Pillar 3 Disclosures

31 December 2023

APS bank

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1. Introduction

This report provides an overview of the regulatory capital and risk management practices and exposures of APS Bank and its subsidiaries (hereafter 'the Group') in line with Pillar 3 of the Basel framework. Pillar 3 of the Basel framework aims to promote financial market discipline through regulatory disclosure requirements. These requirements enable market participants to access key information relating to a bank's regulatory capital and risk exposures, in order to increase transparency and confidence about a bank's exposure to risk and the overall adequacy of its regulatory capital.

The Pillar 3 disclosures within this report are prepared in line with Banking Rule BR/07/2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994*, and governed by Part Eight of the Capital Requirements Regulation (CRR) II No. 2019/876. Pillar 3 disclosures on Environmental, Social and Governance (ESG) factors are published in a separate report which is available on the Bank's website in conjunction with this report. Disclosures on the Remuneration Policy are published in the 'Remuneration Report' included in the Group's Annual Report. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published Implementing Technical Standards (ITS) on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

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

This report is not subject to external audit, with the exception of any disclosures that are equivalent to those made in the 2023 Financial Statements, which adhere to International Financial Reporting Standards as adopted by the European Union (EU IFRSs). However, this report has undergone comprehensive internal review as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Risk Committee and Audit Committee and has been approved by the Group's Board of Directors (hereafter referred to as 'the Board'). A reference has been added in cases where additional information addressing Pillar 3 requirements is included in the Financial Statements. The Board is satisfied that the internal controls implemented around the preparation of these Additional Regulatory Disclosures are adequate and such disclosures present a fair and accurate picture of the Group's risk profile and capital position.

2. Risk Management Framework

The Group's Risk Appetite Statement is reviewed and approved by the Board and captures and describes the most significant risks to which the Bank is exposed and sets guidance on the types and maximum amount of risk that the Board considers acceptable (the risk capacity). It forms an integral part of the Bank's overall Risk Management Framework and contributes to aligning strategy and business objectives with the mission, vision and core values of the Bank.

The Risk Appetite Statement sets the "tone at the top" and is cascaded down to the tactical and operational levels through risk policies, key risk indicators, limits and established processes and controls. This Statement is supported by a Risk Appetite Dashboard, which sets out risk limits and triggers to benchmark the Bank's risk profile with its risk appetite (through a 'traffic lights approach').

Risk culture influences the decisions of management and employees during the day-to-day activities of the Group and has an impact on the risks the Group assumes. The Group's management, including key function holders, contribute to the internal communication of core values and expectations to staff. Staff are expected to be risk-aware and act in accordance with the Group's Code of Conduct, all applicable laws and regulations and the Group's policies, and promptly escalate observed non-compliance within or outside the institution. To create an environment of trust and maximum protection that makes it easier for all employees to report any improper practice, the Group has a Whistleblowing Policy approved by the Board of Directors.

The management body on an ongoing basis promote, monitor and assess the risk culture of the Group; they consider the impact of the risk culture on the financial stability, risk profile and robust governance of the Group; and make changes where necessary and align risk-taking behaviour with the Group's risk profile and long-term objectives.

The Group's risk profile is managed within the risk appetite set by the Board, and this is supported by a strong capital base and an adequate portfolio of highly liquid assets to meet its financial obligations as they fall due.

As at end of December 2023, the Board declares that the Group's risk profile remained well within its risk appetite and tolerance limits as set by the Board. This is supported by adequate risk management arrangements in relation to the overall risk profile and business model.

3. Risk Governance

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

The Risk, Compliance and Legal functions are led by the Chief Risk Officer who reports directly to the Risk Committee. The Risk Committee establishes and ensures the implementation of the Group's risk management and compliance strategy, systems and policies. The Risk Committee meets regularly to monitor the assessment and management of the risk profile of the Group and ensures that policies are in place in line with the Group's risk appetite, as set by the Board. During 2023, the Risk Committee met nine (9) times[1].

Risk Management Function

The Risk Management function maintains a comprehensive enterprise-wide view of the risks facing the Group and ensures that these are within the Risk Appetite set by the Board. The Group's Risk Appetite is reviewed and approved by the Board through the annual review of its Risk Appetite Statement. The Risk function is responsible for bringing to the attention of the Risk Committee emerging risks and material changes to existing risks within the Group's risk profile, including as part of the business planning process, to ensure that Management operate within the risk appetite approved by the Board. Subsequently, it is the role of the Chair of the Risk Committee to report to the Board on such developments. As the second line of defence, the Risk function operates independently of the Bank's business activities, which are vested in the first line of defence. The Risk function is made up of three Units:

- Credit Risk Management (CRM): The CRM is responsible for the oversight of the Bank's credit risk exposure and management thereof. The Unit is responsible for reviewing the Credit Risk Policy, duly supported by Credit Key Risk Indicators and the underlying procedures, in line with the Bank's Risk Appetite. The CRM provides independent evaluation and recommendations (from a second line of defence perspective) on credit proposals presented by the first line of defence which either exceed a certain monetary threshold or are not in line with the Bank's Policy, Lending Parameters or Procedures. The Unit ensures that lending practices and new or revamped lending products are both consistent with the applicable regulations, as well as the Bank's credit risk appetite. Ensuring compliance with the credit regulatory reporting framework is the responsibility of the CRM. The oversight on the identification and monitoring of Non-Performing Loans and relative provisioning falls under the remit of this function. The ongoing monitoring of NPEs, through regular reporting from the first line of defence, also falls under the responsibility of the CRM. The Recoveries and the Credit Administration functions of the Bank, both of which deal with unimpaired and impaired NPEs, are both being overseen by the CRM.

- Enterprise Risk Management (ERM): The ERM's objective is to articulate and champion the Risk Appetite set by the Board and ensure that business functions operate within this framework. The Unit continuously seeks to enhance the Bank's risk culture through risk-awareness initiatives (like training sessions and workshops) which are considered a key element of an effective risk management function. The ongoing update of the Risk Register resides with the ERM through the collaboration with other Departments within the Bank. The compilation and submission of the regulatory Internal Capital and Liquidity Adequacy Assessment Process Report and Recovery and Resolution Planning falls under the remit of this function. The ERM performs regular sensitivity analyses and stress testing encompassing all material risks facing the Bank and periodical risk assessments reporting to the Board of Directors, Risk Committee, Executive Committee and Assets-Liabilities Committee. The management of credit risk within the investment's portfolio, liquidity and funding risk and market risk are also the responsibility of the ERM.

- Operational Risk and Security Governance (ORSG): The ORSG is responsible for independently monitoring, measuring and reporting on the Group's exposure to IT and Cyber risks in coordination with the first line of defence. The Department is responsible for carrying out Operational Risk Assessments, monitoring and reporting on the Group's operational risk profile and its management within the corresponding appetite threshold. ORSG oversees the framework of real time reporting of operational loss events and provides immediate response as required, as well as maintains a database of operational loss and near miss incidents, and compiles and presents monthly updates to the Executive Committee and the Risk Committee. Maintaining, testing and regularly updating the Group's Business Continuity Plan (BCP) falls under the responsibility of this Department, as well as providing Bank-

[1] Further information on the Group's Committees is included in the Corporate Governance Statement published within the Annual Report

wide business continuity awareness. Through the framework developed by ORSG, second line of defence monitoring of reputational risk is carried out in line with the Reputational Risk Policy. ORSG maintains a comprehensive and effective insurance cover for all insurable bank risks (responsibility for insurance coverage related to specific products is vested in the Strategy and Propositions Units). ORSG is also responsible for overseeing the risks emanating from outsourcing arrangements as part of an overall process of third-party risk management. The main areas of focus of ORSG are:

- Operational Risk Governance
- Business Continuity Management
- Insurance (not related to specific products)
- Outsourcing and ICT Third Party Providers Management
- Reputational Risk Management
- IT Cyber Risk
- Security Governance

Compliance Function

The Compliance function is overseen by the Compliance Committee, a management committee, which meets on a regular basis and is chaired by the Chief Risk Officer. The purpose of this Committee is to ensure that prescribed regulations, rules, policies, guidelines and procedures are being followed and anticipated. The Compliance Committee acts as a decision point for business acceptance, on-boarding and exit of customer relationships, in line with the Bank's on-boarding and exit policies.

The Compliance function is constituted by the following Units:

- Regulatory Compliance (RC): The Bank has established an independent, permanent, and effective RC Unit to manage regulatory compliance risks. Regulatory Compliance is an integral part of good governance. The Bank seeks to ensure that through the RC Unit, the credit institution activity, investment services activity and insurance intermediation activity are carried out in line with the applicable Rules/Regulations/Supervisory Guidance (and others as applicable).

  The key areas within scope of RC Unit's remit as part of the second line of defence are the following:
  - Conduct of business and treating customers fairly (TCF)
  - Conflicts of interest
  - Market Abuse
  - Marketing and promotions of products and services
  - Product Oversight Governance (POG)
  - GDPR

  Clear demarcations exist between those persons within the Bank who are responsible for monitoring regulatory compliance risk and establishing its appropriate limits and thresholds, to those persons who operationally own the risk. RC within the Bank is led by a Head of Regulatory Compliance who is also the Compliance Officer of the Bank as approved by the MFSA. The Unit is divided into Regulatory Development and Regulatory Oversight.

  The Regulatory Development function is in charge of Analysing and tracking in terms of compliance risk those laws, regulations and standards which are material and relevant to the Bank and fall within the overall scope of regulatory compliance. In addition, the function constantly interacts with relevant Units for the implementation of new/amended laws, regulations, and standards.
  The Regulatory Oversight Section is responsible for conducting oversight monitoring on the various functions within the Bank to ensure that the operational procedures are in line with the regulatory requirements through a set Compliance Monitoring Programme and ad hoc reviews. This function provides assistance and advice on new Projects, Product Launches and Complaints Management and is responsible for Regulatory Reporting and Tax Compliance.
  Both functions are interdependent and provide support to each other on an ongoing basis. In addition to the above, the GDPR function currently falls within the remit of RC, and this is represented by the Data Protection Officer.

- Financial Crime Compliance (FCC): This Unit is led by a Head of Financial Crime Compliance and is responsible for effective risk management in the context of the prevention and detection of financial crimes through the implementation of a robust Financial Crime framework. The Unit covers Anti-Money Laundering (AML), Countering Funding of Terrorism, Sanctions, Bribery & Corruption and Anti-Fraud. It acts as the Subject Matter Expert for the branch network, back-office functions and Senior Management on AML risks. The Head of the Financial Crime Compliance Unit is also the Money Laundering Reporting Officer (MLRO) of the Bank, reporting to the Chief Risk Officer from an operational standpoint, but also enjoying direct and unhindered access to the Board for any reporting or consultation required in respect of AML risks.

