Pillar 3 Disclosures

30 June 2025

APS bank
values you can bank on

TABLE OF CONTENTS

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/07/2024 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994* and governed by Part Eight of the Capital Requirements Regulation (CRR) II No. 2019/876. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published guidelines on disclosure requirements under Part Eight of the CRR.

The European Banking Authority (EBA) introduced the Pillar 3 data hub (P3DH) to facilitate centralised access by all stakeholders to prudential data from all EEA institutions, promote transparency and market discipline in the EU banking sector, further contributing to the soundness of the European financial system. The P3DH goes live in December 2025, with the first reporting reference date being June 2025.

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, however, it has undergone comprehensive internal review as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Chief Risk Officer and approved by the Audit Committee and 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 view of the Group's risk profile and capital position.

2. Key risk metrics

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 and Liabilities Committee (ALCO) and the Executive Committee. The Risk Appetite Dashboard, which complements the Risk Appetite Statement, is presented to the Board of Directors on a quarterly basis. These reports provide insight on the Group's risk profile and benchmarks this with the Group's risk appetite and internal limits. These are presented using a RAG approach (also known as "traffic lights"). 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 in line with the Bank's Internal Escalation Procedure, 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

		Jun-25	Mar-25	Dec-24	Sep-24	Jun-24
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	282,229	277,952	277,407	266,381	255,959
2	Tier 1 capital	282,229	277,952	277,407	266,381	255,959
3	Total capital	386,490	382,187	381,617	370,565	360,116
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,878,198	1,945,511	1,900,999	1,855,625	1,815,708
4a	Total risk exposure pre-floor[1]	1,878,198	1,945,511	-	-	-
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	15.03%	14.29%	14.59%	14.36%	14.10%
5b	Common Equity Tier 1 ratio considering unfloored TREA (%)	-	-	-	-	-
6	Tier 1 ratio (%)	15.03%	14.29%	14.59%	14.36%	14.10%
6b	Tier 1 ratio considering unfloored TREA (%)	-	-	-	-	-
7	Total capital ratio (%)	20.58%	19.64%	20.07%	19.97%	19.83%
7b	Total capital ratio considering unfloored TREA (%)	-	-	-	-	-
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7d	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.15%	3.15%	3.15%	3.15%	3.15%
EU 7e	of which: to be made up of CET1 capital (percentage points)	1.77%	1.77%	1.77%	1.77%	1.77%
EU 7f	of which: to be made up of Tier 1 capital (percentage points)	2.36%	2.36%	2.36%	2.36%	2.36%
EU 7g	Total SREP own funds requirements (%)	11.15%	11.15%	11.15%	11.15%	11.15%
	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%

[1] 'Total risk exposure pre-floor' was introduced upon the implementation of CRR III, therefore this figure is available from March 2025 onwards.

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 (%)	0.09%	0.07%	0.08%	0.10%	0.11%
EU 9a	Systemic risk buffer (%)	0.56%	0.53%	0.52%	0.52%	0.51%
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.44%	0.438%	0.375%	0.375%	0.375%
11	Combined buffer requirement (%)	3.59%	3.54%	3.48%	3.49%	3.50%
EU 11a	Overall capital requirements (%)	14.74%	14.69%	14.63%	14.64%	14.65%
12	CET1 available after meeting the total SREP own funds requirements (%)	6.66%	5.92%	6.23%	5.99%	5.73%
	Leverage ratio					
13	Total exposure measure	4,428,192	4,330,192	4,283,466	4,045,486	3,891,007
14	Leverage ratio (%)	6.37%	6.42%	6.48%	6.58%	6.58%
	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)	658,553	628,187	579,719	525,047	448,994
EU 16a	Cash outflows - Total weighted value	446,099	447,456	434,628	375,825	373,042
EU 16b	Cash inflows - Total weighted value	176,887	116,572	140,926	68,588	67,669
16	Total net cash outflows (adjusted value)	352,813	330,884	293,702	307,236	305,373
17	Liquidity coverage ratio (%)	186.66%	189.85%	197.38%	170.89%	147.03%
	Net Stable Funding Ratio					
18	Total available stable funding	3,702,399	3,624,481	3,563,901	3,379,737	3,257,273
19	Total required stable funding	2,630,985	2,568,352	2,537,937	2,462,752	2,410,271
20	NSFR ratio (%)	140.72%	141.12%	140.43%	137.23%	135.14%

Banks are required to maintain a minimum requirement for own funds and eligible liabilities (MREL), which is set by resolution authorities to ensure that a bank maintains at all times sufficient eligible instruments to facilitate the implementation of the preferred resolution strategy. MREL is measured using both a risk-based and leverage-based dimension.

Table EU KM2 below shows that as at June 2025, the Bank's own funds and eligible liabilities as percentage of the total risk exposure amount (TREA) amounted to 28.78% while the own funds and eligible liabilities as percentage of total exposure measure (TEM) amounted to 12.21%. The Bank's position is comfortably above the regulatory minimum requirements.

EU KM2: Key metrics - MREL and, where applicable, G-SII requirement for own funds and eligible liabilities

		Minimum requirement for own funds and eligible liabilities (MREL)
		T
Own funds and eligible liabilities, ratios and components		
1	Own funds and eligible liabilities	540,536,058
EU-1a	Of which own funds and subordinated liabilities	386,490,295
2	Total risk exposure amount of the resolution group (TREA)	1,878,198,367
3	Own funds and eligible liabilities as a percentage of the TREA	28.78%
EU-3a	Of which own funds and subordinated liabilities	20.58%
4	Total exposure measure (TEM) of the resolution group	4,428,191,539
5	Own funds and eligible liabilities as percentage of the TEM	12.21%
EU-5a	Of which own funds or subordinated liabilities	8.73%
6a	Does the subordination exemption in Article 72b(4) of Regulation (EU) No 575/2013 apply? (5% exemption)	
6b	Aggregate amount of permitted non-subordinated eligible liabilities instruments if the subordination discretion in accordance with Article 72b(3) of Regulation (EU) No 575/2013 is applied (max 3.5% exemption)	
6c	If a capped subordination exemption applies in accordance with Article 72b (3) of Regulation (EU) No 575/2013, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised under row 1, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised under row 1 if no cap was applied (%)	
Minimum requirement for own funds and eligible liabilities (MREL)		
EU-7	MREL expressed as a percentage of the TREA	28.78%
EU-8	Of which to be met with own funds or subordinated liabilities	20.58%
EU-9	MREL expressed as a percentage of the TEM	12.21%
EU-10	Of which to be met with own funds or subordinated liabilities	8.73%

3. 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 its 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 the 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 ALCO.

