Management Team in: July for the Annual Business Planning brainstorming days; and in November for the Business Planning Wrap-up Workshop, looking into the Bank's main priorities for the updated 2023-2025 Plan and strategic initiatives for the same period.

Principle 6: Information and Professional Development

The Directors have access to a wide range of briefing and training sessions and other professional development opportunities to help them keep abreast of the environment in which the Bank operates. Training discussions and updates are provided by professional advisors, and external and internal subject-matter experts. These updates not only cover a range of pertinent strategic, legislative and regulatory issues but issues relating to the political and economic environment, sustainability and technological considerations. The Company Secretary also provides regular updates on corporate governance matters. 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 2022, the Directors attended two tailor-made training programmes. The first programme was organised by an international cybersecurity firm which provided insights on cyber-attack scenarios. The second programme consisted of engaged external professionals who delved into the interpretation of financial statements and climate risks, and senior management colleagues who tackled financial crime and the prevention of financial markets abuse. 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. In preparation for his appointment, Joseph Rapa was provided with an induction programme facilitated by the Company Secretary and tailored to suit his requirements. This included a series of meetings with senior management, providing an overview of the Bank's main functions, namely strategy, finance, risk, people, technology, operations and other internal control functions. The programme also provided sessions with the Risk and Conduct Committee Chairs and Secretaries for a familiarisation session on the Committee's Terms of Reference and proceedings, given that he is sitting on these Committees.

DEC 2022	JAN - FEB 2023	FEB 2023	MAR 2023	ONGOING
Three online self-evaluation questionnaires formulated by the Company Secretariat and discussed with the Chairman and Senior Independent Director have been distributed to all Board Members.	February 2023 Directors completed online questionnaires. Company Secretariat prepared report based on questionnaires results.	Draft report discussed by the Company Secretary with the Chairman and Senior Independent Director and tabled at the Conduct Committee.	The report was presented to the Board for discussion and evaluation of Action Points for finalisation and implementation.	The Conduct Committee with the support of the Company Secretary has been tasked with overseeing implementation of Action Points.

Principle 7: Evaluation of the Board's Performance

On an annual basis, the Board of Directors – both individually and collectively – take part in a Board Evaluation exercise that focuses on skills, competencies and experiences in addition to softer attributes such as strategic thought, communication, external awareness, ability to forge relationships and other important attributes that make an effective board room. The Board Evaluation process for 2022 was conducted in-house following the process detailed hereunder. Evaluations are carried out under the oversight of the Conduct Committee and facilitated by the Company Secretariat. Outcomes are discussed in detail with the Chairman of the Board.

The Internal Evaluation Process

It is positive to note the satisfactory outcome of the Board evaluation, which showed that no changes in the governance and the organisation were required. Outputs of the Board evaluation processes are actioned via training programmes and/or sharing of feedback at the appropriate forum.

The Bord evaluation exercise will be conducted by an external party for 2023, as was the case in 2019. Regular benchmarking with international practices is considered to be essential in this area.

The Senior Independent Director, Laragh Cassar, carried out a review of the Chairman's performance which included meeting the Directors without the Chairman being present. The consolidated feedback was then shared with the Chairman.

A Committee evaluation exercise will be held in the second half of 2023.

Principle 8: Committees

As explained, the Board places significant reliance on its committees and therefore it remains crucial that there are effective linkages between committees and the Board. There is constant attention to ensure there are no gaps or unnecessary duplications, and there is a continuous effort to avoid this happening. References to Board and Management Committees is made throughout this report.

In January 2023, changes in some Board Committee compositions took place to further diversify knowledge in the memberships.

Further information on the Audit Committee and Risk Committee is found in the Section below 'Internal Control and Risk Management System'. 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. The Board values the insight gained from stakeholder engagement and places significant importance on 'having an ear to the ground' and taking decisions in the interest of all stakeholders. The Board continues to listen to stakeholders which helps in the shaping of the Bank's strategy and decisions taken.

The table on page 24 identifies the Bank's key stakeholders and how both the Bank and the Board engaged with them throughout 2022. 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.

Principle 11: Conflicts of Interest

Each Director is expected to act in accordance with 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 or Committee of any matter that may result or has already resulted in a conflict of interest. A record of such declaration is entered into the meeting'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.

Board Directors hold external directorships and other outside business interests and these are recognised as significant benefits that greater boardroom exposure provides for the Bank's Directors. However, Directors are expected to report the holding of new directorships and other roles to ensure that any potential or actual conflicts of interest are mitigated, and that additional appointments will not adversely impact their time commitment or their ability to continue to fulfil their role as Director.

Directors are informed and reminded of their obligations vis-a-vis dealing in the Bank's shares and 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.

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 in 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 Bank's' CSR outreach are disclosed separately on pages 3 to 5.

Key stakeholders	Reason for engagement and key priorities for 2022
Shareholders, Bondholders and Institutional Investors	The Board always placed engagement with shareholders foremost. The year 2022, marked the inception of engagement with a much wider shareholder base for the Bank. Since the first quarter of the year, the Bank was heavily engaged in the execution of its Phase 3 of its Capital Plan – the equity listing. This involved more frequent meetings with the Bank's four main shareholders and their consultants. As the progression of the Capital Plan ensued, roadshows were conducted with a number of institutional investors and potential private investors. In line with regulatory obligations encompassing these meetings, the senior management team had the opportunity to generate interest in the Bank's performance and plans. Following the success of the IPO, the Bank ensured it kept in touch with its shareholders. On the second anniversary of the bond issue, the Bank thought it proper to amalgamate the recognition of both bondholders' and shareholders' trust in the Bank by launching a newsletter titled snAPShot together with a collective Investor Offers & Benefits package. This will continue to serve as a link between the Bank and its investor base, ensuring they are continuously updated with the Bank's projects. Meetings with major shareholders were organised by the Chairman, along with the Chief Executive Officer and Company Secretary. The Board is keenly aware of stakeholder expectations in relation to future dividend payments. References to 2022 dividend payments are found on page 50. The Bank's dividend policy prudently balances the dual objectives of appropriately rewarding risk capital held by the shareholders through dividends, and retaining capital in order to maintain healthy solvency and liquidity ratios to support future growth. The payments of any dividend will depend upon, among other factors, the Bank's capital requirements, the profits available for distribution for the relevant year, the Group's growth strategy, and its view of the prevailing market outlook, general economic conditions, and any regulatory restrictions that may be imposed by supervisory authorities. The dividend policy allows for an annual dividend pay-out not exceeding one half of the Bank's audited profits after tax for the year. Over the forthcoming 3-year period (2022-2024) it is the Bank's intention to distribute one-third of its post-tax profits.
Business customers, potential new customers, financial advisers	The Bank engages with business customers, potential new customers 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 customers' needs in order to create new products and identify future revenue drivers. The Section 'Communicating brand, purpose and corporate culture' covers the Culture Department's Brand & Marketing, CSR, VOC & Corporate Culture Change contributions, and is found on pages 3 to 5.
Employees	The Board monitors and assesses the Bank's culture by maintaining an intimate connection with the Bank's team, particularly the senior management team, and through the work of the various Committees. The Board is very vocal on the talents of the workforce and commends their efforts and successes. When opportune, the Board visits various branches and offices to observe the Bank's operations in action and to reinforce their knowledge. 2022 saw the return of physical Townhall meetings, adopting a hybrid approach. Staff were encouraged to become more actively engaged in understanding the Bank's progression, strategy and financial results. For the first time, staff were rewarded who demonstrated themselves to be ambassadors of the Bank's corporate culture and values.
Relevant information provided to stakeholders	**1. Annual Report and Financial reporting** The Bank's Annual Report is available to shareholders and the public at large. The Bank aims to make the Annual Report as accessible as possible. Downloadable copies are available from the Bank's website. A number of printed copies are available at branches. Interested parties may also contact the Company Secretariat to obtain a copy. This year, the Bank organised three financial reporting presentations covering the annual financial reporting and two for interim reporting. The last reporting was held in October 2022, and was upgraded to a market briefing, expanding the content, and giving an insight on market and economic developments apart from the Bank's financial performance. **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 customers and other stakeholders about developments and news. The widespread use of social media has helped the Bank to increase the reach and speed of its communication. **4. Corporate Website** The Bank's website (www.apsbank.com.mt) is the platform through which interested parties may access Bank information. The website has been updated to render it more user-friendly. The 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, regulatory reports and investor benefits.

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, judgement 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 Chief Executive Officer 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 2022, as well as the EBA and ESMA Guidelines on the assessment of the suitability of members of the management body.

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 controls in place result in an acceptable level of residual risk. As mentioned above, the Risk Appetite Statement and Risk Appetite Dashboard 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.

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 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.

In terms of Capital Markets Rules 5.117, 5.118 and 5.118A, the Audit Committee is composed of three Non-Executive Directors, two of whom are considered as independent of the Bank, since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement (see also Principle 3). Until 31 December 2022, the Committee was composed of three members, Franco Azzopardi (Chair), Alfred DeMarco and Juanito Camilleri. As from 1 January 2023, Joseph C. Attard joined the Audit Committee. The Committee members' bio may be found on pages XII to XIII. 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.

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 Capital Requirements Directive V. More detail on the review of internal controls is found in the Pillar 3 Disclosures Report found on the Bank's website.

Audit Committee:

Membership	2022 Attendance out of 8 meetings
Franco Azzopardi	8/8
Alfred DeMarco	7/8
Juanito Camilleri	8/8

Risk Committee:

Membership	2022 Attendance out of 9 meetings
Victor E. Agius	8/9
Joseph C. Attard	9/9
Franco Azzopardi	8/9
Michael Pace Ross	8/9
Juanito Camilleri	9/9

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.

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 21 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 (EGM).

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 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 46 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.

During the period under review, two General Meetings were held by the Bank. On the 28 April 2022, the Bank held its AGM. This was the last AGM before the Bank listed its shares on the MSE, and hence the last AGM for four shareholders. Apart from the standing AGM Agenda Items, which also included a declaration of a final dividend, the shareholders considered resolutions relating to the issuance of shares to the public and their listing on the MSE and the issue of an ESIP. This also triggered an entire change in the Bank's Memorandum and Articles of Association, and the Remuneration Policy. All resolutions were carried.

On 28 July 2022, the Board declared an interim dividend payable through the issuance of new ordinary shares. An EGM was held on 19 October 2022 for the capitalisation of profits and allotment of shares to be approved by the shareholders. Given that there was only one Ordinary Resolution for consideration and approval, the EGM was held remotely, whereby the Chairman was the only appointed proxy for the meeting. Shareholders were requested to cast their visiting preferences before the General Meeting. 99.5% of the shareholders who cast their vote through the Chairman voted in favour of the resolution. Shareholders were invited to submit any questions relating to the items on the agenda prior to the meeting. The questions received were replied to during the EGM and the questions and answers were uploaded on the website after the event. The General Meeting was live cast and a recording was also made available on the Bank's website after the event.

This Statement was authorised for issue by the Board of Directors on 9 March 2023 and signed on its behalf by:

Martin Scicluna
Chairman

Franco Azzopardi
Director

Statements of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
Interest and similar income:					
On loans and advances, balances with the Central Bank of Malta and treasury bills	(3)	**73,497**	63,246	**73,497**	63,246
On debt and other fixed income instruments	(3)	**6,362**	5,889	**4,942**	4,394
Total interest and similar income	(3)	**79,859**	69,135	**78,439**	67,640
Interest expense	(4)	**(14,766)**	(13,773)	**(14,766)**	(13,773)
Net interest income		**65,093**	55,362	**63,673**	53,867
Fee and commission income		**9,115**	8,982	**8,197**	7,909
Fee and commission expense		**(2,253)**	(1,981)	**(2,253)**	(1,981)
Net fee and commission income	(5)	**6,862**	7,001	**5,944**	5,928
Dividend income	(6)	**131**	312	**1,477**	1,273
Net gains on foreign exchange	(7)	**1,300**	404	**860**	428
Net gains from derecognition of financial assets at amortised cost	(8)	**984**	572	**984**	572
Net (losses)/gains on financial instruments	(8)	**(10,263)**	(152)	**1,076**	215
Other operating income/(loss)		**541**	(356)	**541**	(356)
Operating income before net impairments		**64,648**	63,143	**74,555**	61,927
Net reversal of impairment losses	(11)	**254**	1,488	**254**	1,488
Net operating income		**64,902**	64,631	**74,809**	63,415
Employee compensation and benefits	(9)	**(26,096)**	(21,847)	**(25,510)**	(21,424)
Other administrative expenses	(10)	**(16,140)**	(14,667)	**(15,577)**	(14,184)
Depreciation of property and equipment	(27)	**(1,911)**	(1,603)	**(1,911)**	(1,603)
Amortisation of intangible assets	(28)	**(2,264)**	(1,905)	**(2,264)**	(1,905)
Depreciation of right-of-use assets	(29)	**(618)**	(562)	**(618)**	(562)
Operating expenses		**(47,029)**	(40,584)	**(45,880)**	(39,678)
Net operating profit before associates' results		**17,873**	24,047	**28,929**	23,737
Share of results of associates, net of tax	(25)	**(2,213)**	21	**-**	-
Profit before tax		**15,660**	24,068	**28,929**	23,737
Income tax expense	(12)	**(9,893)**	(8,967)	**(9,773)**	(8,696)
Profit for the year		**5,767**	15,101	**19,156**	15,041
Profit for the year attributable to:					
Equity holders of the parent		**8,003**	14,638	**19,156**	15,041
Non-controlling interest		**(2,236)**	463	**-**	-
		5,767	15,101	**19,156**	15,041
Basic and diluted earnings per share	(13)	**1.8c**	5.9c	**6.1c**	5.9c

Statements of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2022	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Profit for the year	**5,767**	15,101	**19,156**	15,041
Other comprehensive loss:				
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)	**(28,893)**	(7,908)	**(28,893)**	(7,908)
Release of fair value on disposal of debt instruments measured at FVTOCI	**5,354**	1,236	**5,354**	1,236
Deferred income tax relating to the components of other comprehensive income (OCI)	**1,186**	560	**1,186**	560
Items that may not be reclassified subsequently to profit or loss:				
Revaluation of land and buildings	**-**	(863)	**-**	(863)
Deferred income tax relating to the revaluation on land and buildings	**-**	49	**-**	49
Other comprehensive loss for the year, net of tax	**(22,353)**	(6,926)	**(22,353)**	(6,926)
Total comprehensive (loss)/income for the year, net of tax	**(16,586)**	8,175	**(3,197)**	8,115
Total comprehensive (loss)/income attributable to:				
Equity holders of the parent	**(14,350)**	7,712	**(3,197)**	8,115
Non-controlling interest	**(2,236)**	463	**-**	-
	(16,586)	8,175	**(3,197)**	8,115

Statements of Financial Position

AS AT 31 DECEMBER 2022

	Note	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
ASSETS					
Cash and balances with Central Bank of Malta	(15)	**85,887**	207,723	**85,887**	207,723
Cheques in course of collection		**-**	2,881	**-**	2,881
Loans and advances to banks	(16)	**72,870**	32,296	**71,023**	30,831
Financial assets at fair value through profit or loss	(17)	**41,046**	61,846	**-**	-
Non-current assets held for sale	(18)	**1,733**	-	**1,733**	-
Syndicated loans	(19)	**135,210**	134,262	**135,210**	134,262
Loans and advances to customers	(20)	**2,224,694**	1,932,044	**2,224,694**	1,932,044
Derivative financial instruments	(21)	**738**	552	**738**	552
Other debt and fixed income instruments	(22)	**459,601**	328,041	**459,601**	328,041
Equity and other non-fixed income instruments	(23)	**303**	307	**303**	307
Investment in subsidiaries	(24)	**-**	-	**40,251**	45,251
Investment in associates	(25)	**13,667**	19,803	**14,063**	16,761
Investment properties	(26)	**6,593**	6,053	**6,593**	6,053
Property and equipment	(27)	**39,252**	40,998	**39,252**	40,998
Intangible assets	(28)	**14,545**	11,746	**14,545**	11,746
Right-of-use assets	(29)	**5,040**	5,051	**5,040**	5,051
Other receivables	(30)	**8,016**	9,152	**8,202**	8,303
Deferred tax assets	(31)	**2,957**	2,249	**2,957**	2,249
TOTAL ASSETS		**3,112,152**	2,795,004	**3,110,092**	2,773,053
LIABILITIES					
Derivative financial instruments	(21)	**738**	552	**738**	552
Amounts owed to banks	(32)	**50,387**	57,208	**50,387**	57,208
Amounts owed to customers	(33)	**2,710,633**	2,431,757	**2,712,804**	2,433,073
Lease liabilities	(29)	**5,246**	5,348	**5,246**	5,348
Accruals	(34)	**13,621**	13,325	**13,561**	13,224
Debt securities in issue	(35)	**54,642**	54,597	**54,642**	54,597
Other liabilities	(36)	**13,121**	10,450	**13,080**	10,404
Current tax		**2,306**	945	**2,306**	758
TOTAL LIABILITIES		**2,850,694**	2,574,182	**2,852,764**	2,575,164
EQUITY					
Share capital	(37)	**91,729**	62,429	**91,729**	62,429
Share premium	(38)	**48,410**	10,453	**48,410**	10,453
Revaluation reserve	(39)	**2,981**	25,334	**2,981**	25,334
Retained earnings	(40)	**107,209**	103,974	**114,061**	99,673
Other reserves		**147**	-	**147**	-
Attributable to equity holders of the parent		**250,476**	202,190	**257,328**	197,889
Non-controlling interest	(41)	**10,982**	18,632	**-**	-
TOTAL EQUITY		**261,458**	220,822	**257,328**	197,889
TOTAL LIABILITIES AND EQUITY		**3,112,152**	2,795,004	**3,110,092**	2,773,053
MEMORANDUM ITEMS					
Contingent liabilities	(42)	**21,911**	25,356	**21,911**	25,356
Commitments	(43)	**878,787**	802,552	**878,787**	802,552

The financial statements on pages 27 to 107 were authorised for issue by the Board of Directors on 9 March 2023 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 2022

