ESG Disclosures Report

30 June 2023

APS bank

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1. Introduction

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.

APS Bank and its subsidiaries (hereafter 'the Group') recognise 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 leading 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.

This report 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. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the guidelines include set templates for 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 not subject to external audit, however, this report has undergone comprehensive internal review as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Chief Risk Officer and Audit Committee and has been approved by the Group's Board of Directors (hereafter referred to as 'the Board'). The Board is satisfied that the internal controls implemented around the preparation of these Additional Regulatory Disclosures are adequate and such disclosures present a fair and accurate picture of the Group's risk profile. The risk management systems put in place are considered as adequate given the Group's risk profile and business strategy. The Board is aware that risks stemming from environmental and social factors evolve over time given changes in technology, policy framework, business environment, stakeholder preferences and changes in the physical environment itself.

2. Environmental, Social and Governance Factors

The Group recognises that it has a responsibility towards the environment and society beyond legal and regulatory requirements. It is committed to improve performance in these areas as an integral part of its business strategy, with regular review points. The Group is aware of its exposure to the Environmental, Social and Governance risks and is following closely 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. The Group's internal governance arrangements ensure the involvement of the Board and senior management in establishing a risk culture, setting the risk appetite and managing ESG risks, whilst having clear allocation of responsibilities and reporting lines to ensure the incorporation of ESG risks into the business strategy, business processes and risk management.

2.1. Business strategy

The Group's objective is to become Malta's most recognised and trusted financial partner for its customers and community on ESG matters. It plans to achieve this through a series of commitments, actions as well as the setting of medium- to long-term objectives. The adoption of a multi-pronged and embedded strategy within ESG principles ensures that all business lines contribute to the overall long-term strategy.

During the Group's 2023 Annual General Meeting, the following commitments were launched:

- Facilitate at least EUR250 million of sustainable finance by 2030
- Reduce the impact of our operational emissions by 30% by 2030
- Establish a baseline for our financed emissions in order to align our lending portfolios to reach carbon neutrality by 2050

The Group seeks to engage with its customer base to provide financing and deliver on their climate transition plans as well as expanding sustainability objectives. It will achieve this through growing its existing product suite across its environmental and social propositions. The Group seeks to empower its customers to choose banking products designed to positively impact people or the environment. In 2023, the Group launched Malta's first Green Term Deposits allowing customers to choose to align their savings with their values by having their funds ringfenced and only used to support projects which meet the groups thresholds for Green Financing. The Group is also reviewing its investment propositions and its alignment with current ESG principles and parameters.

In relation to transparency and disclosures, the Group is establishing a baseline in its impact emanating from Scope 1-3 emissions[1]. Where possible, the Group will continuously seek to align its product suite to international principles and provide third party assurance for its "Green" asset and liability balance sheet. To enhance ESG sustainability knowledge and skills in the business, the Group provides training courses to upskill employees across all of its business functions, as well as training tailored for the Board of Directors.

As part of the Bank's journey in mitigating and reducing environmental risks, a Responsible Lending Policy was approved and implemented in 2022. This is applicable to all requests for new or additional borrowing deriving from corporate customers, or group of connected customers, subject to selected qualitative and quantitative thresholds. Further information on this Policy is included in Section 2.3.

[1] Excluding Category 15

2.2.Governance

Board of Directors

The Board of Directors have primary responsibility for risk oversight within the Bank. The Board sets the tone at the top in terms of the desirable level of ESG risk by setting the Bank's Risk Appetite. The Board ensures that there is appropriate monitoring of such risks and developments. The Board may choose to assign specific responsibilities to Board-appointed Committees. In order to discharge its duties, the latter may delegate certain of their authorities to Management Committees, as empowered by the Board.

ESG Committee

The Environmental, Social and Governance ("ESG") Board committee brings together Non-Executive Directors and Senior Managers[2] to map the sustainable component for the Group's initiatives in the ESG space. The purpose of the Committee is to oversee the Environmental, Social and Governance policies, activities and practices of the Bank and its subsidiaries, providing both advice and guidance to the Board of Directors.