As an integral part of the Group's business planning process, the Risk Department 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.

3.1. 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 amounting to €65.8 million, hence strengthening further its capital position. Further information on the share capital composition is provided in Note 47.5 to the 2024 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 million 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 2024 Financial Statements which are available on the Bank's website.

3.2. 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 Business Indicator Approach for the purposes of calculating its risk-weighted exposure to operational risk. Under this approach, the Bank applies fixed percentages to different components of the Bank's business indicator.

The following table discloses the Bank's risk weighted assets and capital requirements as at 30th June 2025 for each exposure class in line with the CRR, and the respective Pillar 1 capital requirement based on the methods outlined above. The difference between the capital requirement of the Group and the Bank is immaterial.

EU OV1 – Overview of total risk exposure amounts

		RWA		Minimum Capital requirements
		Jun-25[2] €000	Mar-25 €000	Jun-25 €000
1	Credit risk (excluding counterparty credit risk)	1,752,674	1,824,989	140,214
2	*Of which: standardised approach*	*1,752,674*	*1,824,989*	*140,214*
	Central government or central banks	*3,028*	*5,134*	*242*
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	-	*2,097*	-
	International organisations	-	-	-
	Institutions	*40,218*	*86,055*	*3,217*
	Corporates	*217,206*	*118,269*	*17,376*
	Retail	*45,492*	*53,936*	*3,639*
	Secured by mortgages on immovable property	*1,252,527*	*1,361,993*	*100,202*
	Exposures in default	*34,583*	*30,525*	*2,767*
	Items associated with particular high risk	-	-	-
	Covered bonds	-	*800*	-
	Claims in the form of CIU	*29,705*	*31,505*	*2,376*
	Equity exposures	*318*	*321*	*25*
	Other Assets	*129,597*	*134,354*	*10,368*
20	Market risk	78	77	6
21	*Of which: standardised approach*	-	*77*	-
21a	*Of which the Simplified standardised approach (S-SA)*	*78*	*94*	*6*
24	Operational risk	125,446	120,429	10,036
24a	Exposures to crypto-assets	-	-	-
25	Output floor applied	-	-	-
29	Total	1,878,198	1,945,495	150,256

The Bank is required to meet a total SREP capital requirement (TSCR) of 11.15%, consisting of 8.0% minimum Pillar 1 requirement and a 3.15% Pillar 2 requirement (P2R)[3]. In line with the Capital Requirements Directive (CRD VI), 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/15/2025 – *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 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.

[2] Following the implementation of CRR3 as from Q1 2025, facilities have been reclassified into different exposure classes, representing a material change from the CRR2 framework applied in the previous quarter.

[3] Further information on the capital requirements is included in Section 2, table EU KM1

As at 30 June 2025, the Bank's Tier 1 and Total Capital Ratios stood at 15.03% and 20.58%, respectively, thereby above the respective applicable regulatory minima.

EU CC1 - Composition of regulatory own funds

		€000
1	Capital instruments and the related share premium accounts	148,508
2	Retained earnings	119,530
3	Accumulated other comprehensive income (and other reserves)	24,190
EU-3a	Funds for general banking risk	-
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	4,171
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	292,076
7	Additional value adjustments (negative amount)	(286)
8	Intangible assets (net of related tax liability) (negative amount)	(12,687)
27a	Other regulatory adjustments	(1,197)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(14,169)
29	Common Equity Tier 1 (CET1) capital	282,229
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44	Additional Tier 1 (AT1) capital	-
45	Tier 1 capital (T1 = CET1 + AT1)	282,229
46	Capital instruments and the related share premium accounts	104,261
51	Tier 2 (T2) capital before regulatory adjustments	104,261
57	Total regulatory adjustments to Tier 2 (T2) capital	-
58	Tier 2 (T2) capital	104,261
59	Total capital (TC = T1 + T2)	386,490
60	Total risk exposure amount	1,878,198
61	Common Equity Tier 1 capital	15.03%
62	Tier 1 capital	15.03%
63	Total capital	20.58%
64	Institution CET1 overall capital requirements	9.86%
65	*of which: capital conservation buffer requirement*	*2.50%*
66	*of which: countercyclical capital buffer requirement*	*0.09%*
67	*of which: systemic risk buffer requirement*	*0.56%*
EU-67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement*	*0.44%*
EU-67b	*of which: additional own funds requirements to address the risks other than the risk of excessive leverage*	*1.77%*
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	6.66%

The following table provides a reconciliation of regulatory own funds to the statement of financial position within the audited financial statements.

EU CC2 - reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Balance sheet as in published financial statements	Under regulatory scope of consolidation
		€000	€000
Assets			
1	Intangible Assets	21,332	(12,687)
2	Prudent Valuation adjustment	-	(286)
3	NPE insufficient coverage	-	(1,197)
	Total Assets	21,332	(14,169)
Liabilities			
1	Debt securities in issue	104,261	104,261
	Total Liabilities	104,261	104,261
Shareholders' Equity			
1	Share Capital	95,394	95,394
2	Share Premium	53,114	53,114
3	Revaluation Reserve (and other reserves)	20,136	24,039
5	Retained Earnings	132,789	123,701
	Total Shareholders' Equity	301,585	296,399

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

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

Country	Exposure value under the standardised approach	Total exposure value	Own Funds Requirement	Risk-weighted exposure amounts	Own fund requirement s weights	Counter-cyclical buffer rate
	€000	€000	€000	€000	%	%
Austria	22,919	22,919	1,834	22,919	0.52	0.00
Switzerland	3,317	3,317	265	3,317	0.07	0.00
Spain	504	504	40	504	0.01	0.00
Czech Republic	224	224	18	224	0.01	1.25
Finland	17,200	17,200	1,376	17,200	0.39	0.00
Italy	9,274	9,274	742	9,274	0.21	0.00
Hungary	1,553	1,553	124	1,553	0.04	1.00
Luxembourg	24,486	24,486	1,959	24,486	0.55	0.50
Macedonia	125	125	10	125	0.00	0.00
Poland	7,112	7,112	569	7,112	0.16	0.00
Portugal	228	228	18	228	0.01	0.00
Norway	75	75	6	75	0.00	2.50
Romania	2,530	2,530	202	2,530	0.06	1.00
Slovakia	10,291	10,291	823	10,291	0.23	1.50
United Kingdom	36,406	36,406	2,913	36,406	0.82	1.00
France	111,037	111,037	8,883	111,037	2.51	1.00
Germany	73,856	73,856	5,909	73,856	1.67	0.75