	Attributable to the equity holders of the parent							
	Share Capital	Share Premium	Revaluation Reserve	Retained Earnings	Other Reserves	Total	Non-Controlling Interest	Total Equity
The Group	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
FINANCIAL YEAR ENDED 31 December 2022								
Balance at 1 January 2022	**62,429**	**10,453**	**25,334**	**103,974**	**-**	**202,190**	**18,632**	**220,822**
Profit for the year	-	-	-	8,003	-	8,003	(2,236)	5,767
Other comprehensive loss	-	-	(22,353)	-	-	(22,353)	-	(22,353)
Total comprehensive (loss)/income	**-**	**-**	**(22,353)**	**8,003**	**-**	**(14,350)**	**(2,236)**	**(16,586)**
Issue of shares, net of issue costs	27,500	37,957	-	-	-	65,457	-	65,457
Other movements	-	-	-	32	-	32	-	32
Share incentive plan - Value of employee services	-	-	-	-	147	147	-	147
Dividends to equity holders (Note 14)	1,800	-	-	(4,800)	-	(3,000)	(309)	(3,309)
Net share capital issued by subsidiary company	-	-	-	-	-	-	1,104	1,104
Loss of control of subsidiary company	-	-	-	-	-	-	(6,209)	(6,209)
Balance at 31 December 2022	**91,729**	**48,410**	**2,981**	**107,209**	**147**	**250,476**	**10,982**	**261,458**
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 loss	-	-	(6,926)	-	-	(6,926)	-	(6,926)
Total comprehensive (loss)/income	**-**	**-**	**(6,926)**	**14,638**	**-**	**7,712**	**463**	**8,175**
Dividends to equity holders (Note 14)	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**

Statements of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2022

The Bank	Share Capital €000	Share Premium €000	Revaluation Reserve €000	Retained Earnings €000	Other Reserves €000	Total Equity €000
FINANCIAL YEAR ENDED 31 December 2022						
Balance at 1 January 2022	**62,429**	**10,453**	**25,334**	**99,673**	**-**	**197,889**
Profit for the year	-	-	-	19,156	-	19,156
Other comprehensive loss	-	-	(22,353)	-	-	(22,353)
Total comprehensive (loss)/income	**-**	**-**	**(22,353)**	**19,156**	**-**	**(3,197)**
Issue of shares, net of issue costs	27,500	37,957	-	-	-	65,457
Other movements	-	-	-	32	-	32
Share incentive plan - Value of employee services	-	-	-	-	147	147
Dividends to equity holders (Note 14)	1,800	-	-	(4,800)	-	(3,000)
Balance at 31 December 2022	**91,729**	**48,410**	**2,981**	**114,061**	**147**	**257,328**
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 loss	-	-	(6,926)	-	-	(6,926)
Total comprehensive (loss)/income	**-**	**-**	**(6,926)**	**15,041**	**-**	**8,115**
Dividends to equity holders (Note 14)	174	313	-	(2,400)	-	(1,913)
Balance at 31 December 2021	**62,429**	**10,453**	**25,334**	**99,673**	**-**	**197,889**

Statements of Cash Flows

	Note	The Group 2022 €000	The Group 2021 €000	The Bank 2022 €000	The Bank 2021 €000
OPERATING ACTIVITIES					
Interest and commission receipts		**85,782**	73,552	**83,280**	71,077
Interest and commission payments		**(15,185)**	(11,672)	**(14,647)**	(11,672)
Cash paid to employees and suppliers		**(43,516)**	(37,367)	**(42,897)**	(36,517)
Operating profit before changes in operating assets and liabilities		**27,081**	24,513	**25,736**	22,888
(Increase)/decrease in operating assets					
Loans and advances to customers/syndicated loans		**(295,504)**	(266,941)	**(295,504)**	(266,941)
Loans and advances to banks		**(707)**	-	**-**	-
Reserve deposit with Central Bank of Malta		**(2,880)**	(2,878)	**(2,880)**	(2,878)
Cheques in course of collection		**2,881**	(2,778)	**2,881**	(2,778)
Other assets		**214**	(36)	**-**	-
Increase/(decrease) in operating liabilities					
Amounts owed to customers		**278,875**	308,312	**279,731**	308,924
Amounts owed to banks		**(1,549)**	(1,549)	**(1,549)**	(1,549)
Other liabilities		**3,445**	(1,095)	**2,814**	(1,120)
Cash from operating activities before tax		**11,856**	57,548	**11,229**	56,546
Income tax paid		**(8,021)**	(8,512)	**(7,712)**	(8,388)
Net cash flows from operating activities		**3,835**	49,036	**3,517**	48,158
INVESTING ACTIVITIES					
Dividends received		**403**	597	**1,477**	1,273
Interest income from debt securities		**7,328**	7,054	**7,328**	7,054
Purchase of financial assets measured at amortised cost		**(222,644)**	-	**(222,644)**	-
Proceeds on maturity of financial assets measured at amortised cost		**5,987**	3,107	**5,987**	3,107
Purchase of debt instruments measured at FVTOCI		**(7,291)**	(44,389)	**(7,291)**	(44,389)
Proceeds on disposal of debt instruments measured at FVTOCI		**67,053**	20,731	**67,053**	20,731
Purchase of financial assets at FVTPL		**(98,742)**	(46,241)	**-**	-
Proceeds on disposal of financial assets at FVTPL		**99,653**	34,605	**-**	249
Proceeds on disposal of investments in associates		**9,589**	-	**9,589**	-
Additional investment in associate		**(500)**	(1,500)	**(500)**	(1,500)
Purchase of property, equipment and intangible assets		**(5,431)**	(653)	**(5,431)**	(653)
Net cash flows used in investing activities		**(144,595)**	(26,689)	**(144,432)**	(14,128)
FINANCING ACTIVITIES					
Dividends paid		**(3,170)**	(2,144)	**(3,000)**	(1,913)
Amounts received on creation of shares in subsidiaries		**1,027**	9,386	**-**	-
Proceeds from issue of new shares, net of issue costs		**65,457**	-	**65,457**	-
Amounts paid on redemption of units in subsidiaries		**(630)**	(794)	**-**	-
Cash payment for the principal portion of lease liability		**(761)**	(515)	**(761)**	(515)
Net cash flows from/(used in) financing activities		**61,923**	5,933	**61,696**	(2,428)
Net (decrease)/increase in cash and cash equivalents		**(78,837)**	28,280	**(79,219)**	31,602
Cash and cash equivalents at 1 January		**171,101**	142,821	**169,636**	138,034
Cash and cash equivalents at 31 December	(44)	**92,264**	171,101	**90,417**	169,636

Notes to the Financial Statements

1. REPORTING ENTITY

APS Group comprises APS Bank plc, ReAPS Asset Management Ltd and APS Diversified Bond Fund (sub-fund 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 Ltd and in the following sub-funds of APS Funds SICAV plc - APS Income Fund, APS Regular Income Ethical Fund and APS Global Equity 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 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 2.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated and separate financial statements have been prepared on a historical cost basis, except for derivative financial instruments, certain financial assets and investment 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 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 (ie, 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; and
- 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; and
- the Group's voting rights and potential voting rights.

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

Profit or loss and each component of 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.

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:

- Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract (effective for financial years on or after 1 January 2022). The amendments deal with costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.
- Amendments to IFRS 3 – Reference to the conceptual framework (effective for financial years on or after 1 January 2022). The amendments update an outdated reference in IFRS 3 without significantly changing its requirements.
- Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use (effective for financial years on or after 1 January 2022). The amendments address the proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.
- 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). The amendments clarify which fees an entity includes when it applies the '10 per cent test' in assessing whether to derecognise a financial liability.
- Amendments to IAS 41 (as part of the 2018 – 2020 Annual Improvements Cycle) (effective for financial years on or after 1 January 2022). The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique, thus ensuring consistency with IFRS 13.
- Amendment to IFRS16 – 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.

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).
- 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).

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 2024 by virtue of the October 2022 Amendments) and Non-Current Liabilities with Covenants. 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 12-months and make explicit that only rights in place 'at the end of the reporting period' should affect the classification of a liability, and covenants that need to be complied with after the reporting period should not affect that classification;
    b) clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability;
    c) make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services; and
    d) introduce additional presentation and disclosure requirements for liabilities that are subject to covenants.
- 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 introduces a definition of 'accounting estimates'; it also removes the explanation of what constitutes a change in 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 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. This 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 cost 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 instruments during the year and up to the reporting date. Net gains presented in the income statement 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. 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 7.

Share incentive plan

During the year under review, the Group entered into equity-settled, share-based payment transactions which were awarded to eligible employees as an addition to their remuneration. These share-based payments are recognised on a straight-line basis and charged under employee expenses with a corresponding increase in the related equity reserves. The Group is accounting for the equity-settled, share-based payments under IFRS 2.

As the standard requires, the fair value of the shares was measured at the market price of the Group's shares, adjusted for market performance conditions. In order to assess and measure the cost of these arrangements, the Group used the Black-Scholes valuation model as the tool to determine the share fair value. Through using this option pricing model, the Group took into account the spot price at grant date, vesting time, applicable strike price, volatility percentage, the expected dividend yield and the risk-free interest rate for the term of the options.

Every award of shares under a plan is subject to the attainment of the objectives set out in the Remuneration Policy. It shall be a discretion of the Board to determine whether an eligible employee has attained satisfactory performance or otherwise. The Bank retains flexibility to have awards vesting on a number with years. Upon each anniversary in accordance with the vesting schedule, the portion of the share awards which vests in the hands of the eligible employee for that year, shall become unconditionally due to the eligible employee unless such eligible employee expresses a desire to postpone such vesting by means of notice to the Bank not later than 30 days prior to the vesting anniversary. The Bank has no obligation to allot the shares before vesting date. If employment is terminated before the vesting date, the awards will lapse unless termination is for a permissible cause relating to instances when termination is the result of retirement, serious illness, injury or incapacitation, or any other situation which the Board deems justifiable. All cases of permissible causes shall be communicated in writing by the Board to the eligible employee.

Share awards do not entitle eligible employees to any voting, dividend, transfer or other rights, attaching to the Bank's shares until such shares are vested and the eligible employee is listed in the register of members of the Bank. Any vested shares rank pari passu with all other issued shares. Except for the transmission of rights on death, share awards granted to eligible employees under a plan are not transferable and can only be exercised by the eligible employee to whom they were originally issued.

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;
  - i. 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
  - ii. 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.

Repurchase and reverse repurchase agreements

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

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the statements of financial position. The consideration paid, including accrued interest, is recorded in the 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.

Offsetting financial instruments

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

Financial assets

Classification and subsequent measurement

The Group classifies its financial assets in the following principal categories:

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

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

Classification and subsequent measurement of financial assets depend on:

i. the Group's business model for managing the asset; and
ii. the cash flow characteristics of the asset.

Business model assessment

The business model reflects how the Group manages its financial assets in order to achieve a particular business objective, ie, 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 ie 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 ie 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 (eg liquidity risk and administrative costs), as well as a profit margin.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and to sell, the Group assesses whether the financial instruments' cash flows represent 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 - eg periodic reset of interest rates.

Where the contractual terms introduce exposure to risk or volatility that is 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 are measured at amortised cost if they 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.

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 and similar income' using the EIR method.

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

Fair value through other comprehensive income (FVTOCI)

Debt financial assets that are held within a business model whose objective is achieved by both collection of contractual cash flows and sale of the assets, where those cash flows give rise on specified dates to cash flows that are 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 losses and reversal of 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 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 it 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 statements within 'Net (losses)/gains on financial instruments' in the period in which it arises. Interest income from these financial assets is included in 'Interest and similar income' using the EIR method. Foreign exchange movements are recognised in Net gains on foreign exchange under Note 7.

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, are 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.

Impairment of financial assets

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

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

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

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

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

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

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

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts, generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component; and debt instruments measured at FVTOCI: the loss allowance is recognised in profit or loss with a corresponding entry in OCI; movements in the loss allowance do not reduce the carrying amount of the financial asset in the statements of financial position, as those assets' carrying amount is their fair value.

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

Modification of loans

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

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

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

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

Collateral valuation

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

Financial liabilities

Subsequent measurement

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

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

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

Modification of financial liabilities

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

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.

Property and equipment

Property and equipment are initially recorded at cost.

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

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

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

	%
Building	1.0
Computer equipment	25.0
Other	5.0 – 20.0

Land is not depreciated by the Group.

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

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

Intangible assets

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

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

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

Development costs

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

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

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

Investment properties

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

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

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

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

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 reflect 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 associates 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.

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 also contributes towards a defined contribution plan. Under IAS 19, when an employee has rendered service to the Group during a period, the Group recognises the contribution payable to a defined contribution plan in exchange for that service as a liability (accrued expense) and as an expense, unless another standard requires or permits the inclusion of the contribution in the cost of an asset.

Other liabilities

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

Cash and cash equivalents

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

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

Provisions, contingent liabilities and contingent assets

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

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

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

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

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 other than investment property that is measured at fair value, are measured at the lower of the carrying amount and fair value less cost to sell and are not depreciated. Investment property that is measured at fair value and presented as non-current asset held for sale continues to be measured at fair value.

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.

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 Group'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 Group. The assessment is not affected by the size, nature or circumstances of the Group.

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

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

The lease term is the non-cancellable period of a lease, together with both (a) periods covered by an option to extend the lease if the Group is reasonably certain to extend that option; and (b) periods covered by an option to terminate the lease if the Group 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 Group 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 Group 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. The Group reassesses whether it is reasonably certain to exercise or not to exercise an option upon the occurrence of either a significant event or a significant change in circumstances that: (a) is within its control; and (b) affects whether the Group 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 Group 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 Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group 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.

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 Group measures the index of the lease payments using the rate at the commencement date. After the commencement date, the Group is 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 occurs that triggers those payments and are included in the line item in other administrative expenses in profit or loss.

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

The lease liability is remeasured to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments. The amount of the remeasurement of the lease liability is recognised as an adjustment to the right-of-use asset until this is reduced to zero after which the corresponding adjustment is recognised in profit or loss. The Group 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. The Group 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 (ie, 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 Group 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 is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

As of 31 December 2022, the Group directly held 9.07% (2021: 15.26%) interest in APS Income Fund, and 2.90% (2021: 15.29%) 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; and
- provision of technical information and management services.

Therefore, the Group continue to account for the investment in APS Income Fund and APS Regular Income Ethical Fund as associates (Note 25).

Accounting for investments in which the Group controls less than 50%

During the year under review the Group lost control over the APS Global Equity Fund through a dilution in its investment. As of 31 December 2022, the Group directly held 43.51% (2021: 51.79%) (Note 25).

The Group assessed whether it still holds control or has significant influence over the investee and concluded that control is lost upon considering the following factors:

- the Group does not have the ability to direct the relevant activities of the fund;
- each fund has its own prospectus which can be affected by the majority shareholders; and
- the Group does not have the ability to affect the variable returns of the fund.

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. As at end of December 2021, the Group engaged an independent valuation specialist to assess fair value. During the year under review, no valuations took place given that the property prices maintained an upward trajectory. The valuation specialist determines the most appropriate methodology (market or/and income approach) depending on the nature of the property (Note 26).

Fair value of land and buildings included within property and equipment

Land and buildings owned by the Group are carried at fair value, with changes in fair value being recognised in OCI. As at end of December 2021, the Group engaged an independent valuation specialist to assess fair value. During the year under review no valuations took place given that the property prices maintained an upward trajectory. The valuation specialist determines the most appropriate methodology (market/income approach) depending on the nature of the property (Note 27).

Impairment losses on loans and advances

The Group and the Bank review their loans and advances at each reporting date to assess whether an impairment loss should be recorded in the statements of profit or loss. In particular, management's judgement 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 48.2 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 judgement as applied to the individual assessment of loans and advances.

3. INTEREST AND SIMILAR INCOME

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
On loans and advances to banks	**396**	7	**396**	7
On loans and advances to customers	**73,101**	63,239	**73,101**	63,239
	73,497	63,246	**73,497**	63,246
On debt securities:				
Measured at amortised cost	**3,061**	1,758	**3,061**	1,758
Amortisation on premiums and discounts on debt securities measured at amortised cost	**(763)**	(772)	**(763)**	(772)
Measured at FVTPL	**1,420**	1,495	**-**	-
Measured at FVTOCI	**4,163**	5,169	**4,163**	5,169
Amortisation on premiums and discounts on other debt securities	**(1,519)**	(1,761)	**(1,519)**	(1,761)
	6,362	5,889	**4,942**	4,394
	79,859	69,135	**78,439**	67,640

4. INTEREST EXPENSE

	The Group / The Bank	
	2022	2021
	€000	€000
On amounts owed to banks	**1,268**	331
On amounts owed to customers	**11,591**	11,534
On lease liabilities	**119**	120
On debt securities in issue	**1,788**	1,788
	14,766	13,773

5. NET FEE AND COMMISSION INCOME

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
On loans and advances and other general banking activities	**5,141**	4,561	**5,141**	4,561
On insurance, investments and similar activities	**3,247**	3,794	**2,329**	2,721
Other activities	**727**	627	**727**	627
Fee and commission income	**9,115**	8,982	**8,197**	7,909
Fee and commission expense	**(2,253)**	(1,981)	**(2,253)**	(1,981)
	6,862	7,001	**5,944**	5,928

6. DIVIDEND INCOME

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
From equity shares held in local and foreign entities and collective investment schemes	**131**	312	**1,477**	1,273

7. NET GAINS ON FOREIGN EXCHANGE

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Net unrealised/realised gains on foreign exchange	**1,300**	404	**860**	428

8. NET (LOSSES)/GAINS ON FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Realised gains on disposal of financial assets at amortised cost	**984**	572	**984**	572
Realised (losses)/gains on disposal of financial assets at FVTOCI	**(317)**	216	**1,076**	216
Unrealised net fair value movements on financial assets at FVTPL	**(3,680)**	(338)	**-**	46
Realised (losses)/gains on disposal of financial assets at FVTPL	**(6,266)**	(30)	**-**	(47)
	(10,263)	(152)	**1,076**	215
Net (losses)/gains	**(9,279)**	420	**2,060**	787

During the year under review and in previous year, 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.