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

Risk Committee

The Risk Committee[3] is responsible for establishing and ensuring implementation of the Group's risk management and compliance strategy, policies, and systems. The Committee ensures that the Group's exposure to ESG Risk is within the Risk Appetite set by the Board. This requires the Risk Committee to collaborate and exchange information with the ESG Committee.

Board Credit Committee

The Board Credit Committee 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, which take into consideration ESG-related factors.

Management Credit Committee

The Management Credit Committee receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit policy and procedures, which take into consideration ESG-related factors.

Internal Audit Department

The Internal Audit Department reviews the internal governance arrangements, policies, processes and mechanisms around ESG risks to ascertain that they are sound and effective, in line with regulatory requirements, are implemented and are being consistently applied throughout the Bank.

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[2] Further information on the Members of the ESG Committee can be found in the Governance Report included in the Group's 2022 Annual Report

[3] Further information on the Risk Committee can be found in the Governance Report included in the Group's 2022 Annual Report, and the Pillar 3 Disclosures Report.

Risk Department

The Risk Department is responsible for co-ordinating the overall management and monitoring of ESG Risks, ensuring that such risks are adequately managed within the Bank's risk appetite. The Enterprise Risk Management Unit (ERMU), within this Department, is responsible for ensuring that ESG Risks are adequately assessed as part of the Bank's strategy setting and business planning processes and internal capital and liquidity adequacy assessment processes. ERMU is responsible for identifying emerging risks, which might impact the execution of the Bank's strategy and business plan. The ERMU monitors ESG Risk metrics as part of the Risk Appetite Dashboard periodically and this is shared with the Board, ESG Committee, Risk Committee and Executive Committee.

The Credit Risk Management function, within the Risk Department, is responsible for assessing the ESG-related factors in line with the Bank's Responsible Lending Policy and ensuring compliance with the Bank's Risk Appetite Statement. Specifically, credit request assessments that exceed a certain monetary threshold, or incremental credit requests to Group of connected accounts whereby the overall credit connection will exceed the threshold, are assessed through a Responsible Lending Policy Matrix that establishes a number of structured and pre-defined criteria that seeks to assess a number of corporate and project attributes in relation to environment, social and governance aspects.

Compliance Department

The Group is monitoring regulatory developments in the area of Sustainable Finance and undertaking the necessary actions to implement the new requirements. The Group implemented the requirements of the *Regulation (EU) 2019/2088 sustainability-related disclosures in the financial services sector* (SFDR) by amending the website, prospectuses, and periodical reporting. The Bank publishes and regularly updates a Sustainability Risk Policy for investment activities, which requires the inclusion of sustainability risk in the overall risk management framework.

Disclosures are included in the Annual Report as per *Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups* (NFRD) where information is published on environmental matters, social matters, respect for human rights, anti-corruption and bribery, and diversity on company boards. These disclosures requirements are expected to increase as the *Directive (EU) 2022/2464 as regards corporate sustainability reporting* comes in effect.

Disclosures are also made vis-à-vis the *Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment* (Taxonomy Regulation) with regards to the Group's activities which are Taxonomy eligible. The Group is preparing for the disclosure of Taxonomy aligned activities, within the permitted regulatory timeframe.

The Group is enhancing the integration of ESG consideration into its risk management framework in line with the latest Banking Package which imposes additional requirements in this regard, apart from existing supervisory work on the area as outlined in the *ECB Guideline on climate-related and environmental risks*.

The Group implemented, through its investment arm, amendments made to Delegated Acts of *Directive 2014/65/EU on markets in financial instruments* (MiFID II) to include ESG considerations in product governance and suitability assessments.

In implementing these regulatory measures, the Regulatory Compliance Unit holds discussions with the relevant stakeholders, including the ESG Unit and Risk Department, to determine the relevant actions that need to be taken to implement regulatory initiatives and monitors the implementation progress. The required actions are presented to the Board, ESG Committee and Risk Committee for consideration, comments, and approval as necessary.

The Risk and Compliance Departments are headed by the Chief Risk Officer who reports directly to the Risk Committee and is a non-voting Member on the ESG Committee and Risk Committee.