Ireland	6,451	6,451	516	6,451	0.15	1.50
Netherlands	33,559	33,559	2,685	33,559	0.76	2.00
Australia	724	724	58	724	0.02	0.00
Lithuania	1,197	1,197	96	1,197	0.03	1.00
Sweden	163	163	13	193	0.00	2.00
Slovenia	9,763	9,763	781	9,763	0.22	1.00
Belgium	36,580	36,580	2,926	36,580	0.83	1.00
Other Countries[4]	4,018,619	4,018,619	321,490	4.428,192		
Total	**4,428,192**	**4,428,192**	**311,231**	**4,428,192**		

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

Total Risk Exposure Amount (€000)	1,878,198
Institution Specific Countercyclical Buffer Rate	0.09%
Institution Specific Countercyclical Buffer Requirement (€000)	1,685

4. Leverage

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 Bank's leverage ratio is regularly reported to and monitored by the Executive Management, Risk Committee and Board. As at 30 June 2025 the Bank's leverage ratio stood at 6.37% (Mar-24: 6.57%). During the second quarter of 2025, the Bank's leverage ratio remained well above the regulatory minimum requirement of 3% and within the risk appetite set by the Board.

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

		€000
1	Total assets as per published financial statements	4,312,424
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	128,444
12	Other adjustments	(12,687)
13	**Total exposure measure**	**4,428,192**

EU LR2 - LRCom: Leverage ratio common disclosure

		€000
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,312,434
6	Asset amounts deducted in determining Tier 1 capital	(12,687)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**4,299,747**
19	Off-balance sheet exposures at gross notional amount	1,287,295
20	Adjustments for conversion to credit equivalent amounts	(1,158,851)
22	**Total off-balance sheet exposures**	**128,444**
23	**Tier 1 capital**	**282,229**
24	**Total Exposures**	**4,428,192**
25	**Leverage Ratio**	**6.37%**
26	Regulatory minimum leverage ratio requirement (%)	3.00%
EU-26a	Additional own funds requirements to address the risk of excessive leverage (%)	0.00%

[4] This category represents exposures to countries where the CCyB is set at 0% as at reporting date.

EU-26b	of which: to be made up of CET1 capital	0.00%
27	Leverage ratio buffer requirement (%)	0.00%
EU-27a	Overall leverage ratio requirement (%)	3.00%
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,428,192
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4,428,192
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.37%
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	6.37%

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:	4,312,424
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	4,312,424
EU-4	Covered bonds	-
EU-5	Exposures treated as sovereigns	387,535
EU-6	Exposures to regional governments, MDBs, international organisations and PSE NOT treated as sovereigns	36,884
EU-7	Institutions	114,903
EU-8	Secured by mortgages of immovable properties	2,918,060
EU-9	Retail exposures	57,186
EU-10	Corporate exposures	215,956
EU-11	Exposures in default	29,616
EU-12	Other exposures	552,296

5. 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 its Credit Risk Appetite, which lays down the principles for the management of credit risk within each business area mentioned above.

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

5.1. 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**	3,313,095	3,241,202	71,892	48,337	-	48,337	(2,755)	(1,688)	(1,068)	(17,486)	-	(17,486)	(20,241)	13,389	-
020	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	General governments	1,251	1,251	-	-	-	-	-	-	-	-	-	-	-	-	-
040	Credit institutions	38,176	38,176	-	-	-	-	(93)	(93)	-	-	-	-	(93)	-	-
050	Other financial corporations	156,565	154,358	2,207	-	-	-	(282)	(282)	-	-	-	-	(282)	-	-
060	Non-financial corporations	782,567	724,836	57,731	35,958	-	35,958	(1,639)	(731)	(908)	(12,947)	-	(12,947)	(14,586)	2,838	-
070	Of which SMEs	658,663	638,456	20,206	24,877	-	24,877	(480)	(331)	(149)	(6,933)	-	(6,933)	(7,414)	2,838	-
080	Households	2,334,536	2,322,581	11,954	12,379	-	12,379	(741)	(582)	(160)	(4,539)	-	(4,539)	(5,280)	10,551	-
090	**Debt Securities**	430,656	430,571	85	-	-	-	(125)	(95)	(30)	_	-	_	(125)	-	-
100	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	General governments	388,806	388,806	-	-	-	-	(84)	(84)	-	-	-	-	-84	-	-

120	Credit institutions	21,216	21,216	-	-	-	-	-	-	-	-	-	-	-	-	-
130	Other financial corporations	14,794	14,709	85	-	-	-	(40)	(10)	(30)	-	-	-	-40	-	-
140	Non-financial corporations	5,840	5,840	-	-	-	-	(1)	(1)	-	-	-	-	-1	-	-
150	Off-balance-sheet exposures	1,287,017	1,284,213	2,803	278	-	278	-	-	-	-	-	-		-	-
160	Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
170	General governments	5,007	5,007	-	-	-	-	-	-	-	-	-	-	-	-	-
180	Credit institutions	205	205	-	-	-	-	-	-	-	-	-	-	-	-	-
190	Other financial corporations	80,601	80,596	4	-	-	-	-	-	-	-	-	-		-	-
200	Non-financial corporations	423,648	421,967	1,681	15	-	15	-	-	-	-	-	-		-	-
210	Households	777,556	776,438	1,118	263	-	263	-	-	-	-	-	-		-	-
220	Total	5,030,768	4,955,986	74,780	48,615	-	48,615	(2,880)	(1,783)	(1,098)	(17,486)	-	(17,486)	(20,366)	13,389	-

EU CR1-A – Maturity of exposures

		On-demand	<= 1 year	>1 year< = 5 years	> 5 years	Total
		€000	€000	€000	€000	€000
010	Loans and advances	141,119	102,603	260,292	2,837,588	3,341,602
020	Debt Securities	12,103	63,983	135,151	216,896	428,133
030	Total	153,222	166,586	395,443	3,054,484	3,769,735

The following table shows the changes in the Bank's stock of defaulted loans during the six months ending 30 June 2025. 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	48,879
020	Inflows to non-performing portfolios	4,922
030	Outflows from non-performing portfolios, of which:	(5,464)
040	Outflows due to write-offs	(234)
050	Outflows from non-performing portfolios due to other situations	(5,230)
060	Final stock of non-performing loans and advances	48,337

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 680/2014).