Legal Function

The Legal function is responsible for the identification, assessment and management of Legal Risks that arise out of the business activities and operations of the Bank, and those which arise due to external factors. The Legal Department's primary role is to act as the legal guardian of these risks by identifying, analysing, evaluating, monitoring, mitigating, and controlling such risks, and by communicating the legal strategy to the management body (in its supervisory and executive function) as well as to members of staff. The function is led by the Head of Legal and is comprised of three separate Units:

- The Legal Services Unit is responsible for the drafting of legal policy and procedures, provision of general legal advice and guidance, reviewing and drafting contracts and other legal documents, and maintaining a register of signed contracts entered by the Bank.
- The Advances Legal Unit is responsible for the provision of legal advice and review of all legal documentation in connection to property that is hypothecated in favour of the Bank during the entire contract cycle, the administrative work connected to the signing of deeds of loans and overdraft, and the representation on deeds of waiver/postponement or cancellation of hypothecary rights and deed of constitution of debt and the provision of advice in relation to these deeds.
- The Court Management Services Unit is responsible for the receipt, implementation and documentation of all Court orders, the provision of evidence during Court proceedings, the provision of legal advice with regards to closure of bank accounts of deceased customers, interdicted customers under curatorship/guardianship, and liaising with Recoveries Unit/ Legal Unts with regards to customers in litigation.

All three Units are responsible to provide legal advice and guidance to Committees, Projects teams, Working Groups in all matters as required.

4. Key Risks

Below is a list of the material risks to which the Group is exposed. The subsequent sections (as indicated below) provide an overview of each material risk, including the management of each risk and capital allocation techniques adopted. The Bank considers the risk of its subsidiary, ReAPS Asset Management Limited, to the extent that this constitutes a material impact on the Group's risk profile. The subsidiary has its own Risk Management and Compliance policies and documented procedures that delineate the risk management and compliance processes, which facilitate reporting to the Risk Committee on the assessment of the subsidiary's risk profile, carried out by the Risk and Compliance personnel engaged with the entity which carry a dual reporting line to both the Chief Risk Officer and to the Managing Director of ReAPS Asset Management Limited.

Capital Adequacy	The risk that the own funds held by the Bank are not sufficient and/or adequate to provide sound coverage of the risks to which it is, or might be, exposed. *Pillar 3 Disclosures Report Section 6; and Note 47.5 to the Financial Statements.*
Leverage	The risk resulting from an institution's vulnerability due to leverage or contingent leverage that may require unintended corrective measures of its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets. *Pillar 3 Disclosures Report Section 6.4*
Credit Risk	The risk that a borrower or counterparty fails to meet the respective obligations in accordance with, or performing according to, agreed terms. The Bank does not engage in derivative exposures and, therefore, is not subject to counterparty credit risk. *Pillar 3 Disclosures Report Section 7; and Note 47.2 to the Financial Statements.*
Market Risk	The risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. The Group's exposure through its trading portfolio is minimal, as well as its exposure to equities. Thus, the Group's exposure to market risk is limited to interest rate risk, foreign exchange risk and other price risk. *Pillar 3 Disclosures Report Section 8; and Note 47.4 to the Financial Statements.*
Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and systems, or from external events. *Pillar 3 Disclosures Report Section 10.*
IT and Cyber Risk	The impact (financial, reputational, technical and regulatory) to the confidentiality and/or integrity and/or availability of Bank information system (including data managed by these systems) stemming from attempt, successful or otherwise, unauthorized individual/stakeholder/systems/entities. *Pillar 3 Disclosures Report Section 10*
Liquidity and Funding Risk	Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due in the short term and medium term, either at all or without incurring unacceptable losses. Funding risk is the risk that the Group cannot meet its financial obligations as they fall due in the medium to long term, either at all or without increasing funding costs unacceptably. *Pillar 3 Disclosures Report Section 9; and Note 47.3 to the Financial Statements.*
Environmental, Social and Governance Risk	Environmental, Social and Governance risks are the risks of any negative financial impact on the institution stemming from the current or prospective impacts of ESG factors on the Group, its counterparties or its invested assets. *Pillar 3 Disclosures Report Section 11; and ESG Disclosures Report*[2]
Reputation Risk	The risk arising from negative perception on the part of customers, counterparties, shareholders, investors, debt-holders, market analysts, other relevant parties or regulators that can adversely affect a bank's ability to maintain existing, or establish new, business relationships and continued access to sources of funding. *Pillar 3 Disclosures Report Section 12.*

[2] The ESG Disclosures Report for year ended 31 December 2023 will be available on the Bank's website by June 2024. Further information is provided in Section 11 of this Report.

4.1. Key Risk Indicators

The Risk Department performs regular risk assessments and stress testing exercises, the results of which are presented to the Board of Directors, Risk Committee and other committees as may be required, including the Assets-Liabilities Committee and the Executive Committee. The Risk Appetite Dashboard, which complements the Risk Appetite Statement, is presented to the Board of Directors on a quarterly basis. These reports provide insight on the Group's risk profile and benchmarks this with the Group's risk appetite and internal limits. Risk reports are presented using a RAG (also known as "traffic lights") approach. Early warning signals and excesses are escalated to the Chief Risk Officer, followed by the Risk Committee and the Board of Directors, as deemed applicable, to ensure that the necessary corrective actions are implemented.

The following table summarises the Bank's key regulatory ratios, and their underlying components, for the reporting quarter and the preceding four quarters. These ratios form an integral part of the Bank's strategic planning and risk management framework.

EU KM1 - Key metrics

		Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	254,504	247,029	248,482	231,683	229,430
2	Tier 1 capital	254,504	247,029	248,482	231,683	229,430
3	Total capital	358,676	301,705	303,146	286,336	284,072
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,740,983	1,619,766	1,569,429	1,531,098	1,512,514
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.62%	15.25%	15.83%	15.13%	15.17%
6	Tier 1 ratio (%)	14.62%	15.25%	15.83%	15.13%	15.17%
7	Total capital ratio (%)	20.60%	18.63%	19.32%	18.70%	18.78%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	4.00%	4.00%	4.00%	4.00%	4.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2.25%	2.25%	2.25%	2.25%	2.25%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 7d	Total SREP own funds requirements (%)	12.00%	12.00%	12.00%	12.00%	12.00%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.07%	0.06%	0.05%	0.05%	0.02%
EU 9a	Systemic risk buffer (%)	0.33%	0.34%	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.25%	0.25%	0.25%	0.25%	0.13%
11	Combined buffer requirement (%)	3.15%	3.15%	2.80%	2.80%	2.64%
EU 11a	Overall capital requirements (%)	15.15%	15.15%	14.80%	14.80%	14.64%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.62%	6.25%	8.67%	7.93%	7.93%

	Leverage ratio					
13	Total exposure measure	3,780,199	3,615,963	3,590,998	3,364,243	3,212,972
14	Leverage ratio (%)	6.73%	6.83%	6.92%	6.89%	7.14%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	-
EU 14c	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	485,699	513,121	594,779	484,368	520,596
EU 16a	Cash outflows - Total weighted value	418,833	425,100	408,111	455,764	415,055
EU 16b	Cash inflows - Total weighted value	72,354	40,864	35,033	97,425	60,845
16	Total net cash outflows (adjusted value)	346,478	384,237	373,077	358,338	354,210
17	Liquidity coverage ratio (%)	140.18%	133.54%	159.43%	135.17%	147.33%
	Net Stable Funding Ratio					
18	Total available stable funding	3,069,798	2,934,761	2,871,521	2,668,447	2,604,853
19	Total required stable funding	2,337,458	2,196,796	2,098,579	2,014,489	1,930,995
20	NSFR ratio (%)	131.33%	133.59%	136.83%	132.46%	134.90%

5. Scope of Application of the Regulatory Framework

The accounting framework used in preparing the consolidation of the Bank's financial statements is IFRS as adopted by the EU, whereas the prudential consolidation in the statement of capital is based on CRR 2019/876. Thus, consolidation under prudential requirements may differ from consolidation under the accounting standards depending on the purpose for which they are being calculated.

The following two tables highlight the main differences between the figures reported in the financial statements in accordance with IFRS and the figures reported for the risk categories in line with the CRR. The differences between the carrying values reported in the financial statements and those reported under the regulatory risk categories pertain mainly to the differences in the accounting and regulatory consolidation methods.

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

				Carrying value of items:				
		Carrying values as reported in published financial statements	Carrying values under scope of prudential consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
		€000	€000	€000	€000	€000	€000	€000
	Assets							
1	Cash and balances with Central Bank of Malta	131,071	131,071	131,071	-	-	385	-
2	Loans and advances to banks	53,951	53,951	53,951	-	-	25,698	-
3	Loans and advances to customers	2,694,229	2,694,229	2,694,229	-	-	32,624	-
4	Syndicated loans	184,172	184,172	184,172	-	-	52,479	-
5	Derivative financial instruments	536	-	-	-	-	-	-
6	Other debt and fixed income instruments	442,032	442,032	442,032	-	-	33,175	-
7	Equity and other non-fixed income instruments	6,960	6,960	6,960	-	-	71	-
8	Investment in subsidiaries	40,251	40,251	40,251	-	-	-	-
9	Investment in associates	14,563	14,563	14,563	-	-	-	-
10	Investment properties	6,714	6,714	6,714	-	-	-	-
11	Non-current assets held for sale	1,738	1,738	1,738	-	-		-
12	Property and equipment	39,824	39,824	39,824	-	-	7	-
13	Intangible assets	17,523	17,523	6,022	-	-	374	11,501
14	Right-of-use assets	4,386	4,386	4,386	-	-	-	-
15	Deferred tax assets	3,154	3,154	3,154	-	-	4	-
16	Other receivables	12,180	12,180	12,180	-	-	1,273	-
17	**Total assets**	**3,653,284**	**3,652,748**	**3,641,247**	-	-	**146,090**	**11,501**

	Liabilities							
1	Derivative financial instruments	536	536	-	-	-	-	536
2	Amounts owed to banks	80,685	80,685	-	-	-	70,837	80,685
3	Amounts owed to customers	3,139,214	3,139,214	-	-	-	75,991	3,139,214
4	Debt securities in issue	104,173	104,173	-	-	-	-	104,173
5	Current tax	2,641	2,641	-	-	-	-	2,641
6	Lease liabilities	4,585	4,585	-	-	-	-	4,585
7	Other liabilities	20,339	20,339	-	-	-	(339)	20,339
8	Accruals	22,787	22,787	-	-	-	479	22,787
9	Total liabilities	3,374,960	3,374,960	-	-	-	146,968	3,374,960
	Equity							
1	Share capital	94,451	94,451	-	-	-	-	94,451
2	Share premium	51,907	51,907	-	-	-	-	51,907
3	Revaluation reserve	7,905	7,905	-	-	-	(999)	7,905
4	Retained earnings	123,768	111,956	-	-	-	-	111,956
5	Other reserves	293	293	-	-	-	-	293
6	Total equity	278,324	266,512	-	-	-	(999)	266,512

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

		Total	Items subject to: Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
		€000	€000	€000	€000	€000
1	Asset carrying value amount under scope of regulatory consolidation (as per Template LI1)	3,787,339	3,641,247	-	-	146,092
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)	(146,968)	-	-	-	(146,968)
3	Total net amount under regulatory scope of consolidation	3,640,371	3,641,247	-	-	(876)
4	Off-balance sheet amounts	1,130,185	1,130,185	-	-	
5	Differences in valuations	-	-	-	-	
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	
7	Differences due to consideration of provisions	-	-	-	-	
8	Differences due to the use of credit risk mitigation techniques (CRMs)	-	-	-	-	
9	Differences due to credit conversion factors	991,233	991,233	-	-	
10	Differences due to Securitisation with risk transfer	-	-	-	-	
11	Other Differences	-	-	-	-	
12	Exposure amounts considered for regulatory purposes	4,770,556	4,771,432	-	-	(876)

The following table provides an overview of the accounting and regulatory consolidation methods for each entity within the Group. The Group's investment in its associates is accounted for using the equity method. Further information on the Group's subsidiaries and associates is included in Notes 23 and 24 to the Financial Statements, respectively.