Executive Management

The Executive Management is responsible for identifying, managing, and monitoring areas within their respective business area that may be susceptible to ESG risks. ESG risks, including emerging risks, are taken into consideration by Executive Management when developing the Bank's strategy and business plan. ESG risks are assessed as part of the day-to-day business operations and any emerging or material ESG-related risks are escalated to the Chief Risk Officer.

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 Chief Strategy Officer heads the Strategy and Propositions Department and Culture Department. The ESG Unit, within the Strategy and Propositions Department, is responsible to formulate and execute the Bank's ESG strategy across all of its functions and integrate ESG-related factors, where required, within the Bank's suite of products and services. The role encompasses formulating an ESG led growth business strategy, mapping the delivery of regulatory ESG reporting as well as leading on 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 own the management of the ESG action tracker. The Bank's Culture Department manages various Corporate Social Responsibility (CSR) programmes that seek to enhance awareness of Environmental, Social and Governance (ESG) factors among its employees and as part of its business decisions. These programmes are run through the Culture Unit, with dedicated CSR resources acting as central programme coordinators.

The Remuneration Policy of the Group includes all categories of staff including the management body, in its supervisory and management functions, senior management, risk takers and staff engaged in control functions. The Policy is in line with the Group's business strategy and risk tolerance, objectives, values and long-term interests of its stakeholders, including shareholders. It is also in line with other values such as compliance, culture, ethics, conduct towards customers, sustainability, measures to mitigate conflicts of interest, as well as consistent with environmental, social and governance risk-related objectives.

The approval of the Remuneration Policy is the responsibility of the Board of Directors following the recommendation on changes and updates by the Nominations and Remuneration Committee. The Remuneration Policy is reviewed annually, and subject to a review by the Internal Audit Department. The Policy is aligned with environmental, social and governance risk-related objectives, following the updated EBA Guidelines on sound remuneration policies and practices and Banking Rule BR/21 on Remuneration Policies and Practices.

2.3.Risk Management

Responsibility for risk management lies at all levels within the Group through a three-lines-of-defence model, as highlighted in Section 2.2. Business units, as the first line of defence, are responsible for identifying, assessing and managing the risks to which the Group is exposed in the respective operating units. Oversight of risks is executed by the second line of defence, mostly but not only the Risk and Compliance Departments. Being the third line of defence and independent from Executive Management, the Internal Audit Department reports directly to the Board-appointed Audit Committee, keeping the Chief Executive Officer informed in the process. The Internal Audit Department is responsible for providing assurance on the effectiveness of governance, risk management and internal controls.

The Risk Appetite Statement of the Bank captures and describes the most significant risks to which it is exposed and sets guidance on the types and maximum amount of risk that the Board considers acceptable. It forms an integral part of the Bank's overall Risk Management Framework and contributes to aligning strategy and business objectives with the mission, vision and core values of the Bank. The Bank articulates its risk appetite for ESG risks within its Risk Appetite Statement and this is supported by a Risk Appetite Dashboard which includes ESG-related metrics.

Integration of ESG into the Bank's risk 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 Bank'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 Bank'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.

Risk identification and assessment

A physical event can destroy the physical capital (property, inventory, equipment and infrastructure) of the Bank's counterparties. The destruction of value will diminish the value of the assets of the counterparty and its ability to repay any outstanding amounts to the Bank. The damage to real estate caused by catastrophic or chronic physical events will diminish the value of collateral held by the Bank against its lending exposures.

The Group is committed to incorporate environmental and social risk considerations into all financing activities. It is also committed to identify its customers, exposures, relationships, business, and other activities that may expose it to such risk. While it establishes environmental and social requirements for customers to comply with national laws, regulations, and best practice standards, it also communicates environmental and social expectations to staff, customers, and other external stakeholders. The Group is dedicated to improving the overall environmental and social performance of its portfolio through enhanced risk management and to continually building the ability of staff to identify environmental and social risks.