EU CQ1 - Credit quality of forborne exposures

		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne	Of which defaulted	Of which impaired	On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
		€000	€000	€000	€000	€000	€000	€000	€000
005	Cash balances at central banks and other demand deposits	-	-	-	-	-	-	-	-
010	Loans and advances	6,840	13,267	-	13,267	(38)	(4,616)	23,514	8,558
020	Central banks	-	-	-	-	-	-	-	-
030	General governments	-	-	-	-	-	-	-	-
040	Credit institutions	-	-	-	-	-	-	-	-
050	Other financial corporations	-	-	-	-	-	-	-	-
060	Non-financial corporations	5,420	11,754	-	11,754	(36)	(3,378)	21,775	8,291
070	Households	1,420	1,513	-	1,513	(2)	(1,238)	1,739	267
080	Debt Securities	-	-	-	-	-	-	-	-
090	Loan commitments given	12	-	-	-	-	-	-	-
010	Total	6,852	13,267	-	13,267	(38)	(4,616)	23,514	8,558

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% of the Bank's total exposures, with the top three exposures being France, Germany and Canada.

EU CQ4: Quality of non-performing exposures by geography

		Not past due or past due ≤ 30 days				Accumulated impairment	Provisions on off-balance-sheet commitments and financial guarantees given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
			Of which non-performing		Of which subject to impairment			
				Of which defaulted				
		€000	€000	€000		€000	€000	€000
010	On-balance-sheet exposures	3,792,088	48,337	-	3,792,088	(20,366)		-
020	Malta	3,257,077	37,256	-	3,257,077	(13,002)		-
030	Other countries	535,011	11,081	-	535,011	(7,364)		-
040	Off-balance-sheet exposures	1,287,295	278	278			-	
050	Malta	1,279,952	278	278			-	
060	Other countries	7,343	-	-			-	
070	Total	5,079,383	48,615	278	3,792,088	(20,366)	-	-

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	53,706			(109)	-
020	Mining and quarrying	2,501			(6)	-
030	Manufacturing	83,272			(827)	-
040	Electricity, gas, steam and air conditioning supply	4,740			(7)	-
050	Water supply	1,935			-	-
060	Construction	99,642			(3,120)	-
070	Wholesale and retail trade	64,610			(442)	-
080	Transport and storage	21,424			(27)	-
090	Accommodation and food service activities	135,215			(3)	-
100	Information and communication	18,766			(7)	-
110	Financial and insurance activities	-			-	-
120	Real estate activities	238,327			(8,589)	-
130	Professional, scientific and technical activities	45,231			(267)	-
140	Administrative and support service activities	25,935			(63)	-
150	Public administration and defence, compulsory social security	-			-	-
160	Education	13			-	-
170	Human health services and social work activities	20,435			(374)	-
180	Arts, entertainment and recreation	807			(2)	-
190	Other services	1,966			(743)	-
200	Total	818,525			(14,586)	-

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 six months ending 30 June 2025.

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 collateral	-	-
080	Total	1,331	-

5.2. 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.

The table below shows the amount of the Bank's on-balance sheet exposure value (Net) as at 30 June 2025 that is unsecured and the amount that is covered by eligible collateral in line with the CRR:

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

			Secured Carrying Amount			
		Exposures unsecured: 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[5]	912,460	2,800,005	2,786,616	13,389	-
2	Debt securities	430,532	-	-	-	
3	**Total**	**1,342,992**	**2,800,005**	**2,786,616**	**13,389**	-
4	Of which non-Performing	5,656	25,194	25,194	-	-
EU-5	Of which defaulted	5,656	25,194			

[5] This includes balances held with the Central Bank of Malta and loans to banks and customers.

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

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

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

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA Density
		€000	€000	€000	€000	€000	%
1	Central governments or central banks	689,215	5,007	387,535	7	3,028	-
2	Non-central government public sector entities	-	-	-	-	-	-
2a	Regional government or local authorities	-	-	-	-	-	-
2b	Public sector entities	-	-	-	-	-	-
3	Multilateral development banks	36,884	-	36,884	-	-	-
3a	International organisations	-	-	-	-	-	-
4	Institutions	-	-	-	-	-	-
5	Covered bonds	-	-	-	-	-	-
6	Corporates	215,855	468,591	215,956	19,799	217,206	1
6.1	Of which: Specialised Lending	-	-	-	-	-	-
7	Subordinated debt exposures and equity	-	-	-	-	-	-
Eu 7a	Subordinated debt exposures	-	-	-	-	-	-
Eu 7b	Equity	11,087	-	318	-	318	1
8	Retail	57,186	46,334	57,186	5,539	45,492	1
9	Secured by mortgages on immovable property and ADC exposures	2,918,059	767,158	2,918,059	103,095	1,252,527	-
9.1	Secured by mortgages on residential immovable property - non IPRE	2,179,575	700,974	2,179,575	97,011	728,084	-
9.2	Secured by mortgages on residential	46,798	18,776	46,798	294	16,120	-

	immovable property - IPRE						
9.3	Secured by mortgages on commercial immovable property - non IPRE	255,953	33,248	255,953	-	139,310	1
9.4	Secured by mortgages on commercial immovable property - IPRE	271,602	6,285	271,602	5,735	166,578	1
9.5	Acquisition, Development and Construction (ADC)	164,130	7,875	164,130	56	202,436	1
10	Exposures in default	29,616	-	29,616	-	34,583	1
10a	Claims on institutions and corporates with short-term credit assessment	104,234	205	114,903	4	40,218	-
10b	Collective investment undertakings	49,424	-	49,424	-	29,705	1
10c	Other items	188,187	-	489,867	-	129,597	-
11	Not applicable	-	-	-	-	-	-
12	Total	4,299,747	1,287,295	4,299,747	128,444	1,752,674	

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.