EU LI3 Outline of the differences in the scopes of consolidation (entity by entity)

Name of the entity	Method of accounting consolidation	Method of regulatory consolidation	Description of the entity
APS Bank plc	Full Consolidation	Full Consolidation	Credit institution
ReAPS Asset Management Limited	Full Consolidation	Neither consolidated nor deducted	UCITS Management Company
APS Diversified Bond Fund	Full consolidation	Neither consolidated nor deducted	UCITS Collective Investment Scheme
APS Global Equity Fund	Equity method of accounting	Neither consolidated nor deducted	UCITS Collective Investment Scheme
IVALIFE Limited	Equity method of accounting	Neither consolidated nor deducted	Insurance
APS Income Fund	Equity method of accounting	Neither consolidated nor deducted	UCITS Collective Investment Scheme
APS Regular Income Ethical Fund	Equity method of accounting	Neither consolidated nor deducted	UCITS Collective Investment Scheme

6. Capital Management

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

Capital planning is a crucial pillar of the Group's business planning process. The Group examines both the current and future capital requirements in line with its Risk Appetite and strategic business objectives, in order to establish its near and long-term capital needs, capital expenditures required for the foreseeable future, target capital levels and potential sources of capital. Capital planning is the responsibility of the Assets-Liabilities Committee.

As an integral part of the Group's business planning process, the Enterprise Risk Management Unit performs a detailed analysis of the capital requirements over the medium- and long-term, which are part of the Internal Capital Adequacy Assessment Process (ICAAP). This involves compiling scenario analysis and stress testing exercises to evaluate the impact of the Bank's strategic growth on its risk profile, whilst also taking into consideration regulatory requirements. The impact of business objectives on the Group's risk profile is also evaluated as part of the annual budgeting process.

6.1. Capital Instruments

The 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 its first equity public offering worth €65,800,000, hence strengthening further its capital position. Further information on the share capital composition is provided in Note 37 to the Financial Statements.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange for the first time with the listing of the €55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. In November 2023, the Bank announced the issuance of €50 million 5.80% Unsecured Subordinated Bonds 2028-2033 The subordinated bonds qualify as Tier 2 Capital, which ranks after the claims of all depositors (including financial institutions) and all other creditors.

Further information on the main features and terms and conditions of the Bank's capital instruments is provided in Note 47.5 appended to the 2023 Financial Statements which are available on the Bank's website.

6.2. Capital Requirements

In accordance with the CRR, the Bank calculates its capital requirements for Pillar 1 risks using the following approaches:

- The Standardised Approach for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is calculated at 8% of the credit risk-weighted exposures.
- The Standardised Approach for the purposes of calculating its risk-weighted exposure to foreign exchange risk. The capital allocation for foreign exchange risk is therefore equal to 4% of the matched position for closely correlated currencies, while a capital allocation of 8% of the position is applied for non-closely correlated currencies.
- The Basic Indicator Approach for the purposes of calculating its risk-weighted exposure to operational risk. Under this approach, a 15% capital charge is applied on the average operating income for the previous three financial years.

The table below shows the Bank's risk weighted exposure for each exposure class in line with the CRR, and the respective Pillar 1 capital requirement based on the methods outlined above.

EU OV1 – Overview of total risk exposure amounts[3]

		RWA		Minimum Capital requirements
		Dec-23 €000	Sep-23 €000	Dec-23 €000
1	Credit risk (excluding counterparty credit risk)	**1,606,050**	**1,501,725**	**128,484**
2	Of which: standardised approach	**1,606,050**	1,501,725	128,940
	Central government or central banks	**9,528**	15,534	762
	Regional government or local authorities		-	-
	Public sector entities		-	-
	Multilateral development banks	**2,041**	2,005	163
	International organisations		-	-
	Institutions	**31,381**	19,978	2,511
	Corporates	**489,057**	429,973	39,124
	Retail	**48,278**	52,071	3,862
	Secured by mortgages on immovable property	**749,320**	713,222	59,946
	Exposures in default	**51,815**	41,804	4,145
	Items associated with particular high risk	**92,213**	93,155	7,377
	Covered bonds	**1,586**	1,584	127
	Claims in the form of CIU	**29,587**	26,611	2,367
	Equity exposures	**321**	321	26
	Other Assets	**100,923**	105,466	8,074
20	Market risk	**15**	**27**	**1**
21	Of which: standardised approach	15	27	1
23	Operational risk	**134,918**	**118,014**	**10,793**
23a	Of which: basic indicator approach	134,918	118,014	10,793
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	1,740,983	1,619,766	139,279

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)[4]. In line with the Capital Requirement Directive (CRD V), banks may partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R.

Banking Rule BR/15/2022 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994* requires institutions to maintain capital buffers over and above the Pillar 1 requirements. In accordance with this Rule, the Bank maintains a Capital Conservation Buffer (CCB), a Countercyclical Capital Buffer (CCyB), an Other-Systemically Important Institutions (O-SII) buffer and Systemic Risk Buffer (sSyRB). The latter was implemented by the Central Bank of Malta (CBM) in 2023 on all domestic Residential Real Estate ("RRE") mortgages to natural persons applicable to all credit institutions in Malta. The sSyRB is being phased-in, with a rate of 1% on domestic mortgages effective as from end September 2023 and 1.5% as from end March 2024. The capital buffers (collectively referred to as the Combined Buffer Requirement) are to be met from Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, the Group might be subject to capital distribution constraints. Further information on the Bank's capital buffer requirements is provided in tables 'EU CC1' and 'EU CCyB1' below.

As at 31 December 2023, the Bank's Tier 1 and Total Capital Ratios stood at 14.62% and 20.60%, respectively. Both ratios are above the respective regulatory requirements outlined in table 'EU KM1' in Section 4.1. Further information on the composition of capital is provided in the table below.

[3] The Bank has no exposures to derivatives and securitisation.

[4] Further information on the capital requirements is included in Section 4.1, table EU KM1

EU CC1 - Composition of regulatory own funds

		€000
1	Capital instruments and the related share premium accounts	146,358
2	Retained earnings	98,400
3	Accumulated other comprehensive income (and other reserves)	8,198
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	13,555
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	266,511
7	Additional value adjustments (negative amount)	(215)
8	Intangible assets (net of related tax liability) (negative amount)	(11,501)
27a	Other regulatory adjustment – prudent valuation adjustment	(292)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(12,008)
29	Common Equity Tier 1 (CET1) capital	254,504
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	**Additional Tier 1 (AT1) capital**	**-**
45	Tier 1 capital (T1 = CET1 + AT1)	254,504
46	Capital instruments and the related share premium accounts	104,173
51	Tier 2 (T2) capital before regulatory adjustments	104,173
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	104,173
59	Total capital (TC = T1 + T2)	358,676
60	Total risk exposure amount	1,740,983
61	Common Equity Tier 1 capital	14.62%
62	Tier 1 capital	14.62%
63	Total capital	20.60%
64	Institution CET1 overall capital requirements	9.89%
65	of which: capital conservation buffer requirement	2.50%
66	of which: countercyclical capital buffer requirement	0.07%
67	of which: systemic risk buffer requirement	0.33%
EU-67a	of which: Other Systemically Important Institution (O-SII) buffer requirement	0.25%
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	5.62%

Note 47.5 appended to the Financial Statements includes a reconciliation of regulatory own funds to the statement of financial position within the audited financial statements.

The CCyB is calculated as the weighted average of the buffers in effect in the jurisdictions to which the Bank has a credit exposure. The following table discloses the geographical distribution of the Bank's credit exposures relevant for the calculation of the institution-specific CCyB and the amount of the institution-specific CCyB.

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

Country	Exposure value under the standardised approach	Total exposure value	Own Funds Requirement	Own fund requirement weights	Counter-cyclical buffer rate
	€000	€000	€000	%	%
Bulgaria	3,549	3,549	284	0.09	2.00
Czech Republic	268	268	21	0.01	2.00
Denmark	3,317	3,317	265	0.09	2.50
Luxembourg	29,713	29,713	2,377	0.79	0.50
Macedonia	125	125	10	0.00	2.50
Norway	73	73	6	0.00	2.50
Romania	7,822	7,822	626	0.21	1.00
Slovakia	2,766	2,766	221	0.07	1.50
United Kingdom	47,790	47,790	3,823	1.26	1.00
Croatia	2,559	2,559	205	0.07	1.00
France	65,050	65,050	5,204	1.72	0.50
Germany	85,240	85,240	6,819	2.25	0.75
Ireland	11,551	11,551	924	0.31	1.00
Netherlands	37,514	37,514	3,001	0.99	1.00
Australia	8,970	8,970	718	0.24	1.00
Cyprus	2,494	2,494	200	0.07	0.50
Lithuania	1,160	1,160	93	0.03	1.00
Sweden	168	168	13	0.00	2.00
Slovenia	2,573	2,573	206	0.07	0.50
Other	3,468,497	3,484,497	277,400		
Total	**3,780,199**	**3,780,199**	**302,416**		

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

Total Risk Exposure Amount (€000)	1,740,983
Institution Specific Countercyclical Buffer Rate	0.07%
Institution Specific Countercyclical Buffer Requirement (€000)	1,161

6.3. Internal Capital Adequacy Assessment Process

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) in compliance with the Pillar 2 requirements of Banking Rule BR/12/2022 – The Supervisory Review Process of Credit Institutions Authorised Under the Banking Act 1994 and the CRR. This key decision-making tool is of utmost importance for keeping the Board of Directors informed about the Bank's ongoing risk assessment, the mitigation measures adopted and their impact on the capital requirements.