The recently introduced Responsible Lending Policy 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 environmental, social and governance sustainability criteria and metrics. Each of these criteria is assessed during the loan proposal stage, before a report of this grading is passed on to the Credit Risk Management function, for an independent review in line with the Bank's policies, risk appetite, and other credit related procedures.

The Syndications and Trade Finance book consists of syndicated loans and risk participation transactions involving acquisitions, project finance, financial institutions, sovereign risks, commodities, shipment financing and other trade finance products. When a potential opportunity is identified, the

Syndications and Trade Finance Unit analyses whether the opportunity meets the Bank's risk appetite and, if in the affirmative, the Unit carries out research and analysis on ESG-related aspects by referring to reports published by external credit rating agencies.

New information about future economic conditions can alter the current value of real or financial assets resulting in price shocks and market volatility in traded assets. The effectiveness of hedges can be reduced and undermine the Bank's ability to manage its market risk. The potential for unexpected price movements may be reduced where factors related to climate risk are taken into consideration. Markets that price in climate risk may be less sensitive to abrupt climate-related price shifts in the future following severe weather events or a rapid transition to a less carbon-intensive economy, however, this is hampered by the lack of consistent methodologies, standardised metrics and comparable disclosures.

Natural disasters hampering the functioning of banking markets could impact the Bank's ability to fund increases in its assets and meet obligations as they come due without incurring unacceptable losses. Furthermore, corporates and households may demand high liquidity after a severe natural disaster, leading to higher outflows of liquidity.

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 Bank'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.

The investment guidelines in the Treasury Policy are structured in such a way to permit a more generous investment towards those bonds which have a high credit rating while limiting the investment exposure towards those bonds which have a lower credit rating. The policy prohibits any investments made below a specified credit rating. Once a bond is shortlisted for purchase by the Treasury Unit, the bond details are presented to the Management Credit Committee for approval.

The template below shows the Bank's exposures to firms which are among the top 20 most carbon-intensive worldwide as published by sources recommended in the EBA Guidelines[4]. This analysis takes into consideration the Bank's investments and lending portfolios. As at 30 June 2023, the Bank had exposures within its investment portfolio to one firm included in this list. This exposure represents 0.12% of the total gross carrying amount of the investments and lending portfolios and, hence, is considered to be immaterial.

Template 4[5]: Exposure to carbon-intensive firms

Gross carrying amount (aggregate €000)	Gross carrying amount towards the counterparties compared to total gross carrying amount	Weighted average maturity	Number of top 20 polluting firms included
3,636	0.12%	More than 1 year 7 months	1

In terms of market risk, given that on a portfolio basis, exposure to companies with a low ESG score is minimal, if any at all, the market risk of the Treasury portfolio due to low ESG criteria is considered

[4]https://www.eba.europa.eu/implementing-technical-standards-its-prudential-disclosures-esg-risks-accordance-article-449a-crr

[5] Reference to templates were kept in line with the titles applied by the EBA in the respective Guidelines.

minimal. In terms of liquidity risk, this is assessed as the possibility of incurring material withdrawals of Bank deposits due to the reputational damage sustained in view of a material exposure to bonds that are negatively impacted by events linked to their low ESG criteria. In view of the conservativeness of the portfolio this risk is considered minimal. It is the intention of the Treasury Unit to include a dedicated section on ESG in its next revision of the Treasury Policy in 2023.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Group's operations could be impacted by a natural disaster. Thus, the Group, may be exposed to legal and regulatory compliance risk as well as litigation and liability costs associated with climate-sensitive investments and businesses. The Group could be affected from indirect reputational risks when providing financing to businesses or activities that are held responsible for negative climate impacts (e.g. high pollution).

The Bank 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 Policy aims to continually improve and monitor environmental performance and reduce environmental impacts. While it incorporates environmental factors into business decisions, it also increases employee awareness and training.

The Group has developed an environmental and social risk categorization system which assigns a risk rating for customers who apply for its services. This rating is applied as part of the application process and is reviewed from time to time consistent with the Group's Policy.

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, whilst providing a clear rationale for investment decisions taken.