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

	Exposure Classes	0%	20%	30%	35%	45%	50%	60%	75%	90%	100%	150%	Others	Total Credit Exposure amount
		Risk Weight												
		€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
1	Central governments or central banks	382,008	-	-	-	-	5,011	-	-	-	523	-	-	387,542
Eu2a	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	
Eu2b	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	
3	Multilateral development banks	36,884	-	-	-	-	-	-	-	-	-	-	-	36,884
6	Corporates	-	-	-	-	-	16,376	-	3,300	-	216,079	-	-	235,755
7	Subordinated debt exposures and equity	-	-	-	-	-	-	-	-	-	318	-	-	318
Eu7b	Equity	-	-	-	-	-	-	-	-	-	318	-	-	318
8	Retail exposures	-	-	-	-	4,252	-	-	58,199	-	272	-	-	62,724
9	Secured by mortgages on immovable property and ADC exposures	-	1,868,168	26,106	7,715	12,136	-	232,678	211,314	2,219	227,312	164,186	269,322	3,021,156
9.1	Secured by mortgages on residential immovable property - non IPRE	-	1,868,168	-	-	-	-	-	-	-	-	-	-	1,868,168
9.1.3	Loan splitting applied (unsecured)	-	-	-	-	-	-	-	211,209	-	197,211	-	-	408,419
9.2	Secured by mortgages on residential immovable property - IPRE	-	-	26,106	7,715	12,136	-	105	105	-	925	-	-	47,092
9.3	Secured by mortgages on commercial immovable property - non IPRE	-	-	-	-	-	-	232,573	-	-	-	-	-	232,573
9.3.3	Loan splitting applied (unsecured)	-	-	-	-	-	-	-	-	-	19,569	-	3,811	23,380
9.4	Secured by mortgages on commercial immovable property - IPRE	-	-	-	-	-	-	-	-	2,219	9,607	-	265,511	277,337
9.5	Acquisition, Development and Construction (ADC)	-	-	-	-	-	-	-	-	-	-	164,186	-	164,186
10	Exposures in default	-	-	-	-	-	-	-	-	-	19,681	9,934	-	29,616
Eu10a	Claims on institutions and corporates with a short-term credit assessment	-	73,226	3,009	-	-	28,003	-	-	-	10,669	-	-	114,906
Eu10b	Collective investment undertakings (CIU)	12,448	1,842	635	-	-	9,978	-	6,329	-	15,755	2,438	-	49,424
Eu10c	Other items	335,372	15,101	13,630	-	-	110	-	55	-	121,749	-	3,850	489,867
11	**Total**	**766,712**	**1,958,337**	**43,380**	**7,715**	**16,388**	**59,478**	**232,678**	**279,197**	**2,219**	**612,358**	**176,558**	**273,172**	**4,428,192**

6. 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. This is consistent with the Bank's Risk Appetite. In accordance with Article 94 of the CRR, the Bank 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 Bank's financial position and cash flow is exposed to unfavourable movements in interest rates;
ii. Foreign exchange risk – the risk that the Bank's financial position and cash flow are exposed to unfavourable movements in foreign exchange rates.

6.1. 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 and Credit Spread 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.

On a monthly basis, the ERM Unit monitors the impact of six pre-defined shock scenarios, where the maximum change in Economic Value of Equity (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 of 30 June 2025, resulted through the 'parallel up' scenario. During the 12 months under review, the change in EVE was impacted by changes in the interest rate environment and an increase in the Bank's debt securities portfolio. The Bank's economic value was at all times well within the established regulatory requirement and within the Bank's risk appetite.

The interest rate scenarios are reviewed periodically by Management to ensure that these capture all plausible scenarios. As of 31 December 2023, Management added a scenario where long-term rates drop below short-term rates , resulting in an 'inverted steepener' yield curve.

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

		Changes of the economic value of equity		Changes of the net interest income	
		Jun-25	Jun-24	Jun-25	Jun-24
		€000	€000	€000	€000
1	Parallel up	(20,065)	29,030	1,930	3,843
2	Parallel down	9,932	(30,555)	(1,930)	(3,843)
3	Steepener	9,976	(5,112)		
4	Flattener	3	10,134		
5	Short rates up	(6,922)	18,133		
6	Short rates down	7,458	(18,612)		

7. Liquidity and Funding Risk

Liquidity risk is the risk that the Bank 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 Bank 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 Bank'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 30 June 2025, the Bank's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 94.24%, 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.

7.1. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar day stressed period. The Bank reports this ratio to the MFSA on a monthly basis. During Q2 2025, the Bank's LCR remained consistently above the applicable minimum requirement of 100% and in line with its risk appetite. As at 30 June 2025, the LCR stood at 186.66% (31 March 2025: 189.85%). The liquidity buffer continued to improve during Q2 2025 however this was outweighed with an increase in net cash outflows (mainly from retail deposits), which led to a decline in the ratio. The Bank's liquidity buffer is classified into:

- Level 1 assets (97%), which include withdrawable central bank reserves and central government assets; and
- Level 2 assets (3%), which include regional government or public sector entity assets and corporate debt securities with a credit rating of BBB- or higher.

The table overleaf discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting September 2024 and ending June 2025. The figures are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. The difference between the Group and the Bank's LCR is immaterial. Given that the Bank does not have another 'material currency'[6], other than the Euro, the Bank reports the LCR in the reporting currency (Euro).

[6] 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 the bank's total liabilities.

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

		Total unweighted value (average)				Total weighted value (average)			
Quarter ending on		Jun-25 €000	Mar-25 €000	Dec-24 €000	Sep-24 €000	Jun-25 €000	Mar-25 €000	Dec-24 €000	Sep-24 €000
EU 1a		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					625,023	572,080	534,286	503,270
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	1,766,836	1,661,316	1,596,904	1,566,584	151,487	139,774	128,551	120,766
3	Stable deposits	*1,272,318*	*1,203,382*	*1,158,319*	*1,134,753*	*88,700*	*81,568*	*72,816*	*65,929*
4	Less Stable deposits	*494,518*	*457,934*	*438,585*	*431,831*	*62,787*	*58,206*	*55,736*	*54,837*
5	Unsecured wholesale funding, of which:	536,698	497,793	475,372	462,811	250,968	237,165	238,400	239,987
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	*2,710*	*2,614*	*3,541*	*6,181*	*677*	*654*	*885*	*1,545*
7	Non-operational deposits (all counterparties)	*533,988*	*495,179*	*471,831*	*456,630*	*250,291*	*236,512*	*237,514*	*238,442*
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	553,234	532,504	522,533	512,157	42,642	41,934	42,241	43,181
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	553,234	532,504	522,533	512,157	42,642	41,934	42,241	43,181
14	Other contractual funding obligations	4,647	4,634	4,479	4,162	4,646	4,634	4,479	4,162
15	Other contingent funding obligations	20,696	19,092	17,519	15,810	-	-	-	-
16	**Total Cash Outflows**					449,743	423,507	413,670	408,096
Cash Inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	209,921	172,480	123,523	86,651	93,772	79,605	63,760	54,354
19	Other cash inflows	3,709	2,360	1,045	966	3,709	2,360	1,045	966
20	**Total Cash Inflows**	213,630	174,840	124,568	87,617	97,481	81,965	64,805	55,321
Total Adjusted Value									
EU-21	**Liquidity Buffer**					625,023	572,080	534,286	503,270
22	**Total net cash outflows**					352,264	341,541	348,865	352,775
23	**Liquidity Coverage Ratio (%)**					186.36%	173.65%	156.84%	144.31%

7.2. 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 III, institutions are required to maintain a NSFR of at least 100%. Given that the Bank does not have a 'material currency'[7], other than the Euro, the Bank reports the NSFR in the reporting currency (Euro), regardless of the actual denomination of assets, liabilities and off-balance sheet items. All liabilities with a residual maturity of one year or more shall be subject to a 100% ASF factor, unless otherwise specified in the CRR.