The Bank's ICAAP is based on the principle of proportionality set out in the above-mentioned Banking Rule and adopts a combination of quantitative capital and adequate systems and controls in fulfilment of these requirements. The production of the ICAAP is led by the ERM Unit, taking into consideration the Bank's Risk Appetite and underlying risk profile, business model, as well as the external environment.

In this exercise, the Bank's capital requirements are set at a starting point of zero. A structured and comprehensive assessment and quantification of all the material risks are performed. This involves an analysis to determine whether the minimum regulatory requirements for Pillar I risks are sufficient to cover the Bank's credit, operational and market risk. In addition, the ICAAP includes an assessment of other risks not covered by Pillar 1 risks and which are referred to as Pillar 2 risks. This includes capital for concentration risk. Since the minimum regulatory requirement for credit risk was calibrated for internationally diversified banks and the Bank's operations are concentrated locally, additional capital is allocated to account for individual, geography and sectoral concentration. This capital allocation is based on the results of an index-based model. The Bank also assesses and measures other risks to determine its capital requirements, including interest rate risk in the banking book, IT and cyber risks, ESG risks, reputation risk and other key risks.

The Bank's stress testing framework forms an integral part of the ICAAP. A number of severe but plausible scenarios are developed which test the resilience of the Bank's business model and risk profile. The latest ICAAP, which concluded that the Bank is adequately capitalised, was reviewed in detail by the Bank's Internal Audit Department and by the Risk Committee, and subsequently presented to the Board of Directors for approval. Following Board approval, the ICAAP Report was submitted to the MFSA.

6.4. Leverage Ratio

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

The Board approves the Bank's Leverage Risk Policy, the purpose of which is to set forth a framework for comprehensively identifying, managing, monitoring and reporting on leverage and the risk of excessive leverage. The Leverage Ratio is reported to the Board of Directors as part of the Risk Appetite Dashboard and an assessment of the ratio is carried out as part of the risk report presented to the Risk Committee, Executive Committee and Assets-Liabilities Committee.

During 2023, the Bank's Leverage Ratio remained well above the regulatory minimum requirement of 3% and within the risk appetite set by the Board. As at 31 December 2023 the Bank's leverage ratio stood at 6.73%. This represents a decrease of 41 basis points, when compared to 7.14% as at 31 December 2022. The main contributor to this decrease in the ratio is the increase in the leverage ratio exposure measure which is attributed to the growth in the Bank's balance sheet. This increase outweighed the increase in Tier 1 Capital. The below tables provide a reconciliation of accounting assets and leverage ratio exposures (LR1), the components which make up the Bank's Leverage ratio (LR2) and a list of on-balance sheet exposures which form part of the computation of the ratio (LR3).

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

		€000
1	Total assets as per published financial statements	3,652,747
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	138,951
12	Other adjustments	(11,500)
13	Total exposure measure	3,781,351

EU LR2 - LRCom: Leverage ratio common disclosure

		€000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	3,652,747
6	Asset amounts deducted in determining Tier 1 capital	(11,501)
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	3,641,247
19	Off-balance sheet exposures at gross notional amount	1,130,185
20	Adjustments for conversion to credit equivalent amounts	(991,233)
22	Total off-balance sheet exposures	138,952
23	Tier 1 capital	254,504
24	Total Exposures	3,780,199
25	Leverage Ratio	6.73%

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

		€000
EU-1	Total on-balance sheet exposures (excluding derivatives and SFTs), of which:	3,652,747
EU-2	Trading book exposures	-
EU-3	Banking book exposures, of which:	3,652,747
EU-4	Covered bonds	15,863
EU-5	Exposures treated as sovereigns	346,944
EU-6	Exposures to regional governments, MDBs, international organisations and PSE NOT treated as sovereigns	39,397
EU-7	Institutions	100,315
EU-8	Secured by mortgages of immovable properties	1,805,041
EU-9	Retail exposures	67,955
EU-10	Corporate exposures	820,099
EU-11	Exposures in default	42,380
EU-12	Other exposures	414,753

7. Credit Risk

Credit Risk is the possibility that a borrower or counterparty fails to meet the respective obligations in accordance with, or performing according to, agreed terms. Alternatively, losses may result from reduction in asset value arising from actual or perceived deterioration in credit quality. The Bank's exposure to credit risk is diversified by maximum single exposure, by sector, by geography, by tenor and by product, through its engagement in Retail Lending, Commercial Lending, Trade Finance and selected participations in Syndicated Lending. In view of the nature of its business, the Bank's financial assets are inherently and predominantly subject to credit risk. Thus, Management has put in place internal control systems to evaluate, approve and monitor credit risks relating to both the investments and the lending portfolios.

The Bank has a detailed Credit Risk Policy in support of the Bank's Credit Risk Appetite, which lays down the principles for the management of credit risk within each business area mentioned above. The Bank adopts a conservative approach to credit risk taking into consideration potential vulnerabilities that may trigger pressures on asset quality.

The following sections provide a brief outline of the main elements of the Bank's credit risk management framework.

7.1. Credit Approval

The Bank has a process in place for the approval of new credit facilities, as well as the amendment, renewal and review of existing credit facilities. The Bank's credit approval process establishes delegated authority and corresponding accountability for decisions taken. It designates different levels of authority to approve credits or changes in credit terms as approved by the Risk Committee and the Board of Directors.

Credit applications above a certain threshold are reviewed by the Board Credit Committee (BCC) and Management Credit Committee (MCC), within the parameters set by the Board of Directors. Further information on the role of these Committees and the Members who sit on these Committees is provided in the 'Corporate Governance Statement' included in the Group's 2023 Annual Report.

Proposals for credit facilities are issued by business units (the first line of defence) and escalated to higher levels for approval, depending on various lending criteria and types of limits. Credit facilities above a certain threshold, or which do not fall under the Bank's lending policies, are proposed to the CRM Unit for evaluation and recommended to the MCC, BCC and Board depending on the exposure involved or the relative terms and conditions. Credit facilities cannot be presented for approval without a recommendation from the CRM Unit.

Syndicated loan proposals are evaluated by the Syndications and Trade Finance Unit, reviewed by the Head of Asset Liability Management (ALM) and recommended by the CRM Unit. These are then approved by the respective delegated Management authority or MCC/BCC.

The Assets-Liabilities Committee is responsible for the asset liability management strategy and optimisation of capital allocation in terms of ALM strategy and regulatory requirements. New investment products are proposed by the Investment Management Department to the Assets-Liabilities Committee, who is responsible for pricing decisions on all of the Bank's products, and are approved by the Executive Committee. Counterparty exposures and credit limits with correspondent banks are recommended by the Bank's ALM function to the Assets-Liabilities Committee for approval.

The Group has in place a Related Party Transactions Approval Framework, which sets out the safeguards that are to be applied to transactions and arrangements between the Group and a Related Party, which transactions must be entered into at arm's length and on a normal, commercial basis.
Approval by the Audit Committee is specifically required if the transaction/s which the Group intends to make with a Related Party fall/s within the scope of the requirements of Capital Market Rules dealing with Related Party Transactions. Otherwise, such transactions are to be brought to the attention of the Audit Committee solely for notification and monitoring process. As part of its duties, the Audit Committee ensures that transactions with related parties are adequately assessed, reviewed and reported to ensure approval at arm's length. Further disclosure on Related Party Transactions is included in Note 46 appended to the 2023 Financial Statements which are available on the Bank's website.

7.2. Credit Analysis

The Bank has detailed credit granting processes and criteria to evaluate the credit risk inherent in a borrowing application. Current lending procedures in place comply with current banking regulations identifying situations where, in considering an advance, it is appropriate to classify a group of borrowers as connected counterparties and are thus treated as being a single exposure in line with CRR. The Bank takes into consideration the total credit facilities at the disposal of connected customers before considering extending further facilities to one of the members forming part of a group of connected customers.

Monitoring and control processes are considered to be of critical importance during the life cycle of a credit facility and contribute towards the maintenance of a sound lending portfolio. To ascertain the current financial conditions of the borrower or counterparty, as well as to keep track of decisions made and the history of the credit, the Bank maintains electronic credit profiles and physical dossiers with all the relevant information and documentation supporting credit decisions made. The Bank applies an automated proprietary credit rating system to differentiate the degree of credit risk inherent in advances extended to its customers. Internal ratings are used to grade loans and advances with a view to assess the repayment ability of the borrower and to assist in the monitoring and control of credit risk. The credit rating process also provides a basis for the recognition of any under-performing or non-performing credit facilities and for the assessment of expected credit losses in line with IFRS9 regulations. Further information on the credit risk grading system applied by the Bank is provided in Note 47.2.1.1 ('Credit Risk Grading') to the Financial Statements

In line with IFRS 9, the Bank calculates the Expected Credit Loss (ECL) in respect of financial instruments, which is based on the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of each exposure. The Risk Committee is responsible to certify to the Bank's Board that the provisioning methodology recommended by Management is adequate and in line with the regulatory requirements and the related financial reporting standards. IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition:

- Stage 1: performing exposures which are not credit impaired;
- Stage 2: underperforming exposures where a significant increase in credit risk has occurred since initial recognition; and
- Stage 3: non-performing exposures which are credit impaired.

In accordance with Article 111 of the CRR, for on-balance sheet exposures the net exposure is the accounting value remaining after deducting the expected credit losses (also referred to as 'specific credit risk adjustments' in line with the EBA Guidelines referred to in Section 7 above). Further information on the calculation of expected credit losses is provided in Section 7.2 above. The exposure value of off-balance sheet items is the value remaining after applying the respective percentage listed in Article 111 of the CRR to the nominal value. The net exposure value is applied when calculating risk weighted assets.

Further information on the calculation of the ECL is provided in Note 47.2.2 ('Expected Credit Loss Measurement') to the Financial Statements.

7.3. Credit and Concentration Risk Limits

The Risk Department monitors the Bank's exposure to credit risk to ensure that this remains within its risk appetite. The Bank has in place credit risk metrics, and associated risk appetite limits, which are reported to Executive Management, the Assets-Liabilities Committee, Risk Committee and the Board. These include, inter alia, the Value-at-Risk of the Bank's Investments, Credit Growth, Expected Credit Loss, Non-performing Exposures and credit risk weighted assets.

The Bank is exposed to concentration risk within its advances and investments portfolios (as well as within its deposits portfolios). Concentration risk arises when the Bank has significant exposures to a single counterparty, groups of connected counterparties, and counterparties in the same geographic region or from the same sector of activity. Further information on the Bank's exposure to concentration risk is included in Note 47 to the Financial Statements available on the Bank's website.

To manage its exposure to concentration risk across its portfolios, the Bank adopts an exposure limits system by individual and connected exposures, sector and geography. The Risk Committee and the Board are regularly informed about the exposure of the Bank against such limits.