9. EMPLOYEE COMPENSATION AND BENEFITS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Wages and salaries (short-term):				
- key management personnel other than Directors	**6,965**	4,922	**6,965**	4,922
- other staff	**15,805**	14,334	**15,805**	14,334
- wages recharged to subsidiary at cost	**-**	-	**(586)**	(423)
Social security contributions	**1,316**	1,169	**1,316**	1,169
Share based payments	**147**	-	**147**	-
Other staff costs	**1,863**	1,422	**1,863**	1,422
	26,096	21,847	**25,510**	21,424

9. EMPLOYEE COMPENSATION AND BENEFITS (CONTINUED)

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

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Senior Management	**35**	34	**35**	34
Managerial	**152**	125	**152**	125
Senior officers and officers	**352**	340	**352**	340
Others	**9**	9	**9**	9
	548	508	**548**	508

Share Incentive Plan Awards

During the year the Group granted 637,800 share awards to certain employees. The table below summarises outstanding share awards to employees with the respective vesting period:

			The Group / The Bank	
			2022	2021
Vesting year	**Vesting date**	**Vesting percentage**	**€000**	€000
Year 1	30 June 2023	50%	**318,900**	-
Year 2	30 June 2024	25%	**159,450**	-
Year 3	30 June 2025	25%	**159,450**	-
			637,800	-

Share-based payment awards were granted on 12 August 2022, with a vesting period of three years, ending June 2025. The estimated fair value of each share award granted is of €0.65 cents and was measured by applying the Black-Scholes valuation model. The model components inputs were the share price at grant date of €0.65 cents, no strike price, expected dividend yield of 3.3% and a contractual life of 3 years. After the vesting period, share awards are allotted to eligible employees for no consideration. There are no vesting conditions attaching to the awards other than service conditions, and hence such awards become due as soon as the vesting term ends. If employment is terminated before any vesting date, the unvested awards will be forfeited unless it is a permissible cause relating to instances when termination is the result of retirement, serious illness, injury or incapacitation, or any other situation which the Board deems justifiable. All cases of permissible causes shall be communicated in writing by the Board to the eligible employee. There were no forfeitures of awards during the year.

At year end, the total expense arising from these share incentive plan awards amounted to €147K and the remaining contractual life stood at 2.5 years. Furthermore, no share awards were vested and allotted during the financial year, thus all awards granted remain non-vested.

10. OTHER ADMINISTRATIVE EXPENSES

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Remuneration payable to the statutory auditors for:				
- the audit of financial statements	**179**	175	**165**	153
- tax advisory services	**7**	7	**5**	5
- other non-audit services	**65**	40	**61**	35
Directors' emoluments	**496**	451	**418**	383
Insurance	**430**	332	**426**	331
Professional fees	**1,778**	1,613	**1,684**	1,489
Regulatory fees	**3,464**	2,853	**3,458**	2,848
Repairs and maintenance	**4,822**	4,133	**4,782**	4,102
Telecommunications	**740**	748	**726**	738
Office operating expenses	**2,454**	2,869	**2,406**	2,838
Other administrative expenses	**1,705**	1,446	**1,446**	1,262
	16,140	14,667	**15,577**	14,184

Additional disclosures on Directors' emoluments are made on pages 16 to 17 of the Remuneration Report.

The above administrative expenses are inclusive of applicable VAT under the Maltese legislation.

11. NET REVERSAL OF IMPAIRMENT LOSSES

	The Group / The Bank	
	2022	2021
	€000	€000
Charge for the year:		
- collective impairment	**(739)**	(987)
- individual impairment	**(1,216)**	(2,142)
- bad debts written off	**(191)**	(521)
	(2,146)	(3,650)
Reversal of write-downs:		
- collective impairment	**1,068**	4,555
- individual impairment	**1,332**	583
	2,400	5,138
Net reversal of impairment losses	**254**	1,488

	The Group / The Bank	
	2022	2021
	€000	€000
Cash and balances with Central Bank of Malta:		
- Stage 1	**10**	(7)
Loans and advances to banks:		
- Stage 1	**(44)**	18
Loans and advances to customers:		
- Stage 1	**(54)**	(88)
- Stage 2	**282**	3,195
- Stage 3	**(74)**	(2,080)
	154	1,027
Syndicated loans:		
- Stage 1	**278**	(184)
- Stage 2	**(64)**	590
	214	406
Debt securities at amortised cost:		
- Stage 1	**(141)**	13
Debt securities at FVTOCI:		
- Stage 1	**72**	22
- Stage 2	**(11)**	9
	61	31
Net reversal of impairment losses	**254**	1,488

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 €2,244K (2021: €2,695K).

12. INCOME TAX EXPENSE

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Current income tax	**9,413**	8,063	**9,293**	7,792
Deferred income tax	**480**	904	**480**	904
Income tax expense	**9,893**	8,967	**9,773**	8,696

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate in Malta of 35% (2021: 35%) for the years ended 31 December 2022 and 2021 is as follows:

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Profit before tax	**15,660**	24,068	**28,929**	23,737
Theoretical tax expense at 35%	**5,481**	8,424	**10,125**	8,308
Tax effect of:				
- Non-taxable sale of investments	**4,254**	(47)	**(510)**	(202)
- Income taxed at lower rates of tax	**(517)**	(439)	**(517)**	(439)
- Depreciation not recovered by way of capital allowance	**169**	149	**169**	149
- Other disallowed expenses	**715**	1,065	**715**	1,065
- Other differences	**(209)**	(185)	**(209)**	(185)
Income tax expense	**9,893**	8,967	**9,773**	8,696

13. EARNINGS PER SHARE

	The Group		The Bank	
	2022	2021	**2022**	2021
	cents per share	cents per share	**cents per share**	cents per share
Basic earnings per share	**1.8**	5.9	**6.1**	5.9

The basic earnings per share was calculated on profit attributable to shareholders of the Group; €5,767K (2021: €15,101K) and profit attributable to the Bank; €19,156K (2021: €15,041K) divided by the weighted average number of ordinary shares outstanding during the year amounting to 315,581K (Dec-21: 254,715K).

	The Group		The Bank	
	2022	2021	**2022**	2021
	cents per share	cents per share	**cents per share**	cents per share
Diluted earnings per share	**1.8**	5.9	**6.1**	5.9

The diluted earnings per share was calculated on profit attributable to shareholders of the Group; €5,767K (2021: €15,101K) and profit attributable to the Bank; €19,156K (2021: €15,041K) divided by the weighted average number of ordinary shares outstanding during the year, together with the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares, amounting to 316,251K (Dec-21: 255,158K).

14. DIVIDENDS

During the year under review the Bank distributed a final gross dividend of €4,615,385 (net dividend of €3,000,000) in cash. The Bank also distributed an interim gross dividend of €2,769,812 (net dividend of € 1,800,377) in the form of shares.

	The Group / The Bank	
	2022	2021
	€000	€000
Dividends paid on ordinary shares:		
Final gross of income tax for 2021:		
1.85 euro cents per share (2020: 1.48 euro cents per share)	**4,615**	3,692
Final net of income tax for 2021:		
1.20 euro cents per share (2020: 0.96 euro cents per share)	**3,000**	2,400
Interim gross of income tax for 2022:		
0.77 euro cents per share (2021: - euro cents per share)	**2,769**	-
Interim net of income tax for 2022:		
0.50 euro cents per share (2021: - euro cents per share)	**1,800**	-

During the year Group subsidiaries paid dividends amounting to €1,457K (2021: €1,133K) to their shareholders, including the Bank.

Details of the recommended final dividend for 2022 can be found on page 12 in the Directors' report.

15. CASH AND BALANCES WITH CENTRAL BANK OF MALTA

	The Group / The Bank	
	2022	2021
	€000	€000
Cash in hand (Note 44)	**13,499**	15,165
Balances with Central Bank of Malta (excluding reserve deposit) (Note 44)	**50,011**	173,072
Reserve deposit with Central Bank of Malta	**22,379**	19,498
Gross cash and bank balances	**85,889**	207,735
Less: allowance for impairment losses	**(2)**	(12)
Net cash and bank balances	**85,887**	207,723

Reserve deposits with CBM are mandatory and are not available for use in the Group's day-to-day operations. Included in balances with CBM is an amount of €2,506K (2021: €2,281K) 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.

16. LOANS AND ADVANCES TO BANKS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Repayable on call and at short notice (Note 44)	**72,945**	32,327	**71,098**	30,862
Gross loans and advances to banks (i)	**72,945**	32,327	**71,098**	30,862
Less: allowance for impairment losses (ii)	**(75)**	(31)	**(75)**	(31)
Net loans and advances to banks	**72,870**	32,296	**71,023**	30,831

16. LOANS AND ADVANCES TO BANKS (CONTINUED)

i. Gross loans and advances to customers analyzed by currency

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
- Euro	**38,846**	16,780	**36,999**	15,315
- Foreign	**34,099**	15,547	**34,099**	15,547
	72,945	32,327	**71,098**	30,862

ii. Impairment allowance for loans and advances to banks

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**31**	49
Charge/(reversal) for the year:	**44**	(18)
At 31 December	**75**	31

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

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Fixed income instruments and collective investment schemes	**41,046**	61,846	**-**	-
Analysed by currency:				
- Euro	**22,522**	35,866	**-**	-
- Foreign	**18,524**	25,980	**-**	-
	41,046	61,846	**-**	-
Listing Status:				
- Listed on MSE	**2,023**	2,311	**-**	-
- Listed elsewhere	**39,023**	59,535	**-**	-
	41,046	61,846	**-**	-

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Carrying amount				
At 1 January	**61,846**	50,636	**-**	251
Disposals	**98,742**	(34,640)	**-**	(250)
Acquisitions	**(99,655)**	46,243	**-**	-
Movement in fair value/foreign exchange	**(9,038)**	(393)	**-**	(1)
Derecognition of subsidiary	**(10,849)**	-	**-**	-
At 31 December	**41,046**	61,846	**-**	-

18. NON-CURRENT ASSETS HELD FOR SALE

	The Group / The Bank	
	2022	2021
	€000	€000
Property reclassified from investment properties (Note 26)	**1,733**	-

During the year under review the Group has put for sale one of its properties previously recognised as investment property. The asset continued to be measured at fair value.

Given that the asset is available for immediate sale, there is an active program to locate a buyer and since it is highly probable that the sale will take place within 12 months, the property has been reclassified from Investment property to non-current asset held for sale.

19. SYNDICATED LOANS

	The Group / The Bank	
	2022	2021
	€000	€000
Repayable within one year	**44,401**	61,904
Over one year	**91,585**	73,348
Gross syndicated loans (i)	**135,986**	135,252
Less: allowance for impairment losses (ii)	**(776)**	(990)
Net syndicated loans	**135,210**	134,262

i. Gross syndicated loans analyzed by currency

	The Group / The Bank	
	2022	2021
	€000	€000
- Euro	**93,897**	85,816
- Foreign	**42,089**	49,436
	135,986	135,252

ii. Impairment allowance for syndicated loans

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**990**	1,396
Collective charge for the year	**(214)**	(406)
At 31 December	**776**	990

The balance on impairment allowance for syndicated loans as at end of December 2022 and 2021 is all in respect of collective impairment losses.

19. SYNDICATED LOANS (CONTINUED)

Concentration of syndicated loans

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

	The Group / The Bank	
	2022	2021
	€000	€000
Agriculture	**4,757**	5,931
Manufacturing	**48,368**	62,106
Financial intermediation	**43,236**	52,047
Public administration	**-**	2,652
Real estate, renting and business	**21,000**	-
Health and social work	**18,625**	12,516
Gross syndicated loans	**135,986**	135,252

20. LOANS AND ADVANCES TO CUSTOMERS

	The Group / The Bank	
	2022	2021
	€000	€000
Repayable on call and at short notice	**80,512**	73,155
Term loans and advances	**2,163,164**	1,878,216
Gross loans and advances to customers (i)	**2,243,676**	1,951,371
Less: allowance for impairment losses (ii)	**(18,982)**	(19,327)
Net loans and advances to customers	**2,224,694**	1,932,044

i. Gross loans and advances to customers analyzed by currency

	The Group / The Bank	
	2022	2021
	€000	€000
- Euro	**2,235,635**	1,950,259
- Foreign	**8,041**	1,112
	2,243,676	1,951,371

ii. Impairment allowance for loans and advances to customers

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**19,327**	20,875
(Reversal)/charge for the year:		
- Collective	**(228)**	(3,107)
- Individual	**(117)**	1,559
At 31 December	**18,982**	19,327
- Collective impairment losses	**17,681**	17,798
- Individual impairment losses	**1,301**	1,529
	18,982	19,327

20. 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	
	2022	2021
	€000	€000
Agriculture	**5,859**	4,595
Fishing	**6,001**	16,089
Mining and quarrying	**4**	-
Manufacturing	**22,523**	29,342
Electricity, gas and water supply	**5,805**	4,519
Construction	**92,041**	79,943
Wholesale and retail trade	**50,722**	41,130
Hotels and restaurants, excluding related construction activities	**130,139**	131,845
Transport, storage and communication	**38,187**	28,741
Financial intermediation	**76,885**	80,590
Real estate, renting and business	**180,984**	120,083
Professional, scientific and technical	**13,191**	11,184
Administrative and support services	**7,769**	11,588
Public administration	**8,043**	6,099
Education	**7,211**	7,590
Health and social work	**12,354**	10,450
Community, recreational and personal service activities	**4,219**	4,556
Households and individuals	**1,581,739**	1,363,027
	2,243,676	1,951,371

21. DERIVATIVE FINANCIAL INSTRUMENTS

	The Group / The Bank	
	2022	2021
	€000	€000
Derivative assets, designated as at fair value through profit or loss, not designated as hedges	**738**	552
Derivative liabilities, designated as at fair value through profit or loss, not designated as hedges	**738**	552

Derivative financial liabilities comprise customer deposits on which the return varies with the performance of reference equity and commodity indices; the Group and the Bank manage the resulting market risks through purchased warrants that are presented as derivative financial assets. Although the warrants provide economic hedges, hedge accounting under IFRS 9 has not been applied.

	The Group / The Bank					
	Notional	**Assets**	**Liabilities**	Notional	Assets	Liabilities
	2022	**2022**	**2022**	2021	2021	2021
	€000	**€000**	**€000**	€000	€000	€000
Over the counter derivatives:						
Equity/commodity-index warrants purchased	**31,600**	**738**	**-**	25,100	552	-
Equity/commodity-index warrants written	**(31,600)**	**-**	**738**	(25,100)	-	552
	-	**738**	**738**	-	552	552

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

22. OTHER DEBT AND FIXED INCOME INSTRUMENTS

	The Group / The Bank	
	2022	2021
	€000	€000
At amortised cost	**317,877**	101,000
Fair value through other comprehensive income	**141,927**	227,103
Gross other debt and fixed income instruments (i)	**459,804**	328,103
Less: allowance for impairment losses (ii)	**(203)**	(62)
Net other debt and fixed income instruments	**459,601**	328,041

i. Gross other debt and fixed income instruments

	The Group / The Bank	
	2022	2021
At amortised cost	**€000**	€000
Issued by public bodies:		
- Local government	**43,419**	15,941
Issued by other issuers:		
- Foreign government	**218,095**	84,759
- Foreign other	**56,363**	300
	274,458	85,059
Total	**317,877**	101,000

	The Group / The Bank	
	2022	2021
Fair value through other comprehensive income	**€000**	€000
Issued by public bodies:		
- Local government	**63,798**	89,492
- Foreign government	**56,837**	62,993
	120,635	152,485
Issued by other issuers:		
- Foreign banks	**5,562**	22,548
- Foreign other	**15,687**	52,024
- Local other	**43**	46
	21,292	74,618
Total	**141,927**	227,103
Total gross other debt and fixed income instruments	**459,804**	328,103
Analysed by currency:		
- Euro	**423,327**	286,843
- Foreign	**36,477**	41,260
	459,804	328,103
Unamortised premiums included within the gross other debt and fixed income instrument	**6,651**	10,255

22. OTHER DEBT AND FIXED INCOME INSTRUMENTS (CONTINUED)

	The Group / The Bank	
	2022	2021
	€000	€000
Listing status:		
- Listed on MSE	**107,261**	105,478
- Listed elsewhere	**352,243**	222,325
- Unlisted	**300**	300
	459,804	328,103

	The Group / The Bank	
	2022	2021
Carrying amount– Gross of impairment allowances	**€000**	€000
At amortised cost		
At 1 January	**101,000**	104,307
Redemptions and disposals	**(5,003)**	(2,535)
Acquisitions	**222,644**	-
Amortisation	**(764)**	(772)
At 31 December	**317,877**	101,000

	The Group / The Bank	
	2022	2021
Carrying amount – Gross of impairment allowances	**€000**	€000
Fair value through other comprehensive income		
At 1 January	**227,103**	211,751
Redemptions and disposals	**(67,209)**	(19,756)
Acquisitions	**4,117**	33,525
Amortisation	**(1,596)**	(1,887)
Decrease in fair value	**(23,635)**	(6,692)
Exchange adjustments	**3,147**	10,162
At 31 December	**141,927**	227,103
Total	**459,804**	328,103

ii. Impairment allowance for debt and other fixed income instruments

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**62**	75
Collective charge/(reversal) for the year	**141**	(13)
At 31 December	**203**	62

The balance on impairment allowance for other debt and fixed income instruments as at end of December 2022 and 2021 is all in respect of collective impairment losses.

Eligible debt instruments with a nominal value of €225,800K (2021: €132,000K) have been pledged against the provision of credit lines by the CBM, under the usual terms and conditions applying to such agreements. Debt instruments with a nominal value of €3,850K (2021: €3,850K) have been pledged in favour of the MFSA's Depositors' Compensation Scheme.

23. EQUITY AND OTHER NON-FIXED INCOME INSTRUMENTS

	The Group / The Bank	
	2022	2021
	€000	€000
Equity and other non-fixed income instruments at FVTOCI	**303**	307
Analysed by currency:		
- Euro	**228**	228
- Foreign	**75**	79
	303	307

	The Group / The Bank	
	2022	2021
	€000	€000
Carrying amount		
At 1 January	**307**	303
Exchange adjustment	**(4)**	4
At 31 December	**303**	307

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 2022 (2021: same).

24. INVESTMENT IN SUBSIDIARIES

	2022	2021
The Bank	**€000**	€000
Cost		
At 1 January	**45,251**	45,251
Derecognition of a subsidiary to an associate (Note 25)	**(5,000)**	-
At 31 December	**40,251**	45,251

The investment in subsidiaries are made up as follows:

Name	Country of incorporation/ Principle place of business	Equity interest		Cost	
		2022	2021	**2022**	2021
		%	%	**€000**	€000
APS Funds SICAV plc 1,199 founder shares at €1.00 (2021: 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 (2021: 40,000,000 investor shares at €1.00)	**Malta**	**74.99**	76.67	**40,000**	40,000
APS Global Equity Fund** 2021: 5,000,000 investor shares at €1.00	**Malta**	**-**	51.79	**-**	5,000
ReAPS Asset Management Ltd 250,000 ordinary shares at €1.00 (2021: 250,000 ordinary shares at €1.00)	**Malta**	**100.00**	100.00	**250**	250
				40,251	45,251

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

** During the year under review the Group lost control over the APS Global Equity Fund which investment is being accounted for as an associate.

APS Diversified Bond Fund is held at cost in the Bank's separate financial statements. Currently the fund is being carried at an amount in excess of its fair value. Given that this is mainly due to the current interest rate environment, the Bank is confident that this unrealised loss is only temporary and there will be a recovery in the investment's market values during 2023.