At 140.72%, the Bank's NSFR was above the regulatory minimum requirement and within the Bank's risk appetite as at 30 June 2025 (31 March 2025: 141.12%). During Q2 2025, the increase in Total Available Stable Funding (mainly through retail deposits) was outweighed by the increase in Total Required Stable Funding (mainly through the growth in the loan book).

[7] 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 the bank's total liabilities.

EU LIQ2 - Net Stable Funding Ratio

		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	months to <1 year	> 1 year	
		€000	€000	€000	€000	€000
Available stable funding (ASF) Items						
1	Capital items and instruments	-	-	-	405,846	405,846
2	Own funds	-	-	-	405,846	405,846
4	Retail deposits		2,441,667	321,723	223,375	2,802,156
5	Stable deposits		*1,630,732*	*203,870*	*190,220*	*1,933,092*
6	Less stable deposits		*810,935*	*117,853*	*33,155*	*869,064*
7	Wholesale funding		*631,532*	*82,067*	*155,691*	*477,723*
9	Other wholesale funding		*631,532*	*82,067*	*155,691*	*477,723*
11	Other liabilities	-	31,005	5,711	13,818	16,674
13	All other liabilities and capital instruments not included in the above categories		31,005	5,711	13,818	16,674
14	Total available stable funding (ASF)					3,702,399
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					13,009
17	Performing loans and securities:		117,138	167,432	3,068,724	2,331,563
19	Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions		*77,624*	*36,225*	*127,296*	*153,171*
20	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:		*36,756*	*121,357*	*911,809*	*848,635*
21	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		*458*	*4,103*	*27,292*	*20,020*
22	Performing residential mortgages, of which:		*2,235*	*9,850*	*2,029,619*	*1,329,495*
23	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk		*1,681*	*7,730*	*2,008,620*	*1,310,309*
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*	*-*	*-*	*262*
26	Other assets:	-	57,082	18,525	196,961	223,413
27	Physical traded commodities					

31	All other assets not included in the above categories		57,082	18,525	196,961	223,413
32	Off-balance sheet items		1,019	145,549	1,108,272	63,000
33	Total Required Stable Funding (RSF)					2,630,985
34	Net Stable Funding Ratio (%)					140.72%

8. Environmental, social and Governance Factors

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

The Group recognises the pace of such trends and the need for a Sustainable and Responsible banking strategy in line with its Vision and Mission, which is that of being the community bank in Malta. This brings with it a responsibility towards the environment and society beyond legal and regulatory requirements. The Group is committed to continue to support business and economic growth, but mindful of the fact that existential issues such as climate change need to be prioritised if we are to make meaningful inroads into the sustainability of the environment we live in, for our lives and that of our descendants. The Group is aware of its exposure to Environmental, Social and Governance risks and is following closely regulatory guidelines, developments, and supervisory expectations. As such, measures to mitigate its exposure to these risks form an integral part of the Group's risk management framework. The Group's internal governance arrangements ensure the involvement of the Board and senior management in establishing a risk culture, setting the risk appetite and managing ESG risks, whilst having clear allocation of responsibilities and reporting lines to ensure the incorporation of ESG risks into the business strategy, business processes and risk management. The Board is aware that risks stemming from environmental and social factors evolve over time given changes in technology, policy framework, business environment, stakeholder preferences and changes in the physical environment itself.

8.1. Environmental Risk

8.1.1. Business strategy and processes

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

The Group seeks to engage with its customer base to provide financing and deliver on their climate transition plans as well as expanding sustainability objectives. It will achieve this through growing its existing product suite across its environmental and social propositions. The Group recently reviewed its investment propositions and its alignment with up-to-date market ESG parameters and now offer a suite of SFDR Article 8 Aligned funds covering Cautious, Balanced and Adventurous investment strategies.

In relation to transparency and disclosures, the Group is establishing a baseline in its impact emanating from Scope 1-3 emissions[8]. This work to establish a baseline is anticipated to be concluded by the end of 2025. For Category 15 emissions, asset classifications are being identified through the Partnership Carbon Accounting Financials, often referred to as PCAF.

Where possible, the Group will continuously seek to align its product suite to international principles and provide third party assurance for its "Green" asset and liability balance sheet. To enhance ESG sustainability knowledge and skills in the business, the Group provides training courses to upskill employees across all its business functions.

[8] Excluding Category 15

8.1.2. Governance

The Board plays a salient role in setting the strategy of the Bank by providing leadership, integrity and judgement, upholding the highest standards of corporate governance. The Board ensures effective execution of its functions through clear articulation of the Bank's purpose and strategy, exercising stewardship and oversight of the Bank. In doing so, the Board works closely with the senior management team, led by the Chief Executive Officer, and together establish a balance between oversight and strategy execution.

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

This section explains in more detail the roles and responsibilities of the Board and Senior Management in relation to the management of ESG risks.

Board of Directors

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

ESG Committee

The Environmental, Social and Governance ("ESG") Board committee brings together Non-Executive Directors and members from the Bank's Senior Management[9] to map the sustainable component for the Group's initiatives in the ESG space. The purpose of the Committee is to oversee the Environmental, Social and Governance policies, activities and practices of the Bank and its subsidiaries, providing both advice and guidance to the Board of Directors.

The ESG Committee considers the material environmental, social and governance issues and policies relevant to the Group's business activities and promotes initiatives to raise ESG performance. It ensures that the Group is keeping the UN Sustainable Development goals as an overarching guide, monitors their applicability and considers emerging ESG issues.

Audit Committee

The Audit Committee collaborates and exchanges information with other Committees, including the Risk Committee and the ESG Committee, to ensure compliance with reporting obligations under Part Eight of the CRR (Pillar 3) and the Corporate Sustainability Reporting Directive (CSRD).

Remunerations, Nominations and Governance Committee

The Remunerations, Nominations and Governance (RNG) Committee keeps the Board composition under review and carries out the process for Board appointments and assists the Board on senior management appointments and succession planning.

[9] Further information on the Members of the ESG Committee can be found in the Corporate Governance Report included in the Group's 2024 Annual Report.

The Committee recommends the compensation framework of Board and senior executives and ensure that the Bank is in line with corporate governance practices.