In terms of the CRR, an exposure to a customer or group of connected customers is considered to be a large exposure where its value, before the deduction of eligible credit risk mitigation, is equal to or exceeds 10% of the Bank's Tier 1 Capital. Large exposures are reported both internally and to the Authority and are monitored continuously to ensure that these do not exceed the regulatory threshold of 25% of the Bank's Tier 1 Capital.

The Bank also monitors the individual/connected counterparties, sectoral concentration and country concentration within both its advances and investments portfolios and translates this into an economic capital figure for the purposes of capital allocation (Pillar 2) as part of its ICAAP, using the Herfindahl-Hirschman Index (HHI).

7.4. Quantitative Disclosures on Credit Risk

The disclosures in this section are in line with Part Eight of the CRR, which is further supplemented by EBA Guidelines (EBA/ITS/2020/04) on disclosure requirements.

7.4.1. Credit Quality

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

EU CR1 Performing and non-performing exposures and related provisions.

		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
			Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
010	Loans and advances	**2,841,413**	**2,768,008**	**73,405**	**65,770**	**-**	**65,770**	**(2,535)**	**(1,715)**	**(820)**	**(19,663)**	**-**	**(19,663)**	**(22,198)**	**1,472**	**-**
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	*General governments*	*2,284*	*2,284*	-	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	*35,781*	*35,781*	-	-	-	-	*(68)*	*(68)*	-	-	-	-	*(68)*	-	-
050	*Other financial corporations*	*140,202*	*132,052*	*8,150*	*3,387*	-	*3,387*	*(260)*	*(260)*	-	*(631)*	-	*(631)*	*(891)*	-	-
060	*Non-financial corporations*	*754,957*	*701,850*	*53,107*	*49,049*	-	*49,049*	*(1,465)*	*(942)*	*(523)*	*(14,527)*	-	*(14,527)*	*(15,991)*	*614*	-
070	*Of which SMEs*	*615,640*	*575,800*	*39,840*	*38,899*	-	*38,899*	*(692)*	*(387)*	*(305)*	*(11,845)*	-	*(11,845)*	*(12,536)*	*614*	-
080	*Households*	*1,908,189*	*1,896,041*	*12,148*	*13,334*	-	*13,334*	*(742)*	*(445)*	*(297)*	*(4,505)*	-	*(4,505)*	*(5,248)*	*858*	-
090	Debt securities	**444,114**	**443,873**	**241**	**-**	**-**	**-**	**(199)**	**(158)**	**(41)**	**-**	**-**	**-**	**(199)**	**-**	**-**
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

110	*General governments*	*358,018*	*358,018*	-	-	-	-	*(123)*	*(123)*	-	-	-	-	*(123)*	-	-
120	*Credit institutions*	*25,809*	*25,809*	-	-	-	-	*(4)*	*(4)*	-	-	-	-	*(4)*	-	-
130	*Other financial corporations*	*49,244*	*49,003*	*241*	-	-	-	*(69)*	*(28)*	*(41)*	-	-	-	*(69)*	-	-
140	*Non-financial corporations*	*11,043*	*11,043*	-	-	-	-	*(3)*	*(3)*	-	-	-	-	*(3)*	-	-
150	Off-balance-sheet exposures	**1,128,707**	**1,115,567**	**13,140**	**1,478**	**-**	**1,478**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	*General governments*	*4,825*	*4,825*	-	-	-	-	-	-	-	-	-	-		-	-
180	*Credit institutions*	*1,340*	*1,340*	-	-	-	-	-	-	-	-	-	-		-	-
190	*Other financial corporations*	*69,972*	*68,849*	*1,123*	*2*	-	*2*	-	-	-	-	-	-		-	-
200	*Non-financial corporations*	*379,592*	*370,164*	*9,428*	*189*	-	*189*	-	-	-	-	-	-		-	-
210	*Households*	*672,978*	*670,389*	*2,589*	*1,287*	-	*1,287*	-	-	-	-	-	-		-	-
220	Total	**4,414,234**	**4,327,448**	**86,786**	**67,248**	**-**	**67,248**	**(2,734)**	**(1,873)**	**(861)**	**(19,663)**	**-**	**(19,663)**	**(22,397)**	**1,472**	**-**

EU CR1-A – Maturity of exposures

		On-demand	<= 1 year	>1 year< = 5 years	> 5 years	Total
		€000	€000	€000	€000	€000
1	Loans and advances	109,027	110,552	329,576	2,337,304	2,886,459
2	Debt Securities	12,839	65,868	268,510	94,292	441,509
3	Total	**121,866**	**176,420**	**598,086**	**2,431,596**	**3,327,968**

The following table shows the changes in the Bank’s stock of defaulted loans during the twelve months ending 31 December 2023. None of the Bank’s holdings of debt securities defaulted during this period.

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

		Gross carrying amount
		€000
010	Initial stock of non-performing loans and advances	80,814
020	Inflows to non-performing portfolios	29,527
030	Outflows from non-performing portfolios of which:	(44,571)
040	*Outflows due to write-offs*	(562)
050	*Outflows due to other situations*	(44,009)
060	Final stock of non-performing loans and advances	65,770

The Bank renegotiates loans and advances to customers in financial difficulties (referred to as 'forbearance') to maximise collection opportunities and minimise the risk of default. The table below shows the gross carrying amount of forborne exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, and collateral and financial guarantees received (as per Commission Implementing Regulation (EU) No 2021/451).

EU CQ1 Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted	Of which impaired				
		€000	€000	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	**Loans and advances**	**22,224**	**19,277**	**-**	**19,277**	**(104)**	**(3,630)**	**48,695**	**13,556**
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-
060	Non-financial corporations	19,957	17,557	-	17,557	(104)	(2,527)	45,685	13,079
070	Households	2,267	1,720	-	1,720	-	(1,103)	3,010	447
080	**Debt Securities**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
090	Loan commitments given	-	-	-	-	-	-	-	-
100	Total	22,224	19,277	-	19,277	(104)	(3,630)	48,695	13,556

The table below shows the credit quality of performing and non-performing exposures by past due days (as per Commission Implementing Regulation (EU) No 2021/451).

EU CQ3 Credit quality of performing and non-performing exposures by past due days[5]

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
			Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days		Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	**172,291**	**172,291**	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	**2,841,413**	**2,768,008**	**73,405**	**65,770**	**24,489**	**1,048**	**4,014**	**3,097**	**13,963**	**6,804**	**12,355**	**-**
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	2,284	2,284	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	35,781	35,781	-	-	-	-	-	-	-	-	-	-
050	Other financial corporations	140,202	132,052	8,150	3,387	-	-	2	55	31	2,878	421	-
060	Non-financial corporations	754,957	701,850	53,107	49,049	20,016	15	3,390	1,433	13,244	2,465	8,486	-
070	Of which SMEs	*615,640*	*575,800*	*39,840*	*38,901*	*9,868*	*15*	*3,390*	*1,433*	*13,244*	*2,465*	*8,486*	-
080	Households	1,908,189	1,896,041	12,148	13,334	4,473	1,033	622	1,609	688	1,461	3,448	-
090	Debt securities	**444,114**	**443,873**	**241**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	358,018	358,018	-	-	-	-	-	-	-	-	-	-
120	Credit institutions	25,809	25,809	-	-	-	-	-	-	-	-	-	-

[5] Further information on the definition of default and credit impaired exposures is included in Note 47.2.2.2 to the Financial Statements.

130	Other financial corporations	49,244	49,003	241	-	-	-	-	-	-	-	-	-
140	Non-financial corporations	11,043	11,043	-	-	-	-	-	-	-	-	-	-
150	**Off-balance-sheet exposures**	**1,128,707**			**1,478**								**1,476**
160	Central banks	-			-								-
170	General governments	4,825			-								-
180	Credit institutions	1,340			-								-
190	Other financial corporations	69,972			2								-
200	Non-financial corporations	379,592			189								189
210	Households	672,978			1,287								1,287
220	Total	**4,586,525**	**3,384,172**	**73,646**	**67,248**	**24,489**	**1,048**	**4,014**	**3,097**	**13,963**	**6,804**	**12,355**	**1,476**

The table below shows the geographical distribution of the Bank's non-performing exposures. Exposures to countries other than Malta are considered to be material where these are equal to, or higher than, 10% of the Bank's total exposures (both domestic and non-domestic). Exposures to countries other than Malta, represent 12.5% of the Bank's total exposures, with the top three exposures being Germany, France and United Kingdom.

EU CQ4: Quality of non-performing exposures by geography

		Not past due or past due ≤ 30 days				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		€000		€000		€000	€000	€000
010	On-balance-sheet exposures	3,351,297		-		(22,379)	-	-
020	Malta	2,793,915		-		(18,714)	-	-
070	Other countries	557,382		-		(3,683)	-	-
080	Off-balance-sheet exposures	1,130,184		1,476		-	-	-
090	Malta	1,128,278		1,476		-	-	-
140	Other countries	1,906		-		-	-	-
150	Total	4,481,481		1,476		(22,397)	-	-

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

		Not past due or past due ≤ 30 days			Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing	Of which loans and advances subject to impairment		
		€000	€000	€000	€000	€000
010	Agriculture, forestry and fishing	50,236			(170)	-
020	Mining and quarrying	-			-	-
030	Manufacturing	100,554			(3,501)	-
040	Electricity, gas, steam and air conditioning supply	6,250			(16)	-
050	Water supply	913			-	-
060	Construction	100,203			(5,284)	-
070	Wholesale and retail trade	55,296			(696)	-
080	Transport and storage	57,379			(12)	-
090	Accommodation and food service activities	123,850			(8)	-
100	Information and communication	11,781			(8)	-
110	Financial and insurance activities	-			-	-
120	Real estate activities	215,816			(5,082)	-
130	Professional, scientific and technical activities	34,055			(236)	-
140	Administrative and support service activities	21,643			(81)	-
150	Public administration and defense, compulsory social security	-			-	-
160	Education	35			-	-
170	Human health services and social work activities	23,718			(143)	-
180	Arts, entertainment and recreation	630			(2)	-
190	Other services	1,646			(752)	-
200	*Total*	**804,005**			(15,991)	-

The table below shows the collateral obtained by taking possession and execution processes. It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use. No new properties have been repossessed during the financial year ending 31 December 2023.