24. INVESTMENT IN SUBSIDIARIES (CONTINUED)

	APS Diversified Bond Fund		APS Global Equity Fund		ReAPS Asset Management Ltd	
	2022	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000
Current assets	**43,370**	52,513	**-**	11,698	**2,604**	1,888
Current liabilities	**(93)**	(261)	**-**	(108)	**(1,107)**	(590)
Net assets value	**43,277**	52,252	**-**	11,590	**1,497**	1,298
(Loss)/Income	**(7,565)**	181	**-**	1,234	**1,785**	2,078
Expenses	**(498)**	(422)	**-**	(149)	**(1,478)**	(1,344)
(Loss)/profit before tax	**(8,063)**	(241)	**-**	1,085	**307**	734
Tax	**(13)**	(13)	**-**	(1)	**(107)**	(257)
(Loss)/profit after tax	**(8,076)**	(254)	**-**	1,084	**200**	477
Dividends paid to non-controlling interest	**232**	164	**77***	54	**-**	-

*Dividends paid to non-controlling interest until the date the Group lost control.

Following the loss of control of the APS Global Equity Fund, the Group derecognised retained earnings amounting to €480K. Total assets derecognised amounted to €11,729K whereas total liabilities amounted to €41K. Derecognition of Non-controlling interest upon loss of control amounted to €6,209K.

25. INVESTMENT IN ASSOCIATES

The Bank's investment in associates is as follows:

Name	Country of incorporation/ Principle place of business	Equity interest		Cost	
		2022	2021	**2022**	2021
		%	%	**€000**	€000
APS Income Fund 56,880 investor shares at €100.01 (2021: 98,853.14 investor shares at €100.01)	**Malta**	**9.07**	15.26	**5,688**	9,886
APS Regular Income Ethical Fund 1,000,000 investor shares at €1.00 (2021: 5,000,000 investor shares at €1.00)	**Malta**	**2.90**	15.29	**1,000**	5,000
APS Global Equity Fund** 5,000,000 investor shares at €1.00	**Malta**	**43.51**	-	**5,000**	-
IVALIFE Insurance Ltd 2,375,000 ordinary shares at €1.00 (2021: 1,875,000 ordinary shares at €1.00)	**Malta**	**25.00**	25.00	**2,375**	1,875
				14,063	16,761

**APS Global Equity Fund has been reclassified to an associate during the year under review and thus, it is showing as a subsidiary in the comparative year.

APS Regular Income Ethical Fund and APS Global Equity Fund are held at cost in the Bank's separate financial statements. Currently the funds are being carried at an amount in excess than their fair value. This is mainly due to the current interest rate environment as well as inflationary pressures which negatively impacted the market prices. The Bank is confident that this unrealised loss is only temporary and there will be a recovery in the investments' market values during 2023.

25. INVESTMENT IN ASSOCIATES (CONTINUED)

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

	APS Income Fund		APS Regular Income Ethical Fund		APS Global Equity Fund		IVALIFE Insurance Ltd	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000	**€000**	€000
Current assets	**69,785**	88,682	**34,353**	43,475	**11,177**	-	**4,525**	2,311
Non-current assets	**-**	-	**-**	-	**-**	-	**14,717**	9,243
Current liabilities	**(227)**	(273)	**(104)**	(169)	**(41)**	-	**(1,156)**	(741)
Non-current liabilities	**-**	-	**-**	-	**-**	-	**(11,818)**	(4,856)
Net assets value (NAV)	**69,558**	88,409	**34,249**	43,306	**11,136**	-	**6,268**	5,957
Split into:								
Accumulator shares	**17,890**	21,569	**14,620**	16,339	**3,587**	-	**-**	-
Distributor shares	**51,668**	66,840	**19,629**	26,967	**7,549**	-	**-**	-
	69,558	88,409	**34,249**	43,306	**11,136**	-	**-**	-
Group's share of:								
- Distributor shares' NAV	**6,311**	12,373	**992**	6,075	**4,845**	-	**-**	-
- NAV	**-**	-	**-**	-	**-**	-	**1,567**	1,490
(Loss)/Income	**(6,679)**	996	**(5,990)**	2,389	**(1,842)**	-	**912**	162
Expenses	**(812)**	(843)	**(505)**	(490)	**(188)**	-	**(3,422)**	(1,597)
(Loss)/profit before tax	**(7,491)**	153	**(6,495)**	1,899	**(2,030)**	-	**(2,510)**	(1,435)
Tax	**(262)**	(211)	**(80)**	(4)	**(37)**	-	**879**	503
(Loss)/profit after tax	**(7,753)**	(58)	**(6,575)**	1,895	**(2,067)**	-	**(1,631)**	(932)
Group's share of (loss)/profit for the year	**(705)**	(17)	**(389)**	271	**(711)**	-	**(408)**	(233)
Dividends paid to the Group	**216**	253	**32**	105	**62**	-	**-**	-

	2022	2021
	€000	€000
Carrying amount of the investment at 1 January	**19,803**	18,641
Share of associate's results, net of tax	**(2,213)**	21
Investment in associate	**500**	1,500
Dividend distribution	**(310)**	(359)
Part disposal of investment in associates	**(9,589)**	-
Retained interest following derecognition of subsidiary (Note 24)	**5,476**	-
Carrying amount of the investment at 31 December	**13,667**	19,803

The associates had no contingent liabilities or capital commitments as at 31 December 2022 (2021: the same).

APS Income Fund, APS Regular Income Ethical Fund and APS Global Equity Fund
The APS Income Fund, APS Regular Income Ethical Fund and APS Global Equity Fund are 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.

During the year under review the Group lost control over the APS Global Equity Fund through a dilution in its investment and as at year end the percentage holding was of 43.5%. In this respect the fund has been classified as an associate given that the Group still holds significant influence.

25. INVESTMENT IN ASSOCIATES (CONTINUED)

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

	APS Global Equity Fund	
	2022	2021
	€	€
Accumulator	**0.9999**	1.2036
Distributor	**0.9690**	1.19970

During the year under review, the Group disposed of a portion in its investment in associates, APS Income Fund and APS Ethical Income Fund. The proceeds from disposal of the investments amounted to €9.6 million.

As at end of December 2022, the Group held 9.1% and 2.9% in APS Income Fund and APS Ethical Income Fund respectively. The Group still holds significant influence in these investments and thus, have been treated as associates as at end of December 2022.

The following are the quoted market prices of the APS Income Fund as at end of December 2022 and December 2021 and represent Level 1 investments in the fair value hierarchy:

	APS Income Fund	
	2022	2021
	€	€
Accumulator	**172.1394**	189.7413
Distributor	**110.9545**	125.1633

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	
	2022	2021
	€	€
Accumulator Class A	**1.31910**	1.5665
Distributor Class B	**0.9924**	1.2149
Accumulator Class C	**1.31170**	1.5589
Distributor Class D	**0.9890**	1.21120

The fair value of the investments in APS Income Fund (Class D), APS Regular Income Ethical Fund (Class B) and APS Global Equity Fund (Class D) as at 31 December 2022 amounted to €12,148,492 (2021: €18,447,285). The fair value of the investment in IVALIFE Insurance Ltd as at 31 December 2022 amounted to €1,566,806 (2021: €1,489,538).

IVALIFE Insurance Ltd

During the financial year ended 31 December 2022, the Group made a further investment of €500,000 (Dec-21: €1,500,000) in IVALIFE Insurance Ltd (IVALIFE).

The Group is deemed to have a significant influence in the company and is measuring its investment as an associate.

26. INVESTMENT PROPERTIES

The Group's investment properties consist of commercial and residential properties in Malta. As at 31 December 2022 and 2021 the fair values of investment properties held by the Group were as follows:

	The Group / The Bank	
	2022	2021
	€000	€000
As at 1 January	**6,053**	1,830
Reclassification from property and equipment to investment property, net of depreciation	**2,100**	3,998
Improvements to property	**59**	24
Fair value movement	**114**	201
Reclassification from investment property to non-current assets held for sale (Note 18)	**(1,733)**	-
As at 31 December	**6,593**	6,053

During the year under review the Group did not repossess or sell any investment properties. However, the Group reclassified one of its investment properties to non-current assets held for sale. The fair value of the property was to deemed to be € 1,733K. During 2022 the Group also reclassified one of its properties from property, plant and equipment to Investment property.

Leased Investment Property

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 €177K (2021: €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	
	2022	2021
	€000	€000
Within one year	**177**	177
Within two years	**177**	177
Within three years	**177**	177
Within four years	**177**	177
Within five years	**177**	177
Over five years	**1,549**	1,726
	2,434	2,611

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

27. PROPERTY AND EQUIPMENT

The Group / The Bank	Land and Buildings €000	Computer Equipment €000	Other €000	Total €000
Cost or valuation				
At 1 January 2021	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
Additions	212	1,163	837	2,212
Reclassification to investment property	(2,100)	-	-	(2,100)
At 31 December 2022	**27,943**	**11,751**	**23,022**	**62,716**
Depreciation				
At 1 January 2021	1,166	6,657	12,539	20,362
(Reversal)/charge for the year	(135)	987	751	1,603
Reclassification to investmentproperty	(2)	-	-	(2)
Disposals	(99)	-	-	(99)
Accumulation of depreciation on revalued property	(258)	-	-	(258)
At 31 December 2021	672	7,644	13,290	21,606
Charge for the year	116	942	853	1,911
Prior year adjustments	(53)	-	-	(53)
At 31 December 2022	**735**	**8,586**	**14,143**	**23,464**
Net Book Value				
At 31 December 2022	**27,208**	**3,165**	**8,879**	**39,252**
At 31 December 2021	**29,159**	**2,944**	**8,895**	**40,998**
At 1 January 2021	**34,394**	**3,498**	**8,288**	**46,180**

	2022 €000	2021 €000
Future capital expenditure:		
- Authorised by the Directors and contracted	**757**	89
- Authorised by the Directors but not yet contracted	**2,475**	2,974
	3,232	3,063

The gross carrying amount of fully depreciated property and equipment that are still in use as at 31 December 2022 is of €17,992K (2021: €16,276K).

The revaluation decrease recognised during 2021 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 2022 that would have been recognised had these been carried under the cost model is €10,218K (2021: €12,169K) for both the Group and the Bank.

28. INTANGIBLE ASSETS

	The Group	The Bank
	Computer Software	Computer Software
	€000	€000
Cost		
At 1 January 2021	22,259	22,255
Additions	4,803	4,803
At 31 December 2021	27,062	27,058
Additions	5,063	5,063
At 31 December 2022	**32,125**	**32,121**
Amortisation		
At 1 January 2021	13,411	13,407
Charge for the year	1,905	1,905
At 31 December 2021	15,316	15,312
Charge for the year	2,264	2,264
At 31 December 2022	**17,580**	**17,576**
Net book value		
At 31 December 2022	**14,545**	**14,545**
At 31 December 2021	11,746	11,746
At 1 January 2021	8,848	8,848

	The Group / The Bank	
	2022	2021
	€000	€000
Future capital expenditure:		
- Authorised by the Directors and contracted	**7,835**	3,327
- Authorised by the Directors but not yet contracted	**6,661**	2,089
	14,496	5,416

The gross carrying amount of fully amortised intangible assets that are still in use as at 31 December 2022 is of €10,017K (2021: €9,527K).

29. 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. Where lessor consent is also required, the Group does not have enforceable rights over the periods covered by the extension options, and these optional periods are excluded from the lease term.

If the Group has the unilateral right to exercise extension options, the periods covered by the extension options are only included in the lease term if the Group has economic compulsion to exercise the option; those periods are excluded from the lease term where the Group could replace the assets without significant cost or business disruption.

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

Purchase options

The majority of the Group's leased vehicles have a term which varies between 5 to 7 years. The Group has the option to purchase these vehicles, however there is no intention to exercise the option when the lease term expires.

Moreover, additional vehicle lease agreements were entered into late during 2022 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 show the following amounts relating to leases:

	The Group / The Bank	
	2022	2021
	€000	€000
Right-of-use-assets		
Property	**4,717**	4,782
Equipment	**15**	19
Vehicles	**308**	250
	5,040	5,051
Lease liabilities		
Current	**630**	469
Non-Current	**4,616**	4,879
	5,246	5,348

Additions to the right-of-use assets during the year ended 31 December 2022 were €866K (2021: €768K), while derecognised leases for which the term expired in 2022 amounted to €260K (2021: €389K). Total cash outflows in relation to leases during the year amounted to €921K (2021: €585K).

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

	The Group / The Bank	
	2022	2021
	€000	€000
Depreciation charge on right-of-use assets		
Property	**544**	497
Equipment	**4**	-
Vehicles	**70**	65
	618	562
Other expenses recognised in profit or loss		
Interest expense (included in interest expense)	**119**	120
Expenses relating to leases of low-value assets (included in other administrative expenses)	**23**	75
	142	195

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.

Leases not yet commenced to which the lessee is committed

As at end of December 2022, there were no leases not yet commenced, to which the Group is committed (2021: same).

Residual Guarantees

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

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

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.

The following table shows the movement on the Lease liabilities:

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**5,348**	5,365
Additions	**933**	768
Disposals	**(326)**	(3)
Interest expense	**119**	120
Lease term adjustments	**-**	(386)
Lease liability Payments	**(828)**	(516)
At 31 December	**5,246**	5,348

30. OTHER RECEIVABLES

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Accrued income	**6,576**	6,491	**6,576**	6,491
Prepayments and other receivables	**1,440**	2,661	**600**	1,489
Amounts due from subsidiaries	**-**	-	**1,026**	323
	8,016	9,152	**8,202**	8,303

Amounts due from subsidiaries represent accrued income that is unsecured, do not bear interest, and will fall due for payment within three months.

31. DEFERRED TAX ASSETS

Deferred income tax at 31 December relates to the following:

	The Group / The Bank	
	2022	2021
	€000	€000
Fair value movements on investment securities	**709**	(496)
Fair value movements on investment properties	**(178)**	(164)
Impairment allowance for loans and advances to banks and customers	**6,942**	7,126
Impairment allowance for investment securities	**7**	21
Excess of capital allowances over depreciation	**(2,009)**	(1,756)
Movement on right-of-use assets	**72**	104
Revaluation of land and buildings	**(2,586)**	(2,586)
	2,957	2,249

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 €1,186K was credited (2021: €609K credited) directly in OCI. For details on other movements refer to Note 12.

32. AMOUNTS OWED TO BANKS

	The Group / The Bank	
	2022	2021
	€000	€000
With agreed maturity dates or periods of notice, by remaining maturity:		
- 3 months or less but not repayable on demand (Note 44)	**44,191**	49,463
- over 3 months but less than 1 year	**6,196**	-
- over 1 year	**-**	7,745
	50,387	57,208
Analysed by currency:		
- Euro	**6,210**	22,228
- Foreign	**44,177**	34,980
	50,387	57,208

33. AMOUNTS OWED TO CUSTOMERS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Term deposits	**902,252**	812,181	**902,252**	812,181
Repayable on demand	**1,808,381**	1,619,576	**1,810,552**	1,620,892
	2,710,633	2,431,757	**2,712,804**	2,433,073
Analysed by currency:				
- Euro	**2,631,933**	2,358,371	**2,634,104**	2,359,687
- Foreign	**78,700**	73,386	**78,700**	73,386
	2,710,633	2,431,757	**2,712,804**	2,433,073

34. ACCRUALS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Accrued interest payable	**4,471**	4,244	**4,471**	4,244
Other accruals	**9,150**	9,081	**9,090**	8,980
	13,621	13,325	**13,561**	13,224

35. DEBT SECURITIES IN ISSUE

	The Group / The Bank	
	2022	2021
	€000	€000
At 1 January	**54,597**	54,558
Amortisation of issuance costs	**45**	39
At 31 December	**54,642**	54,597

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.

36. OTHER LIABILITIES

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Bills payable	**9,679**	9,098	**9,679**	9,098
Other liabilities	**3,442**	1,352	**3,401**	1,306
	13,121	10,450	**13,080**	10,404

37. SHARE CAPITAL

	The Group / The Bank	
	2022	2021
	€000	€000
Authorised		
500,000,000 ordinary shares at €0.25 each (2021: 400,000,000 ordinary shares of €0.25 each)	**125,000**	100,000
Issued and fully paid		
366,917,168 ordinary shares of €0.25 each (2021: 249,715,662 ordinary shares of €0.25 each)	**91,729**	62,429

	The Group / The Bank			
			Number of Shares	Number of shares
	2022	2021	**2022**	2021
	€000	€000	**'000**	'000
At 1 January	**62,429**	62,255	**249,716**	249,019
Issue of new shares	**27,500**	-	**110,000**	-
Scrip dividend (Note 14)	**1,800**	174	**7,201**	697
At 31 December	**91,729**	62,429	**366,917**	249,716

During 2021, the Bank distributed a final gross dividend amounting to €3.7 million (net dividend of €2.4 million) (Note 14). Equity holders were given the option of a scrip dividend and share capital was accordingly increased by 696,462 shares. During 2022, the Group made an IPO of 100 million new ordinary shares subject to an over-allotment option of an additional 10 million new shares. The IPO was fully subscribed, and the Group's equity was accordingly increased by €65.8 million, with €27.5 million being the increase in share capital and €38.0 million being the increase in share premium (Note 38).

Following the publication of the interim results, the Group paid an interim gross dividend amounting to €2.8 million (net dividend of €1.8 million) (Note 14) payable through the issuance of new ordinary shares. The share capital was further increased to €91.7 million through capitalisation of retained earnings.

Further information on the Bank's Shareholders is disclosed in the Directors' Report and in Note 49.

38. SHARE PREMIUM

	The Group / The Bank	
	2022	2021
	'000	'000
At 1 January	**10,453**	10,140
Scrip dividend (Note 14)	**-**	313
Issue of new shares	**37,957**	-
At 31 December	**48,410**	10,453

The share premium reserve is not available for distribution.

39. 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	
	2022	2021
	€000	€000
Revaluation reserve on:		
Financial instruments at FVTOCI	**(12,085)**	10,268
Land and buildings	**15,066**	15,066
	2,981	25,334

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
At 1 January	**15,066**	15,880	**10,268**	16,380
Revaluation adjustment, gross of tax	**-**	(863)	**(23,539)**	(6,672)
Deferred tax thereon	**-**	49	**1,186**	560
At 31 December	**15,066**	15,066	**(12,085)**	10,268

The revaluation reserve is not available for distribution.

40. 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 €2,904K (2021: €1,700K) set aside for General Banking Risk under Banking Rule BR/09/2013.