Risk Committee

The Risk Committee[10] is responsible for establishing and ensuring implementation of the Group's risk management and compliance strategy, policies, and systems. The Committee ensures that the Group's exposure to ESG Risk is within the Risk Appetite set by the Board. This requires the Risk Committee to collaborate and exchange information with the ESG Committee.

Board Credit Committee

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

Management Credit Committee

The Management Credit Committee receives and reviews credit applications and approves credit limits for customers and transactions, within the parameters set by the Board in terms of the credit-related policies and procedures, including the Responsible Lending Policy which covers key ESG risks.

Internal Audit Department

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

Risk Department

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

The Credit Risk Management function, within the Risk Department, is responsible for assessing the ESG-related factors in line with the Bank's policies, including, but not limited to, the Responsible Lending Policy and ensuring compliance with the Bank's Risk Appetite Statement. Specifically, credit request assessments that exceed a certain monetary threshold, or incremental credit requests to a Group of connected accounts whereby the overall credit connection will exceed the threshold, are assessed through a Responsible Lending Policy Matrix that establishes a number of structured and pre-defined criteria that seeks to assess a number of corporate and project attributes in relation to environment, social and governance

[10] Further information on the Risk Committee can be found in the Corporate Governance Report included in the Group's 2024 Annual Report, and the Pillar 3 Disclosures Report.

aspects. ESG metrics also form part of the reputational risk dashboard which is monitored by the Operational Resilience function.

Compliance Department

The Group monitors regulatory developments in the area of Sustainable Finance and undertakes the necessary actions to implement the new requirements. The Group implemented the requirements of the Regulation (EU) 2019/2088 sustainability-related disclosures in the financial services sector (SFDR) by amending the website, prospectuses, and periodical reporting. The Group published a Sustainability Risk Policy[11] for investment activities, which requires the inclusion of sustainability risk in the overall risk management framework.

Disclosures are included in the Annual Report as per Directive 2014/95/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (NFRD) where information is published on environmental matters, social matters, respect for human rights, anti-corruption and bribery, and diversity on company boards.

The Group continuously seeks to enhance the integration of ESG consideration into its risk management framework in line with the latest Banking Package which imposes additional requirements in this regard, apart from existing supervisory work on the area as outlined in the ECB Guideline on climate-related and environmental risks. The Group is aware of the Final report on Guidelines on the management of ESG risks published by the EBA which come into effect in January 2026.

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

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

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

Executive Management

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

The ESG strategy is owned by the Chief Strategy Officer and implemented by a dedicated Sustainability Department. Oversight of the strategy is provided to both the ESG Committee and the Executive Committee. The Chief Strategy Officer heads the Sustainability Department, Strategy and Propositions Department and Culture Department. The Sustainability Department is responsible to formulate and execute the Bank’s ESG strategy across all of its functions and integrate ESG-related factors, where required, within the Bank’s suite of products and services. The role encompasses formulating an ESG and sustainability-led growth business strategy, mapping the delivery of regulatory ESG reporting as well as leading on ESG engagements with both internal and external stakeholders of the Bank. The Sustainability function owns the management of the ESG action tracker. The ESG Tracker monitors the various ESG strategic initiatives implemented across the bank.

[11] Further information on this Policy is included in Section 2.3

The Strategy and Propositions Department is responsible for the integration of ESG, and sustainability related factors where required within the Bank's suite of products and services, and in also enhancing the Bank's green and social product offerings. The Bank's Culture Department manages various Corporate Social Responsibility (CSR) programmes[12] that seek to enhance awareness of Environmental, Social and Governance (ESG) factors among its employees and as part of its business decisions. These programmes are run through the Culture Unit, with dedicated CSR resources acting as central programme coordinators.

8.1.3. Risk Management

The Risk Appetite Statement of the Bank captures and describes the most significant risks to which it is exposed and sets guidance on the types and maximum amount of risk that the Board considers acceptable. It forms an integral part of the Bank's overall Risk Management Framework and contributes to aligning strategy and business objectives with the mission, vision and core values of the Bank. The Bank articulates its risk appetite for ESG risks within its Risk Appetite Statement and this is supported by a Risk Appetite Dashboard which includes ESG-related metrics. The Risk Appetite Statement and Dashboard are supported by an internal escalation and decision-making procedure[13].

Integration of ESG into the Bank's risk framework

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

ESG Risk identification and assessment

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

The Group is committed to incorporate environmental and social risk considerations into all financing activities. It is also committed to identify its customers, exposures, relationships, business, and other activities that may expose it to such risk. While it establishes environmental and social requirements for customers to comply with national laws, regulations, and best practice standards, it also communicates environmental and social expectations to staff, customers, and other external stakeholders. The Group is dedicated to improving the overall environmental and social performance of its portfolio through enhanced risk management and to continually building the ability of staff to identify environmental and social risks. The Group proactively manages a portfolio of lending which are designated as Social Loans and in 2024 expanded its social product suite with 'Loan Up'.

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

The Responsible Lending Policy sets out, in a clear and transparent manner, the assessment criteria to be used when evaluating lending proposals from an ESG perspective. In line with the mentioned Policy, the evaluation of proposals using

[12] Further information on the Group's CSR Programme is included in the 2024 Annual Report available on the Bank's website.

[13] Further information on the reporting of the Dashboard and the internal escalation process is included in Section 2.

ESG assessment criteria has the ultimate objective of grading a borrower and its financing proposal against pre-determined environmental, social and governance sustainability criteria and metrics. Each of these criteria is assessed during the loan proposal stage, before a report of this grading is passed on to the Credit Risk Management function, for an independent review in line with the Bank's policies, risk appetite, and other credit-related procedures. Environment criteria include climate change considerations, such as pollution and impact on biodiversity. For social sustainability, factors such as health and safety and diversity policies are considered, whereas governance criteria consider board and management composition and governance policies.

The Syndications and Trade Finance book consists of syndicated loans and risk participation transactions involving acquisitions, project finance, financial institutions, sovereign risks, commodities, shipment financing and other trade finance products. When a potential opportunity is identified, the Syndications and Trade Finance Unit analyses whether the opportunity meets the Bank's risk appetite and, if in the affirmative, the Unit carries out research and analysis on ESG-related aspects by referring to reports published by external credit rating agencies.