The Group's operational risk management framework and governance are fully integrated into the Operational Resilience Framework. The Framework provides a structure for comprehensively identifying, managing, monitoring, and reporting on the Group's exposure to this risk. This Framework was updated during the second quarter of 2023 and encompasses operational risk, IT & cyber risk, reputational risk and third-party providers' risk.

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 Group defined clear objectives and identified key actions that will get it to net zero over the long-term while continuously developing further its suite of ESG products and services through appropriate customers and market research, and intelligence on regulatory and governmental framework.

Risk monitoring and reporting

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 CO_2 emitted by each sector of economic activity in producing one unit of Gross Value Added (GVA).

The templates[6] below show the Bank's sectorial exposures analysed from a transition risk and physical risk perspective, respectively.

[6] Reference to templates were kept in line with the titles applied by the EBA in the respective Guidelines.

Template 1 distinguishes between those sectors which are considered to contribute highly to climate change and sectors which are not considered to contribute highly to climate change. Exposures to sectors considered to contribute negatively to climate change are further classified into sub-sectors, where applicable, and represent 24.4% (Dec-22: 21.8%) of the Bank's total exposure within its lending and investments portfolios. These exposures were further assessed to identify those exposures towards companies excluded from the EU Paris-aligned Benchmarks[7] (Jun-23: 1.6%; Dec-22: 2.3%) in accordance with the below criteria and based on expert judgement:

- companies that derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
- companies that derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
- companies that derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels; and
- companies that derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh.

Template 5 identifies those exposures sensitive to impact from climate change physical events. Exposures were further assessed to identify impact from chronic and acute climate change events. Chronic climate change events include hazards relating to gradual changes in weather and climate and having a possible impact on economic output and productivity, while Acute climate change events includes hazards that may cause sudden damage to properties, disruption of supply chains, depreciation of assets as well as result in operational downtime and lost manufacturing for fixed assets. For the purposes of this analysis reference was made to sources referred in the EBA guidelines to classify each Local administrative unit[8] into whether it is subject to chronic climate change events, acute climate change events or both.

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[7] In accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation

[8] The local administrative units were used instead of the Nomenclature of Territorial Units for Statistics (or NUTS), to better reflect the impact of climate change on the local geographical areas.

Template 1: Climate change transition risk – Quality of exposures by sector

	Gross carrying amount (Thousands EUR)				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Thousands EUR)							
		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which stage 2 exposures	Of which non-performing exposures		Of which stage 2 exposures	Of which non-performing exposures	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity
A - Agriculture, forestry, and fishing	41,613	-	-	483	(119)	-	-	13,056	7,194	1,368	19,996	11
B - Mining and quarrying	3	-	-	-	-	-	-	-	0	-	3	20
C - Manufacturing	96,854	5,780	3,117	10,131	(3,214)	(106)	(2,709)	87,558	1,949	1,371	5,974	4
C.10, 11, 12 - Manufacture of food products, Beverages and Tobacco	*12,894*	*-*	*1,310*	*7*	*(194)*	*0*	*(7)*	*11,653*	*470*	*-*	*770*	*6*
C.13, 14, 15 - Manufacture of Textiles, apparel, leather and related products	*30*	*-*	*-*	*-*	*0*	*-*	*-*	*-*	*30*	*-*	*-*	*9*
C.16, 17, 18 - Manufacture of Wood, paper products, and printing	*543*	*-*	*466*	*-*	*0*	*-*	*-*	*-*	*270*	*-*	*273*	*14*
C.19, 20, 21 - Manufacture of Coke products, refined petroleum products, chemical products, pharmaceuticals, medicinal chemical and botanical products	*7,969*	*3,636*	*-*	*-*	*(5)*	*-*	*-*	*7,878*	*0*	*-*	*91*	*2*
C.22, 23, 24, 25 - Manufacture of Rubber and plastics products, other non-metallic mineral products, basic metals and fabricated metal products, except machinery and equipment	*28,249*	*2,144*	*-*	*3,970*	*(929)*	*-*	*(826)*	*22,394*	*936*	*1,008*	*3,911*	*-*
C.26, 27 - Manufacture of Computer, electronic, optical and electrical equipment	*666*	*-*	*659*	*7*	*(7)*	*0*	*(7)*	*81*	*0*	*-*	*585*	*18*
C.28 - Manufacture of machinery and equipment n.e.c.	*4,801*	*-*	*-*	*1*	*(25)*	*-*	*-*	*4,726*	*53*	*-*	*21*	*2*
C.29, 30 - Manufacture of Motor vehicles and transport equipment	*26,480*	*-*	*-*	*140*	*(142)*	*-*	*(68)*	*26,383*	*0*	*-*	*97*	*2*
C.31 - Manufacture of furniture	*1,084*	*-*	*682*	*-*	*(107)*	*(106)*	*-*	*779*	*190*	*17*	*98*	*5*
C.32 - Other manufacturing	*14,041*	*-*	*-*	*6,006*	*(1,805)*	*-*	*(1,801)*	*13,618*	*0*	*346*	*77*	*2*
C.33 - Repair and installation of machinery and equipment	*97*	*-*	*-*	*-*	*-*	*-*	*-*	*46*	*0*	*-*	*51*	*13*
D - Electricity, gas, steam and air conditioning supply	4,529	2,317	-	-	(24)	-	-	251	616	1,170	2,492	16
D35.1 - Electric power generation, transmission, and distribution	*4,503*	*2,317*	*-*	*-*	*(24)*	*-*	*-*	*251*	*616*	*1,170*	*2,466*	*16*
D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	*26*	*-*	*-*	*-*	*0*	*-*	*-*	*-*	*0*	*-*	*26*	*20*