EU CQ7 Collateral obtained by taking possession and execution processes

		Collateral obtained by taking possession	
		Value at initial recognition	Accumulated negative changes
		€000	€000
010	Property, plant and equipment (PP&E)	-	-
020	Other than PP&E	1,331	-
030	Residential immovable property	331	-
040	Commercial immovable property	1,000	-
050	Movable property	-	-
060	Equity and debt instruments	-	-
070	Other	-	-
080	Total	1,331	-

7.5. Credit Risk Mitigation

The Bank generally takes collateral against its loans and advances portfolio, most of which consists of tangible assets. These are taken by the Bank as a fall-back, hence acting as a secondary source of repayment should the primary source of repayment fail. The security provided does not form the main basis of the lending decision. The Bank has to be satisfied, amongst other things, that the primary source of repayment will be reliable and robust. In this spirit, the taking of collateral is neither considered a substitute for a comprehensive assessment of the credit application and the corresponding borrower or counterparty, nor can it compensate for insufficient information or deficient primary source of repayment. The Credit Risk Policy of the Bank stipulates inter alia the types of collateral and valuations to be carried out on them.

Other collateral, which is not tangible, is sought to ensure that the borrowing customer will abide by the terms and conditions of sanction, thereby reducing the default risk associated with the borrowing customer. The value and type of collateral required depends on an assessment of the credit risk of the counterparty. Further information on the collateral taken by the Bank and other credit enhancements is provided in Note 47.2.3 to the 2023 Financial Statements available on the Bank's website.

The Credit Risk Policy sets out the process in respect of the selection of the Bank's appraisers to perform valuation of immovable properties and establishes an internal quality assurance process to monitor and review the performance of the selected appraisers. The Bank reviews the valuations received from the valuer, in particular focusing on aspects such as whether the approaches and assumptions are appropriate, clear and transparent, the prudence of such assumptions and the clear and reasonable identification of comparable properties used as a benchmark.

The table below shows the amount of the Bank's on-balance sheet exposure value (Net) as at 31 December 2023 that is fully unsecured and the amount that is covered, either partly or in full, by eligible collateral, including all types of collateral and financial guarantees:

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

		Exposures unsecured: carrying amount	Secured Carrying Amount			
				Of which: Secured by Collateral	Of which: Secured by financial guarantees	Of which: Secured by credit derivatives
		€000	€000	€000	€000	€000
1	Loans and advances	693,711	2,363,513	2,362,041	1,472	-
2	Debt securities	443,915	-	-	-	
3	Total	**1,137,626**	**2,363,513**	**2,362,041**	**1,472**	**-**
4	*Of which non-Performing*	10,995	35,111	35,111	-	
EU-5	*Of which defaulted*	10,995	35,111			

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities are generally unsecured, with the exception of covered bonds which are typically secured by residential mortgages.

The table below shows the on-balance sheet and off-balance sheet exposures before and after the application of the credit risk mitigation (CRM) and credit conversion factors (CCF) in accordance with the CRR. The risk weighted amount for each exposure class is also presented below. The Bank applies the standardised approach for the purposes of calculating the risk weighted exposure amounts for credit risk in accordance with Part Three, Title II, Chapter 2 of the CRR.

EU CR4: Standardised approach – Credit risk exposure and credit risk mitigation effects

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount €000	Off-balance sheet amount €000	On-balance sheet amount €000	Off-balance sheet amount €000	RWA €000	RWA Density %
1	Central governments or central banks	451,417	4,831	346,945	18	9,528	3%
2	Regional government or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	39,397	-	39,397	-	2,041	5%
5	International organisations	-	-	-	-	-	-
6	Institutions	90,579	-	100,315	-	31,381	31%
7	Corporates	820,071	446,604	820,099	25,727	489,057	58%
8	Retail	67,955	63,676	67,955	3,940	48,278	67%
9	Secured by mortgages on immovable property	1,805,041	615,073	1,805,041	109,267	749,320	39%
10	Exposures in default	42,380	-	42,380	-	51,815	122%
11	Exposures associated with particularly high risk	61,475	-	61,475	-	92,213	150%
12	Covered bonds	15,863	-	15,863	-	1,586	10%
13	Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	51,688	-	51,688	-	29,587	57%
15	Equity	10,085	-	321	-	321	100%
16	Other items	185,296	-	289,768	-	100,923	35%
17	Total	3,641,247	1,130,184	3,641,247	138,952	1,606,050	

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

To calculate the risk weighted exposure under the Standardised Approach, the Bank refers to credit assessments issued by External Credit Assessment Institutions (ECAIs), in line with the CRR. The ratings are mapped to the credit quality steps as outlined in Regulation (EU) 2016/1800 which lays down the implementing technical standards with regards to the allocation of credit assessments of ECAIs to an objective scale of credit quality steps. For unrated exposures, risk weights are assigned in accordance with the CRR. The Standardised Approach is based on the assumption that the Bank's portfolio is sufficiently granular, as this methodology has been calibrated for internationally active banks. For this reason, the Bank also allocates additional capital to cover concentration risk under Pillar 2 (Section 6.3). Further information on the Bank's risk-weighted exposure to credit risk is provided in Section 6.2 (template OV1).

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

		Risk Weights									
		0%	10%	20%	35%	50%	75%	100%	150%	Others	Total Credit Exposure amount
	Exposure Classes	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Central governments or central banks	325,040	-	10,904	-	7,342	-	3,677	-	-	346,963
2	Regional government or local authorities	-	-	-	-	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-	-	-	-	-
4	Multilateral development banks	29,192	-	10,205	-	-	-	-	-	-	39,397
5	International Organisations	-	-		-	-	-	-	-	-	-
6	Institutions	-	-	78,814	-	11,765	-	9,736	-	-	100,315
7	Corporates	-	-	26,000	66,795	472,809	-	280,222	-	-	845,826
8	Retail Exposures	-	-	-	-	-	71,895	-	-	-	71,895
9	Secured by mortgages on immovable property	-	-	-	1,713,208	4,511	196,589	-	-	-	1,914,308
10	Exposures in default	-	-	-	-	-	-	23,511	18,869	-	42,380
11	Exposures associated with particularly high risk	-	-	-	-	-	-	-	61,475	-	61,475
12	Covered bonds	-	15,863	-	-	-	-	-	-	-	15,863
13	Exposures to institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
14	Units or shares in collective investment undertakings	17,973	-	710	-	7,578	-	24,968	459	-	51,688
15	Equity	-	-	-	-	-	-	321	-	-	321
16	Other assets	177,747	-	1	-	14,520	-	93,114	-	4,386	289,768
17	Total	549,952	15,863	126,634	1,780,003	518,525	268,484	435,549	80,803	4,386	3,780,199

8. Market Risk

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

The Bank's exposure to market risk is limited since its trading portfolio is minimal[6]. This is consistent with the Bank's Risk Appetite. In accordance with Article 94 of the CRR, the Group is exempted from the trading book capital requirements.

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

i. Interest rate risk – the risk that the Group's financial position and cash flow is exposed to unfavourable movements in interest rates;
ii. Foreign exchange risk – the risk that the Group's financial position and cash flow are exposed to unfavourable movements in foreign exchange rates.

The Bank had an investment of €7.2 million in equities at the end of 2023. The risk associated with this exposure is therefore not considered to be material.

The ALCO is primarily responsible for balance sheet management and pricing policies. Towards this, it reviews financial information and assesses the impact of various types of risks—related to changes in interest rates, exchange rates and the market—on the Bank's profitability and financial position.

8.1. Interest Rate Risk in the Banking Book

The Bank is mainly exposed to interest rate risk in the banking book (IRRBB), which arises from the Bank's non-trading activities. The Bank has an Interest Rate Risk Policy approved by the Board, which sets out a comprehensive risk management process that identifies, measures, monitors and controls interest rate risk exposures, whilst also ensuring appropriate oversight by Senior Management, Board-appointed committees and ultimately the Board, to confirm that this risk is consistent with the Bank's risk appetite.

The Bank's interest rate risk management framework is in line with the relevant guidelines issued by the EBA. The Bank's exposure to interest rate risk is monitored on a monthly basis by the ERM Unit and verified by the Asset Liability Management Department, and is reported to Executive Committee, Assets-Liabilities Committee and Risk Committee on a quarterly basis. Further information on the role of each of these Committees in the management of interest rate risk is provided in the 'Corporate Governance Statement' within the Annual Report.

The Bank allocates internal capital, under Pillar 2, commensurate with its exposure to IRRBB, taking into account the impact of potential changes in its economic value and future earnings resulting from changes in interest rates.

8.1.1. The Measurement of Interest Rate Risk

Interest rate risk is measured from two perspectives – the economic value of equity (EVE) and the earnings-based approach. Both of these perspectives are complementary in understanding and assessing IRRBB. Earnings measures capture the short-term effect of interest rate changes on the Bank's earnings. On the other hand, economic value measures capture the long-term effect of interest rate changes, which is a key aspect in defining a business strategy and keeping an adequate level of capitalisation in the long term.

The management of Interest Rate Risk through the Earnings Perspective

The Assets-Liabilities Committee is responsible to ensure that there exists an appropriate margin between interest receivable and interest payable. Consequently, the Committee must ensure that the pricing of assets and liabilities supports an adequate Net Interest Margin. In pricing commercial facilities Management is guided by the Bank's Credit Pricing Model, which takes into consideration loan characteristics, such as, the loan term, amount, capital requirement and collateral.

[6] As at 31 December 2023, the Bank held no exposures within its trading portfolio.

The ERM Unit monitors on a monthly basis the sensitivity of financial assets and liabilities to parallel shifts in the yield curve of 200 basis points over a time horizon of one year. Sensitivity of the net interest income as at December 2023, as reported in Table 'EU IRRBB1', was within the Bank's Risk Appetite.

The management of Interest Rate Risk through the Economic Value Perspective

Modelling of non-maturity deposits (NMDs) forms an integral part of the management of IRRBB. A NMD is, as the name suggests, a deposit that does not have a predetermined maturity, i.e. the deposit can be withdrawn at any time. However, even though NMDs can be withdrawn at any time, the volumes of NMDs have historically been relatively stable. Through a historical analysis of customer deposits, the Bank identifies the proportion of core deposits, these being NMDs which are unlikely to reprice even under significant changes in interest rates. Non-core deposits are considered as overnight deposits and placed into the overnight time bucket. Core deposits are slotted into the appropriate time bucket, up to a maximum average maturity of five years.

Other products with behavioural optionality include fixed rate loans subject to pre-payment risk. The Bank monitors the nature of pre-payment risk on fixed rate loans and assesses the average pre-payment rates. During 2023 the potential impact of pre-payment risk on the Bank's exposure to IRRBB was not considered to be material.

On a monthly basis, the ERM Unit monitors the impact of six pre-defined shock scenarios, where the maximum change in EVE is expressed as a percentage of Tier 1 Capital. In line with the EBA guidelines, the Bank's economic value must not decline by more than 15% of Tier 1 Capital. In the event that the decline in economic value exceeds the applicable threshold, the Bank is required to inform the Regulator. The potential change in the EVE under each of the six scenarios is included in Table 'EU IRRBB1'. The most unfavourable scenario, as at 31 December 2023, resulted through the 'parallel down' scenario. The scenarios are reviewed periodically by Management to ensure that these capture all plausible scenarios. As at 31 December 2023 Management added a scenario where long term rates drop below short term rates assuming that the market starts to price in rate cuts, resulting in an 'inverted steepener' yield curve. This scenario would result in an impact of €+4.96 million on the Bank's economic value. During 2023, the resulting impact on the Bank's economic value was at all times well within the established regulatory requirement and within the Bank's risk appetite.