41. NON-CONTROLLING INTEREST

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

	APS Diversified Bond Fund		APS Global Equity Fund		Total	
	2022	2021	**2022**	2021	**2022**	2021
	€000	€000	**€000**	€000	**€000**	€000
At 1 January	**12,837**	9,351	**5,795**	477	**18,632**	9,828
Creation of shares	**1,028**	4,453	**707**	4,900	**1,735**	9,353
Redemption of shares	**(631)**	(743)	**-**	(51)	**(631)**	(794)
Dividends paid	**(232)**	(164)	**(77)**	(54)	**(309)**	(218)
Profit after tax	**(2,020)**	(60)	**(216)**	523	**(2,236)**	463
Derecognition of subsidiary	**-**	-	**(6,209)**	-	**(6,209)**	-
At 31 December	**10,982**	12,837	**-**	5,795	**10,982**	18,632

42. CONTINGENT LIABILITIES

	The Group / The Bank	
	2022	2021
	€000	€000
Guarantees	**20,610**	21,278
Other contingent liabilities	**1,301**	4,078
	21,911	25,356

42. CONTINGENT LIABILITIES (CONTINUED)

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit and guarantees. The measurement of these instruments is disclosed in the accounting policies. The commitments primarily have one year expiry date to be withdrawn.

43. COMMITMENTS

	The Group / The Bank	
	2022	2021
	€000	€000
Undrawn formal standby facilities, credit facilities and other commitments to lend	**878,787**	802,552

Capital commitments, if any, are disclosed in Notes 27 – 31.

44. CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Cash in hand (Note 15)	**13,499**	15,165	**13,499**	15,165
Balances with Central Bank of Malta (excluding reserve deposit) (Note 15)	**50,011**	173,072	**50,011**	173,072
Loans and advances to banks (repayable within 3 months) (Note 16)	**72,945**	32,327	**71,098**	30,862
Amounts owed to banks (3 months or less) (Note 32)	**(44,191)**	(49,463)	**(44,191)**	(49,463)
Cash and cash equivalents included in the statements of cash flows	**92,264**	171,101	**90,417**	169,636

45. 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. 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.
- **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; Commercial amounting to €2,367K (2021: €3,926K) and Liquidity Management and Structured Loans amounting to €3,981K (2021: €6,346K). 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 €6,348K (2021: €10,272K).

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.

45. OPERATING SEGMENTS (CONTINUED)

The Group	Retail Dec-22 €000	Retail Dec-21 €000	Commercial Dec-22 €000	Commercial Dec-21 €000	Investment Services Dec-22 €000	Investment Services Dec-21 €000	Liquidity Management and Structured Loans Dec-22 €000	Liquidity Management and Structured Loans Dec-21 €000	Total Reportable Segments Dec-22 €000	Total Reportable Segments Dec-21 €000
Interest and similar income from external customers	**40,581**	34,330	**24,498**	23,217	**-**	-	**12,267**	9,161	**77,346**	66,708
Interest expense	**(12,114)**	(12,042)	**(603)**	(695)	**-**	-	**(1,960)**	(942)	**(14,677)**	(13,679)
Intersegment transactions	**6,348**	10,272	**(2,367)**	(3,926)	**-**	-	**(3,981)**	(6,346)	**-**	-
Net fee and commission income and other income	**1,291**	955	**3,255**	2,767	**1,790**	2,708	**1,884**	1,939	**8,220**	8,369
Net (losses)/gains on financial instruments	**-**	-	**-**	-	**-**	-	**(8,870)**	420	**(8,870)**	420
Operating income before net impairments	**36,106**	33,515	**24,783**	21,363	**1,790**	2,708	**(660)**	4,232	**62,019**	61,818
Impairment (losses)/gains	**(110)**	2,970	**454**	(1,426)	**-**	-	**101**	298	**445**	1,842
Net operating income	**35,996**	36,485	**25,237**	19,937	**1,790**	2,708	**(559)**	4,530	**62,464**	63,660
Personnel expenses	**(3,342)**	(3,505)	**(1,370)**	(1,292)	**(2,128)**	(1,678)	**(522)**	(397)	**(7,362)**	(6,872)
Other administrative and operating expenses	**(521)**	(642)	**(58)**	(31)	**(532)**	(422)	**(260)**	(246)	**(1,371)**	(1,341)
Operating expenses	**(3,863)**	(4,147)	**(1,428)**	(1,323)	**(2,660)**	(2,100)	**(782)**	(643)	**(8,733)**	(8,213)
Net operating profit before associates' results	**32,133**	32,338	**23,809**	18,614	**(870)**	608	**(1,341)**	3,887	**53,731**	55,447
Share of results from associates	**-**	-	**-**	-	**-**	-	**(2,213)**	21	**(2,213)**	21
Profit/(loss) before tax as per segments	**32,133**	32,338	**23,809**	18,614	**(870)**	608	**(3,554)**	3,908	**51,518**	55,468
Less: Unallocated items	**-**	-	**-**	-	**-**	-	**-**	-	**(35,858)**	(31,400)
Profit/(loss) before tax as per statements of profit or loss	**32,133**	32,338	**23,809**	18,614	**(870)**	608	**(3,554)**	3,908	**15,660**	24,068

	Retail Dec-22 €000	Retail Dec-21 €000	Commercial Dec-22 €000	Commercial Dec-21 €000	Investment Services Dec-22 €000	Investment Services Dec-21 €000	Liquidity Management and Structured Loans Dec-22 €000	Liquidity Management and Structured Loans Dec-21 €000	Total Reportable Segments Dec-22 €000	Total Reportable Segments Dec-21 €000
Total assets as per segments	**1,523,605**	1,302,478	**701,089**	629,567	**-**	-	**809,322**	787,710	**3,034,016**	2,719,755
Add: Unallocated items									**78,136**	75,249
Total assets as per statements of financial position									**3,112,152**	2,795,004
Investment in associates	**-**	-	**-**	-	**-**	-	**13,667**	19,803	**13,667**	19,803
Total liabilities as per segments	**2,522,220**	2,243,360	**188,413**	188,397	**-**	-	**105,767**	112,357	**2,816,400**	2,544,114
Add: Unallocated items									**34,294**	30,068
Total liabilities as per statements of financial position									**2,850,694**	2,574,182

45. OPERATING SEGMENTS (CONTINUED)

	Dec-22	Dec-21
	€000	€000
Profit before tax		
As per reportable segments	51,518	55,468
Unallocated items:		
Interest receivable	2,424	2,340
Net fee and commission income and other income	219	(1,009)
Personnel expenses	(19,150)	(15,357)
Professional fees	(1,559)	(1,313)
Repairs and maintenance	(4,740)	(4,102)
Telecommunications	(713)	(721)
Other administrative expenses	(7,371)	(6,814)
Depreciation and amortisation	(4,777)	(4,070)
Write-offs	(191)	(354)
As per statements of profit or loss	15,660	24,068

	Dec-22	Dec-21
	€000	€000
Total assets		
As per reportable segments	3,034,016	2,719,755
Unallocated items:		
Investment properties	6,593	6,053
Non-current assets held for sale	1,733	-
Property and equipment	39,252	40,998
Intangible assets	14,545	11,746
Right-of use assets	5,040	5,051
Deferred tax assets	2,957	2,249
Other receivables	8,016	9,152
As per statements of financial position	3,112,152	2,795,004

	Dec-22	Dec-21
	€000	€000
Total liabilities		
As per reportable segments	2,816,400	2,544,114
Unallocated items:		
Current tax	2,306	945
Lease liabilities	5,246	5,348
Other liabilities	13,121	10,450
Accruals	13,621	13,325
As per statements of financial position	2,850,694	2,574,182

46. RELATED PARTY DISCLOSURES

The Group's structure

The consolidated financial statements of the Group include the financial statements of APS Bank plc and its subsidiaries and associates, as disclosed in Notes 24 and 25 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 Ltd is APS Centre, Tower Street, Birkirkara, BKR 4012. The registered office of IVALIFE Insurance Ltd 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 49.

Related party transactions

The following tables provide the total amount of transactions, which have been entered into by the Group and the Bank with the shareholders, key management personnel, subsidiaries, associates and other related parties for the year under review:

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Interest and similar income:				
Shareholders	**15**	5	**15**	5
Key management personnel	**36**	32	**36**	32
Other related parties	**255**	63	**255**	63
Fee and commission income:				
ReAPS Asset Management Ltd	**-**	-	**803**	1,230
APS Income Fund	**576**	663	**-**	-
APS Regular Income Ethical Fund	**360**	382	**-**	-
APS Global Equity Fund	**110**	-	**-**	-
IVALIFE Insurance Ltd	**37**	15	**-**	-
Shareholders	**211**	497	**-**	52
Other related parties	**147**	183	**-**	-
Interest expense:				
APS Income Fund	**7**	18	**7**	18
Shareholders	**136**	179	**136**	179
Key management personnel	**15**	7	**15**	7
Other related parties	**8**	38	**8**	38
Personnel expenses:				
Key management personnel	**4,938**	3,712	**4,938**	3,712
General administrative expenses:				
Shareholders	**221**	278	**221**	278

	The Group		The Bank	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Amounts due (to)/from related parties				
ReAPS Asset Management Ltd	**-**	-	**(1,145)**	(1,002)
APS Income Fund	**(738)**	(3,097)	**(870)**	(3,263)
APS Regular Income Ethical Fund	**86**	105	**-**	(1)
APS Global Equity Fund	**28**	-		
IVALIFE Insurance Ltd	**15**	18	**-**	-
Other related parties	**40**	65	**-**	-

46. 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 include short-term employee benefits as well as a share incentive plan (2021: only short-term employee benefits).

b) Outstanding balances with Directors

	2022	2021
	€000	€000
Loans and advances	**762**	690
Commitments	**551**	197

	2022	2021
	€000	€000
Loans and advances	**7,919**	7,572
Commitments	**1,507**	699

	Balances as at 31.12.2022	**Interest income 2022**	Balances as at 31.12.2021	Interest income 2021
	€000	**€000**	€000	€000
Amounts due from other related parties:				
Shareholders and entities with common directorship	**7,954**	252	7,978	246

	Balances as at 31.12.2022	**Interest expense 2022**	Balances as at 31.12.2021	Interest expense 2021
	€000	**€000**	€000	€000
Amounts due to other related parties:				
- Shareholders	**12,436**	136	16,353	179
- Bank Directors	**1,617**	-	1,267	-
- Other key management personnel	**2,173**	15	2,005	7
- Other related parties	**2,952**	8	3,417	8

There are no deposits held as collateral for loan commitments and overdraft facilities granted to related parties (2021: same). Also, included in Amounts owed to customers are term deposits of €10,947,032 (2021: €4,067,231), which bear interest at the prevailing Bank rates. Furthermore, the amounts due from other related parties include secured facilities of €7,953,687 (2021: €7,975,996) and no unsecured facilities (2021: €2,141).

For the year ended 31 December 2022, the Bank recognised a loss allowance on receivables from related parties amounting to €3,030 (2021: €2,285).

No guarantees were received by related parties as at end of December 2022 (2021: nil). Special guarantees given to related parties amount to €121,121 (2021: €103,414).

47. FAIR VALUES

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

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

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

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

	Fair value measurement hierarchy			
	Level 1	Level 2	Level 3	Total
The Group	**€000**	**€000**	**€000**	**€000**
Assets as at 31 December 2022				
Property and Equipment (Note 27)				
- Land and buildings	-	-	27,208	27,208
Investment properties (Note 26)				
- Residential property	-	-	495	495
- Commercial property			6,098	6,098
Non-current assets held for sale (Note 18)	-	-	1,733	1,733
Derivative assets not designated as hedges (Note 21)	-	738	-	738
Financial assets at FVTPL (Note 17)				
- Fixed income instruments and collective investment schemes	41,046	-	-	41,046
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 22)	141,927	-	-	141,927
- Equity and other non-fixed income instruments (Note 23)	-	-	303	303
Total	**182,973**	**738**	**35,837**	**219,548**
Liabilities as at 31 December 2022				
Derivative liabilities not designated as hedges (Note 21)	-	738	-	738
Total	**-**	**738**	**-**	**738**

	Fair value measurement hierarchy			
	Level 1	Level 2	Level 3	Total
The Group	**€000**	**€000**	**€000**	**€000**
Assets as at 31 December 2021				
Property and Equipment (Note 27)				
- Land and buildings	-	-	29,159	29,159
Investment properties (Note 26)				
- Residential property	-	-	495	495
- Commercial property	-	-	5,558	5,558
Derivative assets not designated as hedges (Note 21)	-	552	-	552
Financial assets at FVTPL (Note 17)				
- Fixed income instruments and collective investment schemes	61,846	-	-	61,846
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 22)	227,103	-	-	227,103
- Equity and other non-fixed income instruments (Note 23)	-	-	307	307
Total	**288,949**	**552**	**35,519**	**325,020**
Liabilities as at 31 December 2021				
Derivative liabilities not designated as hedges (Note 21)	-	552	-	552
Total	**-**	**552**	**-**	**552**

47. FAIR VALUES (CONTINUED)

The Bank	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
	Fair value measurement hierarchy			
Assets as at 31 December 2022				
Property and equipment (Note 27)				
- Land and buildings	-	-	27,208	27,208
Investment properties (Note 26)				
- Residential property	-	-	495	495
- Commercial property	-	-	6,098	6,098
Non-current assets held for sale (Note 18)	-	-	1,733	1,733
Derivative assets not designated as hedges (Note 21)	-	738	-	738
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 22)	141,927	-	-	141,927
- Equity and other non-fixed income instruments (Note 23)	-	-	303	303
Total	**141,927**	**738**	**35,837**	**178,502**
Liabilities as at 31 December 2022				
Derivative liabilities not designated as hedges (Note 21)	-	738	-	738
Total	**-**	**738**	**-**	**738**

The Bank	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
	Fair value measurement hierarchy			
Assets as at 31 December 2021				
Property and equipment (Note 27)				
- Land and buildings	-	-	29,159	29,159
Investment properties (Note 26)				
- Residential property	-	-	495	495
- Commercial property	-	-	5,558	5,558
Derivative assets not designated as hedges (Note 21)	-	552	-	552
Financial assets at FVTPL (Note 17)				
- Fixed income instruments and collective investment schemes	-	-	-	-
Financial assets at FVTOCI				
- Other debt and fixed income instruments (Note 22)	227,103	-	-	227,103
- Equity and other non-fixed income instruments (Note 23)	-	-	307	307
Total	**227,103**	**552**	**35,519**	**263,174**
Liabilities as at 31 December 2021				
Derivative liabilities not designated as hedges (Note 21)	-	552	-	552
Total	**-**	**552**	**-**	**552**

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.

47. FAIR VALUES (CONTINUED)

Investment properties

For the year ended 31 December 2021, an independent architect was engaged to provide the valuations of the investment properties. The valuations were based 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 are then applied to arrive at the value of the subject property. Market value in relation to the commercial property was based on the average price of €4,115 per square metre whereas the price of residential property was of €2,346 per square metre.

For the current financial year, no valuation adjustments were recognised given that the fair value movement over the last year was not material.

There were no fair value movements on investment properties during the year under review (2021: €201K) except for one of the properties which was reclassified to non-current assets held for sale (Note 18). An independent architect was engaged to provide the valuation of the specific property prior to effecting the reclassification, with the fair value movement amounting to €114K. Investment properties are being used in their highest and best use.

Significant increases/(decreases) in estimated market rates per square metre 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 (decrease)/increase in the estimated property values.

As at the end of 31 December 2022 (2021: nil) the Group has no restrictions on the realisation of investment properties in Note 26.

The fair value movement in relation to 2022 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**	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
At 1 January	**495**	400	**5,558**	1,430
Improvements	**-**	-	**59**	24
Reclassification from property and equipment, net of depreciation	**-**	-	**2,100**	3,998
Reclassification from Investment properties to non-current assets held for sale, net of depreciation	**-**	-	**(1,733)**	-
Fair value movement	**-**	95	**114**	106
At 31 December	**495**	495	**6,098**	5,558

Non-current assets held for sale

During the year under review the Group reclassified one of its properties from investment property to non-current assets held for sale.

The property is available for immediate sale. There is an active program to locate a buyer and it is highly probable that it will take place within 12 months.

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 current financial year, in line with the Bank's revaluation property, a desktop assessment was carried out and determined that the fair value of the properties is not significantly different than the carrying amount and thus, no external valuations have been carried out as at end of December 2022.

47. FAIR VALUES (CONTINUED)

Property and equipment – Land and buildings (continued)

During 2021, the fair value of the land and buildings decreased by €1,784K (Note 27). Significant increases/(decreases) in estimated market rates per square metre in isolation would result in a significantly higher/(lower) fair value of the properties.

No valuations have taken place during the year under review. The properties are being used at their highest and best use.

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 €317.9 million (2021: €101.0 million). Their market value amounted to €301.0 million (2021: €107.7 million) (Level 1), while their nominal value amounted to €316.7 million (2021: €98.3 million). For other details refer to Note 22.

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 €135.2 million (2021: €134.3 million). Their market value amounted to €134.3 million (2021: €134.6 million) (Level 2), while their nominal value amounted to €135.7 million (2021: €124.6 million). For other details refer to Note 19.

Amounts owed to banks and customers include deposit liabilities. Of this category of liability, 87% (2021: 84%) have contractual re-pricing within one year, while 13% (2021: 16%) 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 €367.8 million (2021: €401.2 million), fair value is €367.8 million (2021: €401.2 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 (2021: €54.6 million) at 31 December 2022. The market value, based on quoted prices in an active market (Level 1), amounted to €52.1 million at 31 December 2022 (2021: €56.4 million).

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

	2022	2021
	€000	€000
At 1 January	**307**	303
Exchange rate movement	**(4)**	4
At 31 December	**303**	307

48. RISK MANAGEMENT

48.1 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board established the Risk Committee which 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.

48.2 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.

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

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	
	2022	2021
	€000	€000
Loan commitments	**878,787**	802,552
Guarantees, acceptance and other financial facilities	**21,911**	25,356
	900,698	827,908

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 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 48.2.1.1.

48.2.1 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.

48.2.1.1 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.

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 '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's credit grades. Again, these credit grades are frequently reviewed and monitored for immediate update where necessary.

The Group's internal gradings for loans and advances comprise of nine rating levels including three default classes, while 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 increases 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.

48.2.2 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 48.2.2.1 describes how the Group determines when a SICR has occurred;

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.2 ECL Measurement (continued)

- if the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Note 48.2.2.2 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 48.2.2.3 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 48.2.2.4 includes an explanation of how the Group has incorporated this in its ECL models.

Further disclosure is also provided in Note 48.2.2.5 on how the Group determines appropriate groupings when ECL is measured on a collective basis.