E - Water supply; sewerage, waste management and remediation activities	1,825	-	-	104	0	-	-	75	0	-	1,750	19
F - Construction	108,720	-	475	20,296	(5,607)	0	(5,557)	30,957	14,818	48,264	14,680	11
F.41 - Construction of buildings	*69,198*	*-*	*63*	*7,489*	*(2,909)*	*0*	*(2,892)*	*15,866*	*13,021*	*35,488*	*4,823*	*11*
F.42 - Civil engineering	*18,045*	*-*	*-*	*-*	*(32)*	*-*	*-*	*1,410*	*292*	*7,534*	*8,810*	*18*
F.43 - Specialised construction activities	*21,477*	*-*	*412*	*12,807*	*(2,666)*	*0*	*(2,665)*	*13,681*	*1,506*	*5,242*	*1,048*	*5*
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	59,610	1,794	7,262	4,167	(2,105)	(64)	(1,997)	15,828	3,658	17,345	22,779	13
H - Transportation and storage	64,435	-	454	-	(68)	0	-	46,137	7,434	10,665	199	4
H.49, 50, 51 - Transport via land, pipelines, water and air	*35,197*	*-*	*454*	*-*	*(20)*	*0*	*-*	*33,579*	*46,502*	*1,586*	*32*	*2*
H.52 - Warehousing and support activities for transportation	*29,238*	*-*	*-*	*-*	*(48)*	*-*	*-*	*10,323*	*2,241*	*9,079*	*167*	*8*
I - Accommodation and food service activities	127,798	-	49,668	255	(151)	(4)	(132)	16,267	25,667	84,898	966	11
L - Real estate activities	209,145	1,564	8,658	7,640	(1,987)	(48)	(1,906)	78,618	16,584	96,535	17,408	10
Exposures towards sectors other than those that highly contribute to climate change:												
K - Financial and insurance activities	165,652	2,007	10,403	3,278	(736)	(93)	(529)	99,051	36,014	21,113	9,475	6
Exposures to other sectors (NACE codes J, M - U)	2,052,761	-	6,147	12,777	(5,429)	(66)	(4,455)	299,476	92,577	285,455	1,375,254	23
TOTAL	**2,932,945**	**13,462**	**86,184**	**59,131**	**(19,440)**	**(81)**	**(17,285)**	**687,274**	**206,511**	**568,184**	**1,470,976**	