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

		Changes of the economic value of equity		Changes of the net interest income	
		Dec-23	Dec-22	Dec-23	Dec-22
		€000	€000	€000	€000
1	Parallel up	27,526	8.286	2,101	1,484
2	Parallel down	(28,919)	(6,854)	(2,101)	(1,484)
3	Steepener	(4,884)	(9,270)		
4	Flattener	9,647	10,905		
5	Short rates up	17,209	12,552		
6	Short rates down	(17,695)	(12,849)		

8.2. Foreign Exchange Risk

The Bank’s financial assets and liabilities are predominantly denominated in Euro. The Foreign Exchange Risk Policy articulates a framework for identifying, measuring, managing and reporting on the Bank’s exposure to this risk. The Policy clearly outlines the structure, responsibilities and controls for the management of foreign exchange risk and sets limits, on the level of exposure by currency and in total, which are monitored regularly. The ERM Unit is responsible for carrying out sensitivity analyses showing the impact on the Bank’s financial position as a result of an adverse/favourable movement in all currencies against the Euro. Further information on the Group’s aggregate amount of assets and liabilities denominated in foreign currencies is included in Note 47.4.2 appended to the Financial Statements.

Capital is allocated for the Bank’s exposure to foreign exchange risk in line with the Basic Method stipulated by the CRR. Further information on the Bank’s risk-weighted exposure to foreign exchange risk is provided in Section 6.2.

9. Liquidity and Funding Risk

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

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

The Bank manages these risks by seeking to match the maturities of assets and liabilities in its balance-sheet. The management of liquidity and funding is governed by a detailed Liquidity and Funding Risk Policy. This Policy establishes clear lines of responsibility, limits and guidance on the measurement and monitoring of the Group's net funding requirements. The Asset Liability Management Unit is responsible for implementing such Policy; whereas the Assets-Liabilities Committee is responsible for monitoring and ensuring the implementation of and adherence with the Policy, as well as ensuring consistency with the Bank's Risk Appetite. It also ensures that adequate liquidity is held to meet both expected and unexpected commitments. This Policy includes a detailed Liquidity Contingency Plan, which addresses the strategy for handling liquidity crises and includes procedures for covering cash flow shortfalls in emergency situations.

Through the Internal Liquidity Adequacy Assessment Process (ILAAP), the Bank ensures that it maintains, at all times, liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. Thus, the ILAAP serves as a key decision-making tool in liquidity and funding management. The latest ILAAP, compiled in line with EBA Guidelines, concluded that the Bank maintains adequate levels of liquidity buffers and adequate funding. The document is reviewed in detail by the Bank's Internal Audit Department and Risk Committee and subsequently presented to the Board for approval. Following Board approval, the ILAAP Report is submitted to the MFSA.

The Bank funds loans primarily by sourcing retail deposits. As at 31st December 2023, the Bank's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 99.67%, which is in line with the Bank's risk appetite. Moreover, the Bank has a high level of stable deposits, which acts as a virtually permanent source of liquidity. The Bank also has a portfolio of highly marketable assets that can be easily liquidated in the event of any unforeseen cash flow requirements. Further information on the Bank's encumbered and unencumbered assets is included in Note 47.3 to the Financial Statements.

9.1. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar days stressed period. The Bank reports this ratio to the MFSA on a monthly basis. The Bank's LCR fluctuated consistently above the applicable minimum requirement of 100% and in line with its risk appetite. As at 31st December 2023, the LCR stood at 139.9% (31st December 2022: 128.5%).

The Bank's liquidity buffer is classified into:

- Level 1 assets (95%), which include withdrawable central bank reserves and central government assets; and
- Level 2 assets (5%), which include regional government or public sector entity assets and corporate debt securities with a credit rating of BBB- or higher.

The liquidity buffer of the Bank improved further during 2023. This outweighed the increase in 'net liquidity outflow' (as defined for the purposes of the LCR), leading to an improvement in the LCR by 11.4%, when compared to 31 December 2022. The increase in 'net liquidity outflow' reflects the increase in the Bank's customer deposits.

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting March 2023 and ending December 2023. The figures are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. Given that the Bank does not have another 'material currency'[7], other than the Euro, the Bank reports the LCR in the reporting currency (Euro).

[7] Banks are required to assess the LCR by material currencies. A currency is considered to be a 'material currency' if the aggregate liabilities denominated in that currency amount to, or exceed, 5% of a bank's total liabilities.

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

		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		Dec-23 €000	Sep-23 €000	Jun-23 €000	Mar-23 €000	Dec-23 €000	Sep-23 €000	Jun-23 €000	Mar-23 €000
EU 1a	Quarter ending on (DD Month YYY)	T	T-1	T-2	T-3	T	T-1	T-2	T-3
EU 1b	Number of data points used in the calculation of average	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total HQLA					534,554	519,268	525,809	522,233
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	**1,474,751**	**1,429,611**	**1,414,526**	**1,384,801**	**106,458**	**103,542**	**103,064**	**101,065**
3	*Stable deposits*	*1,055,448*	*1,020,315*	*1,003,690*	*981,195*	52,772	51,016	*50,184*	*49,060*
4	*Less Stable deposits*	*419,303*	*409,296*	*410,836*	*403,606*	53,686	52,526	*52,880*	*52,005*
5	Unsecured wholesale funding, of which:	***489,580***	***497,054***	**512,084**	**515,426**	**277,729**	**276,369**	**277,560**	**270,921**
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*5,119*	*2,090*	738	124	1,280	522	185	31
7	*Non-operational deposits (all counterparties)*	484,461	494,964	511,346	515,302	276,449	275,847	277,375	270,890
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	506,957	581,281	665,033	744,659	43,906	48,649	54,718	59,700
11	*Outflows related to derivative exposures and other collateral requirements*	-	-	-	-	-	-	-	-
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	*506,957*	*581,281*	*665,033*	*744,659*	43,906	48,649	*54,718*	*59,700*
14	Other contractual funding obligations	2,885	2,425	2,097	1,893	2,885	2,425	2,097	1,893
15	Other contingent funding obligations	10,951	9,122	7,019	4,633	-	-	-	-
16	Total Cash Outflows					430,978	430,985	437,439	433,578
Cash Inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	55,682	56,630	63,301	65,707	47,036	48,274	55,270	57,682
19	Other cash inflows	850	1,169	1,262	1,285	850	1,169	1,262	1,285
20	Total Cash Inflows	56,532	57,799	64,563	66,992	47,886	49,443	56,532	58,967
Total Adjusted Value									
EU-21	Liquidity Buffer					534,554	519,268	525,809	522,233
22	Total net cash outflows					383,092	381,542	380,907	374,611
23	Liquidity Coverage Ratio (%)					139.85%	136.34%	138.46%	140.24%

9.2. Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. Under CRR, institutions are required to maintain a NSFR of at least 100%. The Bank's NSFR remained relatively stable during 2023. The increase in 'Required stable funding' items (mainly the customer loans portfolio) outweighed the increase in 'Available stable funding' (mainly through an increase in the Bank's capital and customer deposits), hence leading to a decline of 3.6% in the NSFR, when compared to the previous year. At 131.3%, the NSFR was above the 100% regulatory minimum and in line with the Bank's risk appetite as at 31 December 2023 (31 December 2022: 134.9%). Given that the Bank does not have another 'material currency'[8], other than the Euro, the Bank reports the NSFR in the reporting currency (Euro).

EU LIQ2: Net Stable Funding Ratio

		Unweighted value by residual maturity				
		No Maturity	< 6 months	6 months to <1 year	> 1 year	Weighted Value
		€000	€000	€000	€000	€000
Available stable funding (ASF) Items						
1	Capital items and instruments	-	**-**	**-**	**377,040**	**377,040**
2	*Own funds*	-	-	-	*377,040*	*377,040*
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		**1,761,357**	**164,426**	**474,449**	**2,273,762**
5	*Stable deposits*		*1,218,097*	*104,064*	*384,669*	*1,640,722*
6	*Less stable deposits*		*543,260*	*60,362*	*89,780*	*633,040*
7	Wholesale funding		**605,702**	**41,014**	**173,598**	**395,320**
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		*605,702*	*41,014*	*173,598*	*395,320*
10	Interdependent liabilities		-	-	-	-
11	Other liabilities	-	**25,268**	**1,524**	**22,914**	**23,676**
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above categories*		25,268	1,524	22,914	23,676
14	Total Available stable funding (ASF)					3,069,798
Required stable funding (RSF) Items						

[8] Banks are required to assess the NSFR by material currencies. A currency is considered to be a 'material currency' if the aggregate liabilities denominated in that currency amount to, or exceed, 5% of a bank's total liabilities.

15	Total high-quality liquid assets (HQLA)					18,120
EU 15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		114,064	129,431	2,643,608	2,021,800
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		*68,637*	*25,223*	*134,685*	*154,160*
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		*41,910*	*85,595*	*822,482*	*754,099*
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*25,663*	*2,396*	*43,819*	*42,512*
22	*Performing residential mortgages, of which:*		*2,994*	*18,613*	*1,686,441*	*1,113,280*
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*2,673*	*14,023*	*1,654,992*	*1,084,093*
24	*Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products*		*523*	-	-	*261*
25	Interdependent assets		-	-	-	-
26	Other assets:	-	64,187	20,375	198,501	241,256
27	*Physical traded commodities*				-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs				-	-
29	NSFR derivative assets				-	-
30	NSFR derivative liabilities before deduction of variation margin posted				-	-
31	*All other assets not included in the above categories*		64,187	20,375	198,501	241,256
32	Off-balance sheet items		535	110,611	988,401	56,282
33	Total Required stable funding (RSF)					2,337,458
34	Net Stable Funding Ratio (%)					131.33%

9.3. Asset Encumbrance

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

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

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

As at end December 2023, the Bank's encumbered assets related exclusively to debt securities which are pledged with the ECB for the purpose of existing and potential long-term re-financing operations and cash in favour of the Depositor Compensation Scheme.

Template AE1 discloses the Bank's encumbered assets and unencumbered assets classified by asset type, while Template AE3 discloses the carrying amount of financial liabilities associated with the encumbered assets. The figures represent the median values of the figures reported to the MFSA in the preceding four quarters[9]. The Bank is not disclosing Template AE2 since it does not encumber any of the collateral received or any of its debt securities issued.