48.2.2.1 Significant increase in Credit Risk (SICR)

The diagram below summarises the impairment requirements under IFRS 9.

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

Under IFRS 9, when determining whether the credit risk (ie risk of default) on a financial instrument has increased significantly since initial recognition, the Group considers 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 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 are 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 applies 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 is 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 (eg overdrafts), a considerable amount of time may have passed since the facility was first entered into. 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 varies by portfolio and includes a backstop based on delinquency.

Quantitative Criteria:

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

Qualitative Criteria:

Using its expert credit judgement and, where possible, relevant historical experience, the Group may determine that an exposure has undergone a 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 ie 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:

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

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.2 ECL Measurement (continued)

48.2.2.1 Significant increase in Credit Risk (SICR) (continued)

- 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.

48.2.2.2 Definition of Default and credit impaired

Under IFRS 9, the Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- with respect to loans and advances to customers, the borrower is more than 90 days past due on any material credit obligation to the Group. Overdrafts are considered past due once the customer has either exceeded a sanctioned limit or has been advised of a limit that is smaller than the current balance outstanding; or
- with regards to investments' portfolio and syndicated loans' portfolio, a payment by the counterparty or issuer is more than 30 days past due.

In assessing whether a borrower is in default, the Group considers indicators that are:

- qualitative: eg breaches of covenant;
- quantitative: eg 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 (ie 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.

48.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month 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 is estimated based on historical observations and forward-looking forecasts. For some financial assets, the Group determines EAD by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques;
- LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims, adjusted by the cure rates, against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are calibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the EIR as the discounting factor.

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls ie, 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

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.2 ECL Measurement (continued)

48.2.2.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

options) over which it is exposed to credit risk, even when, 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 is 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.

48.2.2.4 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.

A third party provider has been engaged to provide, on a regular basis, the forecasted macro-economic scenarios covering a 10-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 table below illustrates the macro-economic indicators incorporated in the IFRS 9 model, for each macro-economic scenario:

	Scenarios					
	2022			2021		
Macro-Economic Variables	**Baseline**	**Upside**	**Downside**	Baseline	Upside	Downside
INDICATORS						
GDP (%)	**8.73**	**9.34**	**7.59**	7.32	8.02	6.4
Inflation rates (%)	**2.03**	**2.03**	**2.03**	3.06	3.11	2.95
Unemployment rates (%)	**3.96**	**3.94**	**4.02**	4.64	4.63	4.73

This 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.

Due to the current macroeconomic environment, including but not limited to the geopolitical situation, inflationary pressures, expected increase in energy prices and change in interest rates, for the ECL calculation as at the reporting date, the management also updated the sensitivities on parameters to different economic activities, which are normally updated semi-annually. Consequently, these sensitivities reflected the latest inflationary pressures within the local economy.

Moreover, the Group has determined that there is no material exposure towards Russia and Ukraine, hence the management concluded that an overlay in this regard was not required.

48.2.2.5 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 (eg residential/buy to let mortgage, credit cards);
- credit risk grades; and
- industry – taking into consideration external information.

The groupings selected by the Group are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous. During the period, the Group has performed a modification within the segmentation of the loans and advances to customers' portfolio, as there were no sufficient historical data for particular segments to produce accurate results and at present, the groups are classified as follows;

- loans and advances to customers;
  - a) mortgages;
  - b) personal;
  - c) commercial;
- loans and advances to banks;
- debt instruments; and
- syndicated loans.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

48.2.3 Credit Risk Exposure

48.2.3.1 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.

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.3 Credit Risk Exposure (continued)

48.2.3.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

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	
	2022	2021	**2022**	2021
	€000	€000	**€000**	€000
Cash and balances with Central Bank of Malta (excluding cash in hand)	**72,388**	192,558	**72,388**	192,558
Cheques in course of collection	**-**	2,881	**-**	2,881
Loans and advances to banks	**72,870**	32,296	**71,023**	30,831
Financial assets at FVTPL	**41,046**	61,846	**-**	-
Syndicated loans (net)	**135,210**	134,262	**135,210**	134,262
Loans and advances to customers (net)	**1,632,294**	1,413,857	**1,632,294**	1,413,857
Loans and advances to corporate entities (net)	**592,400**	518,187	**592,400**	518,187
Derivative financial instruments	**738**	552	**738**	552
Other debt and fixed income instruments (net)	**459,601**	328,041	**459,601**	328,041
Other receivables	**8,014**	9,152	**8,202**	8,303
As at 31 December	**3,014,561**	**2,693,632**	**2,971,856**	**2,629,472**
Credit risk exposures relating to off-balance sheet items are as follows:				
Financial guarantees and other contingent liabilities	**21,911**	25,356	**21,911**	25,356
Commitments	**878,787**	802,552	**878,787**	802,552
As at 31 December	**900,698**	**827,908**	**900,698**	**827,908**

48.2.3.2 Concentration of risk

The Group	**Financial Institutions**	**Manufacturing**	**Real Estate**	**Wholesale and Retail Trade**	**Public Sector**	**Other Industries**	**Individuals**	**Total**
Concentrations of risk	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash and balances with Central Bank of Malta (excluding cash in hand) (gross)	72,390	-	-	-	-	-	-	72,390
Loans and advances to banks (gross)	72,945	-	-	-	-	-	-	72,945
Financial assets at FVTPL	7,430	2,301	-	-	17,804	13,511	-	41,046
Syndicated loans (gross)	43,235	48,417	18,000	-	-	26,334	-	135,986
Loans and advances to customers (gross)	3,018	22,525	269,592	50,722	21,132	294,919	1,581,768	2,243,676
Derivative financial instruments	738	-	-	-	-	-	-	738
Other debt and fixed income instruments (gross)	56,037	9,325	761	9,259	381,855	2,567	-	459,804
Other receivables	-	-	-	-	-	8,014	-	8,014
As at 31 December 2022	**255,793**	**82,568**	**288,353**	**59,981**	**420,791**	**345,345**	**1,581,768**	**3,034,599**
Financial guarantees and other contingent liabilities	770	316	4,210	1,651	-	14,400	564	21,911
Commitments	16,418	17,283	161,316	24,969	1,920	123,836	533,045	878,787
As at 31 December 2022	**17,188**	**17,599**	**165,526**	**26,620**	**1,920**	**138,236**	**533,609**	**900,698**

The Group	Financial Institutions	Manufacturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
Concentrations of risk	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash and balances with Central Bank of Malta (excluding cash in hand)	192,570	-	-	-	-	-	-	192,570
Cheques in course of collection	2,881	-	-	-	-	-	-	2,881
Loans and advances to banks	32,327	-	-	-	-	-	-	32,327
Financial assets at FVTPL	10,233	4,320	-	-	17,108	30,185	-	61,846
Syndicated loans (gross)	27,494	68,701	-	-	2,652	36,405	-	135,252
Loans and advances to customers (gross)	3,726	22,747	200,116	41,121	6,099	314,624	1,362,938	1,951,371
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	-	-	-	-	-	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 Bank	Financial Institutions	Manufacturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
Concentrations of risk	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash and balances with Central Bank of Malta (excluding cash in hand)	72,390	-	-	-	-	-	-	72,390
Loans and advances to banks (gross)	71,098	-	-	-	-	-	-	71,098
Syndicated loans (gross)	43,235	48,417	18,000	-	-	26,334	-	135,986
Loans and advances to customers (gross)	3,018	22,525	269,592	50,722	21,132	294,919	1,581,768	2,243,676
Derivative financial instruments	738	-	-	-	-	-	-	738
Other debt and fixed income instruments (gross)	56,037	9,325	761	9,259	381,855	2,567	-	459,804
Other receivables	-	-	-	-	-	8,202	-	8,202
As at 31 December 2022	**246,516**	**80,267**	**288,353**	**59,981**	**402,987**	**332,022**	**1,581,768**	**2,991,894**
Financial guarantees and other contingent liabilities	770	316	4,210	1,651	-	14,400	564	21,911
Commitments	16,418	17,283	161,316	24,969	1,920	123,836	533,045	878,787
As at 31 December 2022	**17,188**	**17,599**	**165,526**	**26,620**	**1,920**	**138,236**	**533,609**	**900,698**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.3 Credit Risk Exposure (continued)

48.2.3.2 Concentration of risk (continued)

The Bank	Financial Institutions	Manufacturing	Real Estate	Wholesale and Retail Trade	Public Sector	Other Industries	Individuals	Total
Concentrations of risk	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Cash and balances with Central Bank of Malta (excluding cash in hand)	192,570	-	-	-	-	-	-	192,570
Cheques in course of collection	2,881	-	-	-	-	-	-	2,881
Loans and advances to banks (gross)	30,862	-	-	-	-	-	-	30,862
Syndicated loans (gross)	27,494	68,701	-	-	2,652	36,405	-	135,252
Loans and advances to customers (gross)	3,726	22,747	200,116	41,121	6,099	314,624	1,362,938	1,951,371
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**

48.2.3.3 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, 88.22% (2021: 87.38%) 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 2022, no new properties were repossessed (2021: nil).

The Group also makes use of master netting agreements with counter parties. As at 31 December 2021 and 31 December 2022 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 €1,354 million as at 31 December 2022 (2021: €1,214 million).

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.3 Credit Risk Exposure (continued)

48.2.3.3 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.

31 December 2022	Gross Exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**€000**	**€000**	**€000**	**€000**
Loans to individuals:				
- Overdraft	2,009	1,686	323	213
- Term Loans	3,144	731	2,413	2,451
- Home Loans	9,392	2,341	7,051	6,955
Loans to corporate entities:				
- Small and medium-sized enterprises (SMEs)	65,879	12,923	52,956	53,358
Total credit-impaired assets	**80,424**	**17,681**	**62,743**	**62,977**

31 December 2021	Gross Exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**€000**	**€000**	**€000**	**€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 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)	
	2022	2021
Home loans portfolio- LTV distribution	**€000**	€000
Lower than 50%	**2,174**	2,736
50 to 60%	**1,280**	298
60 to 70%	**974**	576
70 to 80%	**2,445**	1,384
80 to 90%	**1,310**	1,372
90 to 100%	**551**	933
Higher than 100%	**658**	509
Total	**9,392**	7,808

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.3 Credit Risk Exposure (continued)

48.2.3.4 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	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
31 December 2022	**€000**	**€000**	**€000**	**€000**
Loans and advances to customers at amortised cost				
Grade 1-4: Low risk	2,052,270	-	-	2,052,270
Grades 5-6: Watch & substandard	-	110,982	-	110,982
Grade 7: Doubtful	-	-	56,270	56,270
Grade 8: Classified	-	-	24,154	24,154
Loss allowance	(731)	(570)	(17,681)	(18,982)
Carrying amount	**2,051,539**	**110,412**	**62,743**	**2,224,694**
Debt securities – At amortised cost				
Investment grade	315,078	-	-	315,078
Sub-investment grade	2,799	-	-	2,799
Loss allowance	(203)	-	-	(203)
Carrying amount	**317,674**	**-**	**-**	**317,674**
Debt securities - FVTOCI				
Investment grade	141,696	-	-	141,696
Sub-investment grade	44	187	-	231
Carrying amount	**141,740**	**187**	**-**	**141,927**
Syndicated loans				
Grade 1-4: Low risk	7,318	-	-	7,318
Investment grade	37,253	-	-	37,253
Sub-investment grade	59,327	32,088	-	91,415
Loss allowance	(574)	(202)	-	(776)
Carrying amount	**103,324**	**31,886**	**-**	**135,210**
Cash and balances with Central Bank of Malta				
Investment grade	85,889	-	-	85,889
Loss allowance	(2)	-	-	(2)
Carrying amount	**85,887**	**-**	**-**	**85,887**
Loans and advances to banks				
Investment grade	71,098	-	-	71,098
Loss allowance	(75)	-	-	(75)
Carrying amount	**71,023**	**-**	**-**	**71,023**

The Bank	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
31 December 2021	**€000**	**€000**	**€000**	**€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**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.3 Credit Risk Exposure (continued)

48.2.3.4 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 2022 €000	Of which forborne 2022 €000	Total 2021 €000	Of which forborne 2021 €000
Performing				
Stage 1	**2,052,270**	**37,306**	1,741,052	24,688
Stage 2	**110,982**	**58,657**	132,209	81,628
Non-Performing				
Stage 3	**80,424**	**30,985**	78,110	48,963
Total gross/forborne exposures	**2,243,676**	**126,948**	1,951,371	155,279

48.2.4 Loss Allowance

The loss allowance recognised during the period is impacted by a variety of factors, as described below:

- 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; and
- financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

The Group/The Bank Loans and advances to customers at amortised cost	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL (but not POCI) €000	Total €000
Loss allowance as at 1 January 2022	677	852	17,798	19,327
Movements in loss allowance				
Transfers:				
Transfer to/(from) Stage 2	-	(87)	-	(87)
Transfer to/(from) Stage 3	-	-	(491)	(491)
Write-offs	-	-	(191)	(191)
New financial assets originated or purchased	168	45	974	1,187
Financial assets derecognised during the period	(76)	(175)	242	(9)
Decreases due to change in credit risk	(38)	(65)	(651)	(754)
Loss allowance as at 31 December 2022	**731**	**570**	**17,681**	**18,982**

The Group/The Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Loans and advances to customers at amortised cost	**€000**	**€000**	**€000**	**€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	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Debt securities at amortised cost	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2022	62	-	-	62
New financial assets originated or purchased	137	-	-	137
Financial assets derecognised during the period	(5)	-	-	(5)
Increases due to change in credit risk	9	-	-	9
Loss allowance as at 31 December 2022	**203**	**-**	**-**	**203**

The Group/The Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Debt securities at amortised cost	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2021	75	-	-	75
New financial assets originated or purchased	(2)	-	-	(2)
Decreases due to change in credit risk	(11)	-	-	(11)
Loss allowance as at 31 December 2021	**62**	**-**	**-**	**62**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.4 Loss Allowance (continued)

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Debt securities at FVTOCI	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2022	215	-	-	215
Movements in loss allowance				
Transfers:				
Transfer from Stage 1	(9)	-	-	(9)
Transfer to Stage 2	-	9	-	9
Financial assets derecognised during the period	(83)	-	-	(83)
Increases due to change in credit risk	20	-	-	20
Loss allowance as at 31 December 2022	**143**	**9**	**-**	**152**

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Debt securities at FVTOCI	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2021	237	9	-	246
Movements in loss allowance				
New financial assets originated or purchased	34	-	-	34
Financial assets derecognised during the period	(17)	(9)	-	(26)
Decreases due to change in credit risk	(39)	-	-	(39)
Loss allowance as at 31 December 2021	**215**	**-**	**-**	**215**

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Syndicated loans	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2022	849	141	-	990
Movements in loss allowance				
Transfers:				
Transfer from Stage 1	(143)	-	-	(143)
Transfer to Stage 2	-	143	-	143
New financial assets originated or purchased	160	-	-	160
Financial assets derecognised during the period	(107)	(26)	-	(133)
Decreases due to change in credit risk	(188)	(53)	-	(241)
Loss allowance as at 31 December 2022	**571**	**205**	**-**	**776**

48. RISK MANAGEMENT (CONTINUED)
48.2 Credit risk (continued)
48.2.4 Loss Allowance (continued)

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Syndicated loans	**€000**	**€000**	**€000**	**€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	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Loans and advances to banks	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2022	31	-	-	31
New financial assets originated or purchased	1	-	-	1
Financial assets derecognised during the period	(4)	-	-	(4)
Increases due to change in credit risk	47	-	-	47
Loss allowance as at 31 December 2022	**75**	**-**	**-**	**75**

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Loans and advances to banks	**€000**	**€000**	**€000**	**€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**

The Group/The Bank	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL (but not POCI)	Total
Cash and balances with the Central Bank of Malta	**€000**	**€000**	**€000**	**€000**
Loss allowance as at 1 January 2022	12	-	-	12
Decreases due to change in credit risk	(10)	-	-	(10)
Loss allowance as at 31 December 2022	**2**	**-**	**-**	**2**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.4 Loss Allowance (continued)

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Cash and balances with the Central Bank of Malta	**€000**	**€000**	**€000**	**€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 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:

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Loans and advances to customersat amortised cost	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2022	1,741,053	132,208	78,110	1,951,371
Movements in loss allowance				
Transfers:				
Transfer to Stage 1	4,815	-	-	4,815
Transfer from Stage 2	-	(10,265)	-	(10,265)
Transfer to Stage 3	-	-	3,880	3,880
Write-offs	-	-	(191)	(191)
New financial assets originated or purchased	419,579	1,248	2,187	423,014
Financial assets derecognised during the period	11,766	(2,392)	(128)	9,246
(Decreases)/increases due to changes in credit risk	(124,943)	(9,817)	(3,434)	(138,194)
Gross carrying amount as at 31 December 2022	**2,052,270**	**110,982**	**80,424**	**2,243,676**

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Loans and advances to customers at amortised cost	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 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**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.4 Loss Allowance (continued)

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Debt securities at FVTOCI	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2022	101,000	-	-	101,000
New financial assets originated or purchased	210,196	-	-	210,196
Financial assets derecognised during the period	(4,086)	-	-	(4,086)
Increases due to change in credit risk	10,767	-	-	10,767
Gross carrying amount as at 31 December 2022	**317,877**	**-**	**-**	**317,877**

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Debt securities at FVTOCI	**€000**	**€000**	**€000**	**€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**

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Syndicated loans	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2022	118,985	16,267	-	135,252
Movements in loss allowance				
Transfers:				
Transfer from Stage 1	(22,518)	-	-	(22,518)
Transfer to Stage 2	-	22,518	-	22,518
New financial assets originated or purchased	58,632	-	-	58,632
Financial assets derecognised during the period	(51,420)	(5,855)	-	(57,275)
Decreases due to change in credit risk	(483)	(140)	-	(623)
Gross carrying amount as at 31 December 2022	**103,196**	**32,790**	**-**	**135,986**

	Stage 1	Stage 2	Stage 3	
The Group/The Bank	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL (but not POCI)**	**Total**
Syndicated loans	**€000**	**€000**	**€000**	**€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**

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.4 Loss Allowance (continued)

The Group/The Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Cash and balances with the Central Bank of Malta	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2022	207,735	-	-	207,735
New financial assets originated or purchased	(121,846)	-	-	(121,846)
Gross carrying amount as at 31 December 2022	**85,889**	**-**	**-**	**85,889**

The Group/The Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Cash and balances with the Central Bank of Malta	**€000**	**€000**	**€000**	**€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 Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Loans and advances to banks	**€000**	**€000**	**€000**	**€000**
Gross carrying amount as at 1 January 2022	30,862	-	-	30,862
New financial assets originated or purchased	9,666	-	-	9,666
Financial assets derecognised during the period	(20)	-	-	(20)
Changes in model/risk parameters	30,590	-	-	30,590
Gross carrying amount as at 31 December 2022	**71,098**	**-**	**-**	**71,098**

The Bank	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (but not POCI)	Total
Loans and advances to banks	**€000**	**€000**	**€000**	**€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**

48.2.5 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.