Template 5: Climate change physical events – Exposures subject to physical risk

	Gross carrying amount (Thousands EUR)											Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
	of which exposures sensitive to impact from climate change physical events													
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures			
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
A - Agriculture, forestry and fishing	41,613	13,056	7,193	1,368	19,996	11	-	2,603	5,307	-	483	(119)	-	-
B - Mining and quarrying	3	-	-	-	3	20	-	3	-	-	-	-	-	-
C - Manufacturing	96,854	87,558	1,951	1,371	5,974	4	-	16,163	1,043	3,117	10,130	(3,203)	(106)	(2,708)
D - Electricity, gas, steam and air conditioning supply	4,529	251	616	1,170	2,492	16	-	417	616	-	-	(24)	-	-
E - Water supply; sewerage, waste management and remediation activities	1,825	75	-	-	1,750	19	-	638	140	-	104	0	-	-
F - Construction	108,720	30,957	14,819	48,264	14,680	11	-	79,028	24,082	476	20,296	(5,607)	0	(5,557)
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	59,610	15,828	3,658	17,345	22,779	13	-	34,780	4,663	7,262	4,167	(2,105)	(64)	(1,997)
H - Transportation and storage	64,435	46,137	7,434	10,665	199	4	-	8,319	25	454	-	(60)	0	-
L - Real estate activities	209,145	78,618	16,584	96,535	17,408	10	-	116,083	17,132	8,658	7,640	(1,987)	(48)	(1,906)
Loans collateralised by residential immovable property	1,808,705	72,987	49,243	313,307	1,373,168	26	-	1,523,922	284,893	10,315	19,164	(2,406)	(38)	(1,982)
Loans collateralised by commercial immovable property	469,086	91,494	76,383	231,239	69,970	12	-	412,297	56,788	71,924	56,989	(3,896)	(48)	(3,693)
Repossessed collaterals	2,233	-	-	-	-	-	-	2,233	-	-	-	-	-	-

Energy Performance of Buildings Directive 2010/31/EU introduced the Energy performance certificates (EPC) as instruments for improving the energy performance of buildings. They are defined as a certificate recognised by a Member State or by a legal person designated by it, which indicates the energy performance of a building or building unit, calculated according to a methodology adopted in accordance with the Energy Performance of Buildings Directive (EPBD).

This template shows the Gross carrying amount of loans, collateralised with commercial and residential immovable property and of repossessed real estate collaterals, including information on the level of energy efficiency of the collaterals measured in terms of kWh/m^2 energy consumption and in terms of the label of the EPC of the collateral. The banking sector is faced with the challenging task to obtain data relating to Energy Performance Certificates. For loans collateralised by residential immovable property customers are required to obtain an EPC. The Bank is currently working together with the banking industry to address data gaps in this area. The level of energy efficiency by EPC label of collateral is aligned with the Bank's Green home loan.

Template 2: Climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral

	Total gross carrying amount (Thousands EUR)															
		Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
Total EU area																
Of which Loans collateralised by commercial immovable property	469,086	1,783	1,734	146	-	-	-	277	353	630	2,221	-	128	53	311,901	-
Of which Loans collateralised by residential immovable property	1,808,705	294,415	373,834	66,756	-	-	-	25,977	45,057	146,601	235,204	156,563	89,414	36,190	1,073,700	-
Of which Collateral obtained by taking possession: residential and commercial immovable properties	2,233	-	-	-	-	-	-	-	-	-	-	-	-	-	2,233	-
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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 document, the Bank included a tailored and in-depth review of the potential vulnerabilities resulting from transition risk through stress testing, as mandated by ECB Guidelines[9]. Through this stress scenario the Bank understands and monitors 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.

The Strategy and Propositions Unit compiles a report on an annual basis which includes a number of the Group's ESG metrics, as defined within the Platform framework provided by the Ministry for the Environment, Energy and Enterprise. This report also forms part of the Bank's disclosures on ESG Risk. The Malta ESG Platform helps illustrate the ESG credentials of companies listed on the Malta Stock Exchange, and in turn allows investors to incorporate these credentials into their investment decision-making. This reporting will be updated annually and provides a means for the Group to track its progress over time, and to help identify areas for enhanced focus and improvement.