EU AE1 - Encumbered and unencumbered assets

		Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
010	Assets of the disclosing institution	211,277		3,248,541	
030	Equity instruments	-	-	54,829	54,829
040	Debt securities	208,251	208,251	237,651	231,439
050	of which: covered bonds	-	-	15,866	15,212
070	of which: issued by general governments	203,287	194,625	162,147	158,121
080	of which: issued by financial corporations	4,964	4,708	61,635	59,914
090	of which: issued by non-financial corporations	-	-	11,413	11,309
120	Other assets	3,026		89,465	

EU AE3 - Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent €000	Assets, collateral received, and own debt securities issued other than covered bonds and securitisations encumbered €000
010	Carrying amount of selected financial liabilities	211,278	211,278

[9] The figures will not match the figures reported in Note 47.3 appended to the Financial Statements

10. Operational Risk and Resilience

The Group's operational risk management framework and governance are fully integrated into the Group's Operational Resilience Framework. The purpose of the Operational Resilience Framework is to outline a structure for comprehensively identifying, managing, monitoring, mitigating, and reporting on the Bank's exposure to operational risk to ensure that this exposure is consistent with the risk appetite set by the Board. The Framework also seeks to establish a strong operational risk management culture within the Bank.

The Framework clearly outlines the various roles and responsibilities which aim to ensure sound operational risk governance practices. As outlined in Section 3, the Bank has a dedicated function - the Operational Risk and Security Governance (ORSG) function - which forms part of the Risk Department with a direct reporting line to the Chief Risk Officer. The main areas of focus of the ORSG include:

1. Operational Risk Governance
2. Business Continuity Management
3. Insurance (not related to specific products)
4. Outsourcing and ICT Third Party Providers Management
5. Reputational Risk Management
6. IT Cyber Risk
7. Security Governance

When internal controls fail, operational risk can adversely affect the Group's reputation, have legal or regulatory implications, and/or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through its control framework and by monitoring and responding to potential risks in a timely manner, it is able to manage operational risks effectively. Controls include appropriate segregation of duties, four-eye principle, ensuring that Staff Members have appropriate expertise and training, regular verification and reconciliation of transactions and accounts and process automation or re-engineering. The Group defines Operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events." This definition includes legal risk but excludes strategic and reputational risk. Operational risk is inherent in the Bank's products, services and activities.

The ORSG Department aims to promote a culture of cooperation, communication and continuous improvement where lessons are learnt from incidents and near misses. The Department is responsible for the framework of real-time reporting of operational loss events and providing immediate response as required, as well as maintaining a database of operational losses and compiling and presenting monthly emails and data to the Executive Committee and the Risk Committee.

Operational risk assessments are carried out to facilitate the identification and evaluation of operational risk through process reviews and risk mapping. The objective is to assess inherent operational risks and reduce residual operational risks after the application of the relevant mitigating actions and controls. This will in turn decrease the severity and likelihood of operational losses which makes the Group more resilient. These assessments act as an independent means of capturing operational risks not originally identified by the first line of defence. The ORSG Department then requests the respective units to log these risks in the risk register for the required follow-up and mitigation.

The ORSG is responsible for developing, implementing and managing the Bank's Business Continuity Framework as a holistic management process. The Group's Business Continuity Plan (BCP) documents outline a standard procedure that must be followed in the eventuality that a disruption affects operations, such that resumption of services is carried out in an efficient and prioritised manner.

The likelihood and/or impact of particular events and risks may also be mitigated through the Group's comprehensive insurance coverage. The ORSG Department is tasked with the management of the Group's insurance programme covering its insurable risks. Apart from providing a mechanism for effective risk transfer, the purchase of insurance for operational risks acts as an external check (carried out by the broker and insurers) on the quality of operational risk management of the Group, and is a demonstration that the Group has an effective risk management framework and risk transfer strategy.

As part of the ORSG Department, the Outsourcing Risk Officer (ORO) oversees risks emanating from arrangements with third parties and maintains ongoing communication with the Business Process Owners, who in turn are responsible for the identification and management of each specific risk within third party arrangements. The Outsourcing Risk Officer maintains an Outsourcing Register with details of outsourcing arrangements and regularly consults with relevant stakeholders in order to mitigate and manage pertinent risks affecting these arrangements. Furthermore, the ORO has issued a comprehensive Outsourcing and ICT Third-Party Providers (TPP) Framework, setting up internal governance and risk management controls regarding contractual arrangements entered into between the Bank and TPP. The enhancement of the Outsourcing Risk Management Framework as part of the overall TPP risk management, is ongoing and will continue ensuring that the Bank remains fully compliant with the current and upcoming legal and regulatory requirements.

Through a framework developed by ORSG, second line of defence monitoring of Reputational Risk is being carried out on a quarterly basis. The framework sets out a risk dashboard, which presents metrics that capture the eight reputational risk dimensions defined by the Reputational Risk Policy. Each risk metric and each risk dimension are analysed against thresholds and then individually weighted depending on their relevance from a reputational risk perspective (taking into account both internal and/or external factors). This quantitative measurement feeds into the allocation of capital for reputational risk management and is aimed at providing insight, promoting effective comparisons and identifying potential issues or gaps that can lead to reputational damage and that require management action.

The Bank allocates capital for operational risk in line with the Basic Indicator Approach (BIA) as regulated by the CRR. Further information on the Bank's risk-weighted exposure to operational risk is provided in Section 6.2. The Bank will continue applying the BIA until the new Standardised Measurement Approach (SMA) is in place. The implementation date of the latter has been deferred set to January 2025. In addition to this, the Bank also sets aside capital for IT/Cyber risks as part of its Pillar 2 capital allocation (Section 6.3).

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

		Relevant Indicator			Own Funds Requirement	Risk exposures amount
		Year 3	Year 2	Last year		
		€000	€000	€000	€000	€000
1	Banking activities subject to basic indicator approach (BIA)	61,852	72,381	81,636	10,793	134,918
2	Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches	-	-	-	-	-
3	*Subject to TSA:*	-	-	-		
4	*Subject to ASA:*	-	-	-		
5	Banking activities subject to advanced measurement approaches AMA	-	-	-	-	-

IT and Cyber Risk

The Group continues to capitalise on IT within its activities and strengthen its online presence, whilst cognisant of the evolving cyber threats landscape. The Group maintains a next to zero tolerance to events that could compromise the confidentiality and integrity of data, as well as the availability of its IT systems.

IT and Cyber risk refers to the impact (financial, reputational, technical and regulatory) to the confidentiality and/or integrity and/or availability of Bank information systems (including data managed by these systems) stemming from an attempt, successful or otherwise, by unauthorized individual/stakeholder/systems/entities.

The Technology and Innovation Committee (TAIC) is mandated by the Bank's Board to provide oversight and direction over the Bank's Information, Communications and Technology programmes including innovation initiatives.

In this complex operating environment, the Group continues to embark on an extensive programme to update its information and cyber security operating frameworks, continue implementation of avant-garde information security tools, partnering with industry specialists to be fully equipped to prevent information security and cyber threats and to be agile to respond to security threats with minimal disruption on the Bank's operations. The ORSG Department, as the second line of defence, has partnered with leading local and international institutions to provide specialised information security services including penetration tests, vulnerability assessments, social engineering exercises and custom threat level feeds. The Group also has an IT/cyber insurance policy in place to safeguard its interests.

ORSG includes dedicated functions for Information Security Governance, as well as IT and Cyber Risk oversight based on the principles laid down by the Digital Operational Resilience Act (DORA). The Information Security Governance function established an IT Policies Working Group (ITPWG) whose mission is to align the Bank's IT policies with international/industry best practices and the Bank's IT strategy with the Bank's Risk Appetite as set by the Board.

11. Environmental, Social and Governance Risk

The Group recognizes that is has a responsibility towards the environment and society beyond legal and regulatory requirements. It is committed to improving 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 a clear allocation of responsibilities and reporting lines to ensure the incorporation of ESG risks into the business strategy, business processes and risk management.

The Group publishes a separate report on regulatory Pillar 3 ESG disclosures reporting information on a semi-annual basis. This Report outlines the business strategy, governance and risk management around ESG factors and includes information on climate-material sectors which show how climate risk derivers may impact the balance sheet and how these risks are being mitigated. Work is ongoing to enhance the reporting around ESG. For this reason, the Report for 31 December 2023 will be published on the Bank's website by June 2024.

12. Reputational Risk

Reputation is considered by the Group to be its most valuable intangible asset and is governed by a suitable Reputational Risk Policy, which is approved by the Board. The Bank has zero appetite to maximising profitability to the detriment of its reputation and standing, within the market and the local community.

Moreover, the Group has a number of systems and techniques in place to mitigate reputational risk; including a Board succession policy, a detailed risk management framework, a business continuity plan, the Code of Conduct, established credit granting criteria, sound investment parameters and comprehensive anti-money laundering procedures. Other actions aimed at strengthening further its governance framework include the introduction and updating of various policies. These include, inter alia, the introduction of the Diversity, Equity and Inclusion Policy, and the review of the Customer Acceptance Policy, Conflicts of Interest Policy, Anti-Fraud Policy, Go-to-Market Policy, and Outsourcing & ICT TPP Framework.

The Group has a detailed risk management system, which covers other risks not mentioned above; such as legal, strategic, residual and systemic risks. The Group has established risk management policies governing the management and mitigation of these risks, which policies are approved by the Board of Directors, unless the Board has assigned particular responsibilities to delegated Committees.

13. CRR II References

CRR Article		Title	Reference
Article	435	Risk management objectives and policies	Sections 2, 3 and 4
Article	436	Scope of application	Section 5
Article	437	Own funds	Section 6 and Note 47.5 to the Financial Statements
Article	438	Capital requirements	Section 6 and Note 47.5 to the Financial Statements
Article	439	Exposure to counterparty credit risk	Not applicable
Article	440	Countercyclical capital buffers	Section 6.2
Article	441	Indicators of global systemic importance	Not applicable
Article	442	Credit risk adjustments	Section 7
Article	443	Encumbered and unencumbered assets	Section 9.3
Article	444	Use of the Standardised Approach	Section 7.5
Article	445	Exposure to market risk	Section 8
Article	446	Operational risk management	Section 10
Article	447	Key metrics	Section 4.1
Article	448	Exposure to interest rate risk on positions not included in the trading book	Section 8
Article	449	Exposure to securitisation positions	Not applicable
Article	449a	Environmental, social and governance risks (ESG risks)	ESG Disclosures Report
Article	450	Remuneration policy	Remuneration Report
Article	451	Leverage ratio	Section 6.4
Article	451a	Liquidity requirements	Section 9.1 and 9.2
Article	452	Use of the IRB Approach to credit risk	Not applicable
Article	453	Use of credit risk mitigation techniques	Section 7.5
Article	454	Use of the Advanced Measurement Approaches to operational risk	Not applicable
Article	455	Use of Internal Market Risk Models	Not applicable