48. RISK MANAGEMENT (CONTINUED)

48.2 Credit risk (continued)

48.2.6 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.

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 reflects 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 evaluates 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.

48.3 Liquidity risk

Liquidity risk is the risk that the 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.

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 table on pages 98 to 99 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.

The Group	**Less than three months**	**Between three months and one year**	**Between one year and five years**	**More than five years**	**Others**	**Total**
At 31 December 2022	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Cash and balances with Central Bank of Malta	85,887	-	-	-	-	85,887
Loans and advances to banks	72,870	-	-	-	-	72,870
Financial assets at FVTPL	1,013	126	6,814	19,992	13,101	41,046
Syndicated loans (net)	2,621	46,492	71,452	14,645	-	135,210
Loans and advances to customers (net)	28,969	90,086	154,431	1,951,208	-	2,224,694
Derivative financial instruments	-	23	59	656	-	738
Other debt and fixed income instruments (net)	4,576	16,198	296,304	142,523	-	459,601
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in associates	-	-	-	-	13,667	13,667
Other assets	6,582	1,432	-	-	70,122	78,136
	202,518	**154,357**	**529,060**	**2,129,024**	**97,193**	**3,112,152**
Derivative financial instruments	-	23	59	656	-	738
Amounts owed to banks	44,191	6,196	-	-	-	50,387
Amounts owed to customers	1,941,606	398,370	363,327	7,330	-	2,710,633
Lease liabilities	-	508	2,410	2,328	-	5,246
Debt securities in issue	-	-	-	54,642	-	54,642
Other liabilities	3,168	1,248	2,134	233	22,265	29,048
Equity	-	-	-	-	261,458	261,458
	1,988,965	**406,345**	**367,930**	**65,189**	**283,723**	**3,112,152**
Gap	**(1,786,447)**	**(251,988)**	**161,130**	**2,063,835**	**(186,530)**	**-**

48. RISK MANAGEMENT (CONTINUED)

48.3 Liquidity risk (continued)

The Group At 31 December 2021	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
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
Financial assets at FVTPL	(194)	-	8,767	30,388	22,885	61,846
Syndicated loans (net)	25,582	36,102	50,468	22,110	-	134,262
Loans and advances to customers (net)	16,007	99,065	111,479	1,705,493	-	1,932,044
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 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						
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Amounts owed to customers	1,758,809	272,826	399,097	1,025	-	2,431,757
Lease liabilities	-	596	2,068	2,684	-	5,348
Debt securities in issue	-	-	-	54,597	-	54,597
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)**	**-**

48. RISK MANAGEMENT (CONTINUED)

48.3 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
At 31 December 2022	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Assets						
Cash and balances with Central Bank of Malta	85,887	-	-	-	-	85,887
Loans and advances to banks	71,023	-	-	-	-	71,023
Syndicated loans (net)	2,621	46,492	71,452	14,645	-	135,210
Loans and advances to customers (net)	28,969	90,086	154,431	1,951,208	-	2,224,694
Derivative financial instruments	-	23	59	656	-	738
Other debt and fixed income instruments (net)	4,576	16,198	296,304	142,523	-	459,601
Equity and other non-fixed income instruments	-	-	-	-	303	303
Investment in subsidiaries	-	-	-	-	40,251	40,251
Investment in associates	-	-	-	-	14,063	14,063
Other assets	5,746	1,432	-	-	71,144	78,322
	198,822	**154,231**	**522,246**	**2,109,032**	**125,761**	**3,110,092**
Liabilities and equity						
Derivative financial instruments	-	23	59	656	-	738
Amounts owed to banks	44,191	6,196	-	-	-	50,387
Amounts owed to customers	1,943,777	398,370	363,327	7,330	-	2,712,804
Lease liabilities	-	508	2,410	2,328	-	5,246
Debt securities in issue	-	-	-	54,642	-	54,642
Other liabilities	3,168	1,248	2,134	233	22,164	28,947
Equity	-	-	-	-	257,328	257,328
	1,991,136	**406,345**	**367,930**	**65,189**	**279,492**	**3,110,092**
Gap	**(1,792,314)**	**(252,114)**	**154,316**	**2,043,843**	**(153,731)**	**-**

48. RISK MANAGEMENT (CONTINUED)

48.3 Liquidity risk (continued)

The Bank At 31 December 2021	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
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
Syndicated loans (net)	25,582	36,102	50,468	22,110	-	134,262
Loans and advances to customers (net)	16,007	99,065	111,479	1,705,493	-	1,932,044
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						
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Amounts owed to customers	1,760,125	272,826	399,097	1,025	-	2,433,073
Lease liabilities	-	596	2,068	2,684	-	5,348
Debt securities in issue	-	-	-	54,597	-	54,597
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)**	**-**

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2022 and 31 December 2021 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 At 31 December 2022	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
Liabilities						
Derivative financial instruments	-	23	59	656	-	738
Amounts owed to banks	44,191	6,196	-	-	-	50,387
Amounts owed to customers	1,942,588	399,602	365,462	7,352	-	2,715,004
Lease liabilities	-	760	2,703	2,493	-	5,956
Debt securities in issue	-	1,788	7,150	59,959	-	68,897
Other liabilities	3,168	1,248	2,134	233	22,265	29,048
	1,989,947	**409,617**	**377,508**	**70,693**	**22,265**	**2,870,030**

The Group At 31 December 2021	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
Liabilities						
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Amounts owed to customers	1,759,437	273,623	401,795	1,034	-	2,435,889
Lease liabilities	-	701	2,387	2,897	-	5,985
Debt securities in issue	-	1,788	7,150	61,747	-	70,685
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**

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 2022 and 31 December 2021 based on contractual undiscounted repayment obligations:

The Bank At 31 December 2022	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
Liabilities						
Derivative financial instruments	-	23	59	656	-	738
Amounts owed to banks	44,191	6,196	-	-	-	50,387
Amounts owed to customers	1,944,758	399,602	365,462	7,352	-	2,717,174
Lease liabilities	-	760	2,703	2,493	-	5,956
Debt securities in issue	-	1,788	7,150	59,959	-	68,897
Other liabilities	3,168	1,248	2,134	233	22,165	28,948
	1,992,117	**409,617**	**377,508**	**70,693**	**22,165**	**2,872,100**

The Bank At 31 December 2021	Less than three months €000	Between three months and one year €000	Between one year and five years €000	More than five years €000	Others €000	Total €000
Liabilities						
Derivative financial instruments	-	-	552	-	-	552
Amounts owed to banks	49,463	7,745	-	-	-	57,208
Amounts owed to customers	1,760,753	273,623	401,795	1,034	-	2,437,205
Lease liabilities	-	701	2,387	2,897	-	5,985
Debt securities in issue	-	1,788	7,150	61,747	-	70,685
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**

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 Bank's encumbered assets relate to debt securities which are pledged in favour of the ECB for the purposes of existing and potential long term re-financing operations and also cash in favour of the Depositor Compensation Scheme.

48. RISK MANAGEMENT (CONTINUED)

48.3 Liquidity risk (continued)

The Bank Assets as at 31 December 2022	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	54,617	554
Debt securities	228,288	217,984	231,313	224,772
Other assets	2,506	-	2,593,369	-
Assets of the reporting institutions	**230,794**	**217,984**	**2,879,299**	**225,326**

The Bank Assets as at 31 December 2021	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
Equity instruments	-	-	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**

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 Bank			
	2022		2021	
Encumbered assets/collateral received and associated liabilities	**€000**	**€000**	€000	€000
Carrying amount of selected financial liabilities	**231,734**	**230,794**	1,250,571	150,164

48.4 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 21, 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.

48.4.1 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.

Sensitivity of reported equity to interest rates movements At 31 December 2022	Parallel shock up €000	Parallel shock down €000	Short rates up €000	Short rates down €000	Steepener €000	Flattener €000
Average for the period	13,763	(10,008)	17,188	(15,923)	(11,506)	14,307
Maximum for the period	33,724	(536)	24,943	(11,727)	(8,557)	22,730
Minimum for the period	5,940	(20,827)	11,432	(22,826)	(20,834)	10,028

48. RISK MANAGEMENT (CONTINUED)

48.4 Market risk (continued)

48.4.1 Interest Rate Risk (continued)

Sensitivity of reported equity to interest rates movements At 31 December 2021	Parallel shock up €000	Parallel shock down €000	Short rates up €000	Short rates down €000	Steepener €000	Flattener €000
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

The potential impact on the Group's economic value is based on the most unfavourable scenario which, as at 31 December 2022, was brought through the 'steepener' scenario. During 2022, global central banks broke the decade long experience of a zero-interest environment by embarking on interest rate increase in a bid to fight inflationary pressures. Such interest rates hike cycle is expected to peak in the second part of 2023.

Sensitivity of projected net interest rate income to interest rates movements	Parallel shock up €000	Parallel shock down €000
At 31 December 2022		
Average for the period	1,489	(547)
Maximum for the period	1,702	702
Minimum for the period	1,349	(1,550)

Sensitivity of projected net interest rate income to interest rates movements	Parallel shock up €000	Parallel shock down €000
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)

The below tables set out interest sensitive assets and liabilities categorised by repricing dates.

The Group At 31 December 2022	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	50,009	-	-	-	-
Loans and advances to banks	72,870	-	-	-	-
Financial assets at FVTPL	3,274	16,904	14,776	5,329	763
Syndicated loans	135,210	-	-	-	-
Loans and advances to customers	1,731,560	311,816	180,758	560	-
Debt securities	20,773	296,306	136,043	6,479	-
	2,013,696	**625,026**	**331,577**	**12,368**	**763**
Liabilities					
Amounts owed to banks	50,387	-	-	-	-
Amounts owed to customers	1,603,247	1,100,056	7,330	-	-
Debt securities in issue	-	54,642	-	-	-
	1,653,634	**1,154,698**	**7,330**	**-**	**-**
Net interest rate risk GAP at 31 December 2022	**360,062**	**(529,672)**	**324,247**	**12,368**	**763**

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	-	-	-	-
Financial assets at FVTPL	2,215	20,239	20,971	6,090	12,331
Syndicated loans	134,262	-	-	-	-
Loans and advances to customers	1,519,670	239,872	168,461	4,041	-
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**

The Bank At 31 December 2022	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	50,009	-	-	-	-
Loans and advances to banks	71,023	-	-	-	-
Syndicated loans	135,210	-	-	-	-
Loans and advances to customers	1,731,560	311,816	180,758	560	-
Debt securities	20,773	296,306	136,043	6,479	-
	2,008,575	**608,122**	**316,801**	**7,039**	**-**
Liabilities					
Amounts owed to banks	50,387	-	-	-	-
Amounts owed to customers	1,605,418	1,100,056	7,330	-	-
Debt securities in issue	-	54,642	-	-	-
	1,655,805	**1,154,698**	**7,330**	**-**	**-**
Net interest rate risk GAP at 31 December 2022	**352,770**	**(546,576)**	**309,471**	**7,039**	**-**

48. RISK MANAGEMENT (CONTINUED)

48.4 Market risk (continued)

48.4.1 Interest Rate Risk (continued)

The Bank	Up to 1 year	1 – 5 years	5 – 10 years	More than 10 years	Others
At 31 December 2021	**€000**	**€000**	**€000**	**€000**	**€000**
Assets					
Cash and balances with Central Bank of Malta	173,060	-	-	-	-
Loans and advances to banks	30,831	-	-	-	-
Syndicated loans	134,262	-	-	-	-
Loans and advances to customers	1,519,670	239,872	168,461	4,041	-
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**	**-**

The carrying amount of assets and liabilities that carry a variable interest rate is €2.0 billion and €1.8 billion, respectively (2021: €1.8 billion and €1.6 billion).

48.4.2 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:

	2022			
	USD	**GBP**	**Other**	**Total**
	€000	**€000**	**€000**	**€000**
Assets	62,074	36,863	24,068	123,005
Liabilities	62,127	36,877	23,975	122,979

	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

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 16, 19,20,22,23,32,33.

48.5 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.

48.6 Capital management

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

During the 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, ESG 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.

In accordance with the CRR, the Bank calculates its capital requirements for Pillar 1 risks as shown in the tables below. In addition, the Bank is required to meet a total SREP capital requirement (TSCR) of 12.0%, consisting of 8.0% minimum Pillar 1 requirement and a 4.0% Pillar 2 requirement (P2R). Banking Rule BR/15/2015 – Capital Buffers of Credit Institutions Authorised Under Banking Act 1994 requires institutions to maintain capital buffers over and above the Pillar 1 requirements. During 2022 the Bank operated at all times above the level of capital including the capital buffers. Further information on the P2R and capital buffers is included in the 'Pillar 3 Disclosures' Report as published on the Bank's website.

Further information on the Bank'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 CRR II No. 2019/876.

The capital adequacy ratio measures the Bank'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 CRR and Capital Requirements Directive V. During the year under review and the prior year, the Bank has complied with the externally imposed capital requirements. The table overleaf summarises the composition of regulatory capital and the ratios of the Bank as at the reporting date.

	The Bank	
	2022	2021
	€000	€000
Total exposure (on and off-balance sheet)	**3,212,972**	2,871,279
Risk weighted amounts:		
Credit risk calculation - standardised approach	**1,393,156**	1,273,347
Operational risk - basic indicator approach	**119,344**	106,307
Foreign exchange risk	**14**	129
Total credit, operational and foreign exchange risk	**1,512,514**	1,379,783
CET 1/Tier 1 Capital	**229,430**	176,722
Tier 2 Capital	**54,642**	54,597
Total Own Funds	**284,072**	231,319
Capital Adequacy Ratio		
Tier 1 Ratio	**15.17%**	12.81%
Total Capital Ratio	**18.78%**	16.76%

48. RISK MANAGEMENT (CONTINUED)

48.6 Capital management (continued)

The Bank'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 Bank's capital is mainly composed of CET 1 capital, which primarily consists of ordinary share capital and retained earnings.

In June 2022, the Bank issued an IPO of 110,000,000 new shares at the price of €0.62 per share. The IPO qualifies as Tier 1 capital, which ranks as shareholders' equity.

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 Bank'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 22).

The Bank	2022 €000	2021 €000
CET1 capital: instruments and reserves		
Capital instruments and the related share premium accounts	**140,140**	72,882
Retained earnings	**98,399**	88,843
Accumulated other comprehensive income	**2,981**	25,334
Funds for general banking risk	**2,904**	1,700
Other reserves	**147**	-
	244,571	188,759
CET1 capital: regulatory adjustments		
Intangible assets	**(14,545)**	(11,746)
Regulatory adjustments due to the requirements for prudent valuation pursuant to Article 4 of Delegated Regulation (EU) 2016/101	**(197)**	(291)
Regulatory adjustments due to insufficient coverage for non-performing exposures	**(399)**	-
	(15,141)	(12,037)
CET 1/Tier 1 Capital	**229,430**	176,722
Tier 2 capital		
Debt securities in issue	**54,642**	54,597
Total Capital	**284,072**	231,319
Total Risk Weighted Assets	**1,512,514**	1,379,783
Capital Ratios		
CET1/Tier 1Capital Ratio	**15.17%**	12.81%
Total Capital Ratio	**18.78%**	16.76%
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)	**8,054**	8,331

48. RISK MANAGEMENT (CONTINUED)
48.6 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	91,729	55,000
Nominal amount of instrument	91,729	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 13 June 2022. Furthermore, during 2022 a scrip dividend was distributed to shareholders.

48. RISK MANAGEMENT (CONTINUED)

48.6 Capital management (continued)

Full Reconciliation of Own Funds Items to Audited Financial Statements of the Bank as at 31 December 2022 is presented below:[3]

	Balance in accordance with IFRS	Reconciling items	Balance in accordance with regulatory scope
	€000	€000	€000
Share capital (Note 37)	91,729	-	91,729
Debt securities in issue (Note 35)	54,642	-	54,642
Share premium (Note 38)	48,410	-	48,410
Revaluation reserve (Note 39)	2,981	-	2,981
Retained earnings (Note 40)	114,061	(12,756)	101,305
of which general banking reserves (Note 40)	2,904	-	2,904
General reserve	147	-	147
Intangible assets (Note 28)	14,545	-	14,545
Prudent valuation adjustment	-	(228)	(228)

49. ULTIMATE CONTROLLING PARTY

The financial statements of APS Bank plc are included in the consolidated financial statements of AROM Holdings Ltd, 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 Ltd. The ultimate controlling party of APS Bank plc is the Archdiocese of Malta.

The registered address of both AROM Holdings Ltd and the Archdiocese of Malta is Archbishop's Curia, St. Calcedonius Square, Floriana.

50. 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 Note 9 and Note 10.

3. This table is equivalent to template EU CC2 mandated by EBA 'Implementing Technical Standards on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013' and is referred to within the Pillar 3 Disclosures Report published on the Bank's website.