Data availability, quality and accuracy, and efforts to improve these aspects

In the coming years, the Group aims to strengthen its capabilities, refine methodologies, and enhance the integration of climate risk in its lending and investment processes while maintaining transparency in the reporting process. The banking sector is faced with the challenging task to obtain data on multiple ESG-related data points, including data related to Energy Performance Certificates, while considering their accuracy.

The Group recognises the importance of making improvements in risk data aggregation capabilities and risk reporting practices. IT systems, data and reporting processes require significant investments of financial and human resources with benefits that may only be realised over the long-term. The Group believes that the long-term benefits of risk data aggregation capabilities and risk reporting practices will outweigh the investment costs which will necessarily be incurred.

The Group's main data repositories are the Operational and Historical Data Warehouses. The Data Warehouse gathers various data from independent core systems and consolidates, transforms, and loads it into a central unified data structure. To ensure proper quality of data, the Group has developed an automated quality assurance program, which validates the data that is loaded into the Data Warehouse. This quality assurance program generates reports and email notifications highlighting data anomalies, which are distributed to the Group's end users for corrective action.

The Group is continuously upgrading and refining its management information systems, with significant investments budgeted in the 2023-2025 Business Plan.

ESG products, services and initiatives

As highlighted above, the Group seeks to continuously develop further its suite of ESG products and services through appropriate customers and market research, and intelligence on regulatory and governmental framework. This section provides an overview of the main ESG products and services offered by the Group, as well as other initiatives taken by the Group to enhance awareness of ESG factors among its employees and the community.

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[9]https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.202011finalguideonclimate-relatedandenvironmentalrisks~58213f6564.en.pdf

Green Deposit Product

APS Green Deposits, launched at the start of 2023, allow both retail and commercial customers of the Bank to invest in a sustainable portfolio of green assets through fixed term deposits. The asset portfolio is ringfenced, in such a way that for every euro deposited within the Green Deposit portfolio, an equal amount will be held in an environmental lending portfolio seeking to support the financing of energy efficiency, renewable energy and other low-carbon and environmentally beneficial projects and solutions.

APS Green Home Loan

The Bank offers its retail customers discounted interest rates just by opting for a more sustainably designed home. The Bank is rewarding the customers for their commitment to sustainability. With the Green home loan, the client simply needs to invest in a home that is energy efficient, by obtaining a low-scoring EPC rating.

APS Green Finance

The APS Green Finance is a lending product that enables its customers, both personal and commercial, to finance their transition towards a more energy efficient and sustainable future. The product was designed under the terms of a wider European Guarantee instrument, in partnership with the European Investment Fund and it leverages EU funding that has been made available to allow Malta-based families and businesses to ‘go green’.

ECO-Loan

The ECO-Loan enables domestic homeowners and businesses to finance their investment in solar water heaters, PV Panels, wind turbines and eco-vehicles. In doing so, it empowers personal and business customers to manage their utility bills in a sustainable manner whilst safeguarding the environment.

Malta Sustainability Forum

As sustainability lies at the heart of the Group’s values, APS organises the Malta Sustainability Forum periodically, through a series of seminars and presentations, with the aim to empower citizens to make conscious decisions towards a more sustainable life. The need to understand what is happening to our planet and society has never been so strong. The forum brings the facts, expertise and challenges the status-quo.

APS Talks on Sustainability

The idea of APS Talks is to bring the best experts in the field to share knowledge and builds awareness on various topics to benefit of other communities that go beyond the limited circle of experts. Events are free and contribute to the exchange of ideas on the topic of sustainability.

Other Initiatives

The Bank’s Debit and Credit Cards are made from 80% recycled materials. The Bank has invested in PV systems across four of its sites in Marsa, Swatar (Head Office), Blata l-Bajda and Qormi. At the Head Office, in Swatar, six Electric Vehicles charging points were implemented in 2022. Additionally, the Bank plans to have automated external defibrillators in all branches and Head Office, for the safety of the public and its customers and employees.