Five-Year Summaries

STATEMENTS OF PROFIT OR LOSS

The Group	**2022 €000**	2021 €000	2020 €000	2019 €000	2018 €000
Interest and similar income	**79,859**	69,135	62,280	58,021	49,963
Interest expense	**(14,766)**	(13,773)	(13,434)	(13,379)	(12,149)
Net interest income	**65,093**	55,362	48,846	44,642	37,814
Other operating (loss)/income	**(445)**	7,781	6,298	12,039	6,905
Total operating income	**64,648**	63,143	55,144	56,681	44,719
Operating expenses	**(47,029)**	(40,584)	(33,551)	(30,354)	(24,575)
Share of results of associate, net of tax	**(2,213)**	21	(258)	1,585	38
Net impairment gains/(losses)	**254**	1,488	(5,538)	(1,074)	(1,555)
Profit before tax	**15,660**	24,068	15,797	26,838	18,627
Income tax expense	**(9,893)**	(8,967)	(5,707)	(7,268)	(6,043)
Profit for the year	**5,767**	15,101	10,090	19,570	12,584

The Bank	**2022 €000**	2021 €000	2020 €000	2019 €000	2018 €000
Interest and similar income	**78,439**	67,640	61,140	56,674	48,958
Interest expense	**(14,766)**	(13,773)	(13,434)	(13,379)	(12,182)
Net interest income	**63,673**	53,867	47,706	43,295	36,776
Other operating income	**10,882**	8,060	6,600	9,586	8,888
Total operating income	**74,555**	61,927	54,306	52,881	45,664
Operating expenses	**(45,880)**	(39,678)	(33,246)	(30,163)	(24,427)
Net impairment gains/(losses)	**254**	1,488	(5,538)	(1,074)	(1,555)
Profit before tax	**28,929**	23,737	15,522	21,644	19,682
Income tax expense	**(9,773)**	(8,696)	(5,589)	(7,182)	(5,974)
Profit for the year	**19,156**	15,041	9,933	14,462	13,708

THE GROUP'S STATEMENTS OF FINANCIAL POSITION

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances					
with Central Bank of Malta	**13,499**	15,165	15,064	11,225	10,387
Balances with Central Bank of Malta	**72,388**	192,558	93,266	151,178	165,021
Cheques in course of collection	**-**	2,881	103	128	69
Loans and advances to banks	**72,870**	32,296	51,068	59,840	50,384
Financial assets at fair value through profit or loss	**41,046**	61,846	50,636	41,478	36,241
Non-current assets held for sale	**1,733**	-	-	-	2,600
Syndicated loans	**135,210**	134,262	113,152	125,953	61,610
Loans and advances to customers	**2,224,694**	1,932,044	1,689,003	1,458,144	1,253,883
Derivative financial instruments	**738**	552	499	721	822
Other debt and fixed income instruments	**459,601**	328,041	315,983	238,166	251,040
Equity and other non-fixed income instruments	**303**	307	303	308	1,272
Investment in associate	**13,667**	19,803	18,641	19,257	17,748
Investment properties	**6,593**	6,053	1,830	1,830	1,860
Property and equipment	**39,252**	40,998	46,180	43,851	22,286
Intangible assets	**14,545**	11,746	8,848	7,320	5,861
Right-of-use assets	**5,040**	5,051	5,235	2,592	-
Other receivables	**8,016**	9,152	8,619	6,478	6,293
Deferred tax assets	**2,957**	2,249	2,553	460	3,853
TOTAL ASSETS	**3,112,152**	2,795,004	2,420,983	2,168,929	1,891,230
LIABILITIES					
Derivative financial instruments	**738**	552	499	721	822
Amounts owed to banks	**50,387**	57,208	9,304	24,512	74,473
Amounts owed to customers	**2,710,633**	2,431,757	2,123,446	1,928,971	1,650,308
Lease liabilities	**5,246**	5,348	5,365	2,629	-
Accruals	**13,621**	13,325	10,103	8,752	10,102
Debt securities in issue	**54,642**	54,597	54,558	-	-
Other liabilities	**13,121**	10,450	10,090	10,966	11,892
Current tax	**2,306**	945	1,399	463	1,389
TOTAL LIABILITIES	**2,850,694**	2,574,182	2,214,764	1,977,014	1,748,986
EQUITY					
Share capital	**91,729**	62,429	62,255	62,255	57,605
Share premium	**48,410**	10,453	10,140	10,140	1,770
Revaluation reserve	**2,981**	25,334	32,260	30,706	12,398
Retained earnings	**107,209**	103,974	91,736	82,785	68,478
Other reserves	**147**	-	-	-	-
Non-controlling interest	**10,982**	18,632	9,828	6,029	1,993
TOTAL EQUITY	**261,458**	220,822	206,219	191,915	142,244
TOTAL LIABILITIES AND EQUITY	**3,112,152**	2,795,004	2,420,983	2,168,929	1,891,230
MEMORANDUM ITEMS					
Contingent liabilities	**21,911**	25,356	23,128	22,855	23,269
Commitments	**878,787**	802,552	786,427	755,638	711,160

THE BANKS'S STATEMENTS OF FINANCIAL POSITION

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
ASSETS					
Cash, treasury bills and balances					
with Central Bank of Malta	**13,499**	15,165	15,064	11,225	9,490
Balances with Central Bank of Malta	**72,388**	192,558	93,266	151,178	165,021
Cheques in course of collection	**-**	2,881	103	128	69
Loans and advances to banks	**71,023**	30,831	46,281	54,841	49,384
Financial assets at fair value through profit or loss	**-**	-	251	464	879
Non-current assets held for sale	**1,733**	-	-	-	2,600
Syndicated loans	**135,210**	134,262	113,152	125,953	61,610
Loans and advances to customers	**2,224,694**	1,932,044	1,689,003	1,458,144	1,253,883
Derivative financial instruments	**738**	552	499	721	822
Other debt and fixed income instruments	**459,601**	328,041	315,983	238,166	251,040
Equity and other non-fixed income instruments	**303**	307	303	308	1,272
Investment in subsidiaries	**40,251**	45,251	45,251	40,251	40,251
Investment in associate	**14,063**	16,761	15,261	15,261	14,886
Investment properties	**6,593**	6,053	1,830	1,830	1,860
Property and equipment	**39,252**	40,998	46,180	43,851	22,286
Intangible assets	**14,545**	11,746	8,848	7,318	5,858
Right-of-use assets	**5,040**	5,051	5,235	2,592	-
Other receivables	**8,202**	8,303	7,974	5,907	5,845
Deferred tax assets	**2,957**	2,249	2,553	460	3,853
TOTAL ASSETS	**3,110,092**	2,773,053	2,407,037	2,158,598	1,890,909
LIABILITIES					
Derivative financial instruments	**738**	552	499	721	822
Amounts owed to banks	**50,387**	57,208	9,304	24,512	74,473
Amounts owed to customers	**2,712,804**	2,433,073	2,124,149	1,929,504	1,653,309
Lease liabilities	**5,246**	5,348	5,365	2,629	-
Accruals	**13,561**	13,224	10,031	8,712	10,077
Debt securities in issue	**54,642**	54,597	54,558	-	-
Other liabilities	**13,080**	10,404	10,090	10,966	11,892
Current tax	**2,306**	758	1,354	452	1,321
TOTAL LIABILITIES	**2,852,764**	2,575,164	2,215,350	1,977,496	1,751,894
EQUITY					
Share capital	**91,729**	62,429	62,255	62,255	57,605
Share premium	**48,410**	10,453	10,140	10,140	1,770
Revaluation reserve	**2,981**	25,334	32,260	30,706	12,398
Other reserves	**147**	-	-	-	-
Retained earnings	**114,061**	99,673	87,032	78,001	67,242
TOTAL EQUITY	**257,328**	197,889	191,687	181,102	139,015
TOTAL LIABILITIES AND EQUITY	**3,110,092**	2,773,053	2,407,037	2,158,598	1,890,909
MEMORANDUM ITEMS					
Contingent liabilities	**21,911**	25,356	23,128	22,855	23,269
Commitments	**878,787**	802,552	786,427	755,638	711,160

THE GROUP'S FIVE-YEAR SUMMARY - STATEMENTS OF CASH FLOWS

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**3,835**	49,036	(12,347)	(57,230)	141,844
Investing activities					
Dividends received	**403**	597	544	195	596
Interest income from debt securities	**7,328**	7,054	6,684	7,811	9,546
Purchase of debt and other fixed income instruments	**(229,935)**	(44,389)	(134,778)	(26,435)	(45,614)
Proceeds on maturity and disposal of debt and other fixed income instruments	**73,040**	23,838	55,957	40,490	41,197
Purchase of financial assets at FVTPL	**(98,742)**	(46,241)	(39,165)	(34,520)	(30,124)
Proceeds on disposal of financial assets at FVTPL	**99,653**	34,605	31,496	34,224	26,741
Purchase of equity and other fixed income instruments	**-**	-	(950)	-	-
Proceeds on disposal of equity and other non-fixed income instruments	**-**	-	1,000	880	397
Proceeds on disposal of investments in associates	**9,589**	-	-	-	-
Investment in associate	**(500)**	(1,500)	-	(375)	-
Purchase of property and equipment	**(5,431)**	(653)	(6,034)	(6,781)	(7,543)
Proceeds on disposal of property and equipment	**-**	-	-	-	7
Net cash flows (used in)/from investing activities	**(144,595)**	(26,689)	(85,246)	15,489	(4,797)
Financing activities					
Dividends paid	**(3,170)**	(2,144)	(91)	(3,171)	(2,135)
Amounts received on creation of units in subsidiary	**1,027**	9,386	4,207	3,865	-
Amounts paid on redemption of units in subsidiary	**(630)**	(794)	(535)	(228)	(64)
Net proceeds from issue from debt securities in issue	**-**	-	55,000	-	-
Net proceeds from issue of units in subsidiary	**-**	-	-	-	1,017
Proceeds from issue of new shares, net of issue costs	**65,457**	-	-	13,020	-
Cash payment for the principal portion of lease liability	**(761)**	(515)	(496)	(394)	-
Net cash flows from/(used in) financing activities	**61,923**	5,933	58,085	13,092	(1,182)
Net (decrease)/increase in cash and cash equivalents	**(78,837)**	28,280	(39,508)	(28,649)	135,865
Cash and cash equivalents at 1 January	**171,101**	142,821	182,329	210,978	75,113
Cash and cash equivalents at 31 December	**92,264**	171,101	142,821	182,329	210,978

THE BANK'S FIVE-YEAR SUMMARY – STATEMENTS OF CASH FLOWS

	2022	2021	2020	2019	2018
	€000	€000	€000	€000	€000
Net cash flows from/(used in) operating activities	**3,517**	48,158	(13,136)	(58,177)	141,044
Investing activities					
Dividends received	**1,477**	1,273	1,236	1,572	1,604
Interest income from debt securities	**7,328**	7,054	6,684	7,811	9,546
Purchase of debt and other fixed income instruments	**(229,935)**	(44,389)	(134,778)	(26,435)	(45,614)
Proceeds on maturity and disposal of debt and other fixed income instruments	**73,040**	23,838	55,957	40,490	41,197
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
Purchase of financial assets at FVTPL	**-**	-	-	-	(184)
Proceeds on disposal of financial assets at FVTPL	**-**	249	221	213	221
Purchase of property and equipment	**(5,431)**	(653)	(6,034)	(6,781)	(7,543)
Proceeds on disposal of property and equipment	**-**	-	-	-	7
Proceeds on disposal of investments in associates	**9,589**	-	-	-	-
Investment in associates	**(500)**	(1,500)	-	(375)	-
Investment in subsidiaries	**-**	-	(5,000)	-	-
Net cash flows (used in)/from financing activities	**(144,432)**	(14,128)	(81,664)	17,375	(369)
Financing activities					
Dividends paid	**(3,000)**	(1,913)	-	(3,575)	(2,617)
Proceeds from issue of debt securities in issue	**-**	-	55,000	-	-
Proceeds from issue of new shares, net of issue costs	**65,457**	-	-	13,020	-
Cash payment for the principal portion of lease liability	**(761)**	(515)	(496)	(394)	-
Net cash flows from/(used in) financing activities	**61,696**	(2,428)	54,504	9,051	(2,617)
Net (decrease)/increase in cash and cash equivalents	**(79,219)**	31,602	(40,296)	(31,751)	138,058
Cash and cash equivalents at 1 January	**169,636**	138,034	178,330	210,081	72,023
Cash and cash equivalents at 31 December	**90,417**	169,636	138,034	178,330	210,081

THE GROUP'S FIVE-YEAR SUMMARY - ACCOUNTING RATIOS

	2022	2021	2020	2019	2018
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.1**	2.3	2.3	2.6	2.4
Operating expenses to total assets	**1.5**	1.5	1.4	1.4	1.3
Cost to income ratio	**72.7**	64.3	60.8	53.6	55.0
Profit before tax to total assets	**0.5**	0.9	0.7	1.2	1.0
Return on average equity after tax	**2.3**	7.1	5.1	11.7	9.0

	2022	2021	2020	2019	2018
Shares in issue (thousands)*	**366,917**	249,716	249,019	249,019	249,019
Net assets per share	**68c**	79c	77c	73c	55c

THE BANK'S FIVE-YEAR SUMMARY - ACCOUNTING RATIOS

	2022	2021	2020	2019	2018
	%	%	%	%	%
Net interest income and other operating income to total assets	**2.4**	2.2	2.3	2.5	2.4
Operating expenses to total assets	**1.5**	1.4	1.4	1.4	1.3
Cost to income ratio	**61.5**	64.1	61.2	57.0	53.5
Profit before tax to total assets	**0.9**	0.9	0.6	1.0	1.0
Return on average equity after tax	**8.3**	7.7	5.3	9.0	10.1

	2022	2021	2020	2019	2018
Shares in issue (thousands)*	**366,917**	249,716	249,019	249,019	249,019
Net assets per share	**70c**	77c	75c	71c	54c

* Number of shares in issue and the net assets per share for 2018 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.

The net assets per share for 2018 to 2021 have been restated to include the scrip dividend issued in 2022 in the form of shares amounting to 7.2 million.

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.

Independent Auditor's Report

TO THE MEMBERS OF APS BANK PLC

Deloitte.

Deloitte Audit Limited
Deloitte Place,
Trig 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: EX02155

INDEPENDENT AUDITOR'S REPORT

to the members of
APS Bank plc

Report on the Audit of the Financial Statements

Opinion

We have audited the individual financial statements of APS Bank plc ('the Bank') and the consolidated financial statements of the Bank and its subsidiaries (together, the Group), set out on pages 27 to 107, which comprise the statements of financial position as at 31 December 2022, 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 2022, 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 judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. The key audit matter described below pertains to the audit of both the Bank and the Group financial statements. This matter was addressed in the context of our audit of the Bank and the Group's financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Impairment of loans and advances to customers

At 31 December 2022 the Bank and Group reported total gross loans and advances to customers (assets) of €2,243,676,000 and €18,982,000 of expected credit loss provisions.

Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. The global macroeconomic uncertainties driven by the ongoing Russia/Ukraine conflict and its consequent implications including but not limited to supply chain disruptions and increased inflationary pressure, increased the level of judgement in the 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 macroeconomic uncertainties 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 negative impact of macroeconomic uncertainties and increased inflationary pressure on certain customers and/or sectors and any resulting model adjustments;
- **Individual provisions** - Measurement of individual provisions including the assessment of multiple scenarios on exit strategies, collateral valuations and time to collect; and
- **Disclosure** - The completeness and preparation of disclosures considering the key judgements, 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 sample 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 and inputs 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.

Economic scenarios:

We reviewed the inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios.

Post model adjustments:

We assessed the completeness and appropriateness of post model adjustments.

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 reperformed 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 International Financial Reporting Standards as adopted by the EU and regulatory considerations.

The Bank and Group's disclosures about impairment are included in Notes 2.3, 11 and 48, 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 pages, the Executive Management pages, Corporate Governance Report which includes the Corporate Governance Statement of Compliance, the Directors' Report which includes the statement of directors' responsibilities, the Remuneration Report required under Rule 12.26K of the Capital Markets Rules, the Five Year Summaries and Our Presence page which we obtained prior to the date of this auditor's report. Other information also includes the Bank's Pillar 3 Disclosures which have been published on the Bank's website.

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 ESEF, 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 and on the Remuneration Report in accordance with the Capital Markets Rules issued by the MFSA, our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosure requirements of Article 177 of the Companies Act (Cap. 386), and the statement required by 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 2 to 13, in our opinion, based on the work undertaken in the course of the audit:

a) Non-financial statement in the Directors' Report
   - The Directors' Report includes non-financial information in line with the requirements of paragraphs 8 and 11 of the Sixth Schedule to the Companies Act (Cap. 386). The proviso to sub-article 179(3) of that Act requires us to check whether such information is provided, but not to express any comment thereon;

b) Directors' Report information other than the non-financial statement
   - 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 12 to 13, 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 and/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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the members of

APS Bank plc

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

As such, our audit report on the Bank's and the Group's historical financial statements is not intended to facilitate or enable, nor is it suitable for, reliance by any person, in the creation of any projections or predictions, with respect to the future financial health and viability of the Bank and/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 and/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 and/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 judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's 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 and 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 and/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 and/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 Bank or the business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the members of
APS Bank plc

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 MFSA, we have undertaken a reasonable assurance engagement in accordance with the requirements of the Accountancy Profession (ESEF) 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 Company and the Group for the year ended 31 December 2022, 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.

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 2022 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 MFSA, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

to the members of

APS Bank plc

Report on the Corporate Governance Statement of Compliance (continued)

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.

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 18 to 26 has been properly prepared in accordance with the requirements of Rules 5.94 and 5.97 of the Capital Markets Rules.

Report on Remuneration Report

Pursuant to Rule 12.26K of the Capital Markets Rules issued by the MFSA, the Directors are required to draw up a Remuneration Report, whose contents are to be in line with the requirements listed in Appendix 12.1 to Chapter 12 of the Capital Markets Rules.

Our responsibility is laid down by Rule 12.26N of the Capital Markets Rules, which requires us to check that the information that needs to be provided in the Remuneration Report, as required in terms of Chapter 12 of the Capital Markets Rules, including Appendix 12.1, has been included.

In our opinion, the Remuneration Report set out on pages 14 to 17 includes the information that needs to be provided in the Remuneration Report in terms 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 six 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.

The audit was drawn up on 9 March and signed by:

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

9 March 2023

Our Presence

HEAD OFFICE

APS Centre
Tower Street, Birkirkara, BKR 4012

COMMERCIAL BUSINESS

APS Centre
Tower Street, Birkirkara, BKR 4012

RETAIL BRANCHES

1. **ATTARD** T A B
St. Catherine's Street, Attard,
ATD 2609

2. **BIRKIRKARA (SWATAR)** T A B
APS Centre
Tower Street, Birkirkara,
BKR 4012

3. **MOSTA** T A B
9, Rotunda Square, Mosta,
MST 9042

4. **PAOLA** T A B
146/147, Antoine De Paule Square,
Paola, PLA 1260

5. **QORMI** A B
70-72, St. Sebastian Street,
Qormi, QRM 2335

6. **RABAT** A B
25, Saqqajja Street, Rabat,
RBT 1192

7. **SLIEMA** T A B
226, Tower Road, Sliema,
SLM 1600

8. **ST. PAUL'S BAY** A B
Mosta Road, St. Paul's Bay,
SPB 3115

9. **VALLETTA** T A B
17/18, Republic Street,
Valletta, VLT 1111

10. **VICTORIA (GOZO)** T A B
10, Main Gate Street, Victoria,
VCT 1341

11. **ZEJTUN** A B
12, Republic Square, Zejtun,
ZTN 1011

T Teller Service

A Automated Teller Machine

B Bulk Deposit Machine

Notes

REGISTERED OFFICE

APS Centre
Tower Street, Birkirkara, BKR 4012

E - info@apsbank.com.mt
B - APSBMTMT

Registration number: C2192