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

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

The Treasury bond book is mainly composed of high-quality government and supranational bonds and to a lesser extent investment grade corporate bonds. Before bonds are purchased, the Treasury Unit reviews research reports published by external credit rating agencies to get a better understanding not only on the financial aspect of the government or company but also with respect to their ESG criteria. In line with the Bank's risk appetite and Treasury & Market Risk Policy, the Treasury Unit takes a conservative stance with respect to the Treasury bond book, hence market and liquidity risk are mitigated as the exposure to issuers with a low ESG score is heavily curtailed.

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

The Group adopted a Sustainability Risk Policy for investment services which builds on the Bak's values and Business Plan and spells out the integration of sustainability risks in investment decision making. The Group integrates sustainability risks in investment decision making by taking stock of ESG factors (e.g. climate change, health protection, sustainability management by the board) and identifies sustainability risks emanating from ESG. Furthermore, the Group has policies in place to screen investments in sectors and industries which are involved in the production of controversial items.

The Bank as Advisor of financial products takes into account the information which manufacturers of these products are required to disclose. This includes, how they integrate ESG risks into their investment decision making processes and the likely impacts on the financial products' returns. The Bank's Investment Distribution Unit engages with manufacturers of financial products to comprehend how they undertake the integration of the above. Furthermore, information provided by these manufacturers, as defined - environmental, social and employee matters, respect for human rights, anti-corruption matters, and anti-bribery, are integrated in the financial advice provided.

In terms of market risk, given that on a portfolio basis, exposure to companies with a low ESG score is minimal, if any at all, the market risk of the Treasury portfolio, include ESG considerations, is deemed minimal. In terms of liquidity risk, this is assessed as the possibility of incurring material withdrawals of Bank deposits due to the reputational damage sustained in view of a material exposure to bonds that are negatively impacted by events linked to ESG criteria. In view of the conservativeness of the portfolio this risk is considered minimal. The Treasury & Market Risk Policy was last approved in 1H 2024 and includes a dedicated section on ESG.

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

The Bank has in place an Environmental & Social Management Systems (ESMS) Policy. The ESMS Policy aims to ensure compliance with relevant regulatory requirements, including best practice Exclusion Lists and Standards to actualise environmental and social directives, laws and regulations. The Policy aims to continually improve and monitor environmental performance and reduce environmental impacts. While it incorporates environmental factors into business decisions, it also increases employee awareness and training.

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

The Sustainability Risk Policy of the Group outlines its approach to sustainability within its risk management framework. It applies as standard to all investments and advice in financial products provided by the Group. This ensures that the sustainability risk profile of the Group is fully aligned with its risk appetite, whilst providing a clear rationale for investment decisions taken.

The Group's operational risk management framework and governance are fully integrated into the Group's Operational Resilience Framework. The Policy sets forth a framework for the identification, management, monitoring and reporting on the Group's exposure to this risk. This Policy was reviewed in 2023, with ESG-related matters being one of the eight reputational risk dimensions applied to quantity reputation risk under the Operational Resilience Framework.

As highlighted above, ESG is one of the reputational dimensions considered in the Reputational Risk Management Matrix as part of the Reputational Risk Policy. Integrated ESG strategy is an integral part of the Group's annual Business Planning process. The Group defines clear objectives and key actions that will get it to net zero over the long-term while continuously developing further its suite of ESG products and services through appropriate customers and market research, and intelligence on regulatory and governmental framework.

As part of its ICAAP, the Bank implemented a materiality assessment to enhance its identification and measurement of climate and other environmental risks. This assessment complements the other identification, measurement and reporting measures (explained in this section) and assesses the potential impact of physical risk on the Bank through its credit risk models, given that credit risk is its largest exposure, and operational risk. Going forward, this assessment will include liquidity risk and market risk. The assessment aims to analyse the potential impact on the Bank over different time horizons, namely the short-, medium- and long-term. The output of this assessment leads to the determination of the adequate capital to cover the nature and level of climate and other environmental risks. A similar assessment will be carried out on transition risk in the future.

ESG Risk monitoring and reporting

The Risk Department monitors and reports the Bank's sectorial exposure periodically and benchmarks this to ESG-related ratings issued by external credit rating agencies. Local exposures within the lending portfolio are categorised according to the CO_2 emitted by each sector of economic activity in producing one unit of Gross Value Added (GVA).

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

The Bank performs an internal adequacy assessment on the Bank's capital and liquidity positions, with the results being reported in the Bank's Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) documents. These processes include an assessment of the Bank's exposure to ESG risk and the management thereof, to ensure that the risk is managed within the Bank's risk appetite and that the Bank's capital adequately covers its exposure to such risk. As part of the ICAAP and ILAAP document, the Bank includes a tailored and in-depth review of the potential vulnerabilities resulting from transition risk through stress testing, as mandated by ECB Guidelines[14]. Through this stress scenario the Bank understands and monitors its resilience in the context of stressed macro-economic and financial conditions. The assessment is performed in line with the climate-related adverse scenario published by the Central Bank of Malta[15]. This scenario is tailored to the characteristics of Malta as a small open economy being subject to transition risks because of the assumed international efforts to phase-out fossil fuel. It is developed on the basis of both quantitative and qualitative analysis and consideration is also given to the changing external and internal conditions and supervisory expectations. This climate-related adverse scenario is assumed to be triggered by the introduction of a carbon tax by all countries against the use of all non-renewable energy sources. The scenario then assesses the effect of an increase in oil prices on the domestic economy in the medium-term, which in turn result in a slowdown in GDP growth, higher inflation and increased unemployment. This added inflation adversely affects both households' ability to consume and companies' cost of production, leading to a consequent rise in non-performing loans. Transition risk is also assumed to manifest itself through an increase in risk weights for loans to companies operating in sectors associated with high CO_2 emissions. It is further assumed that banks face valuation losses on bonds and equities as a result of carbon intensive activities. The Bank assesses the impact of these climate-related shocks on its capital, liquidity, profitability, asset quality and interest rate risk metrics. The Bank is mainly impacted through its capital and profitability ratios; however, the capital ratios remain above the Total SREP Capital Requirement. Moreover, the results of the Bank compare well with those of other core domestic banks, as per the CBM's own estimates.

The templates[16] below show the Bank's sectorial exposures analysed from a transition risk and physical risk perspective, respectively.

Template 1 distinguishes between those sectors which are considered to contribute highly to climate change and sectors which are not considered to contribute highly to climate change. Exposures to sectors considered to contribute highly to climate change are further classified into sub-sectors, where applicable, and represent 19.2% (Dec-24: 22.1%) of the Bank's total exposure within its lending and investments portfolios. The largest exposure stems through the 'Real estate activities' sector, followed by the 'Accommodation and food services' sector. These exposures were further assessed to identify those exposures towards companies excluded from the EU Paris-aligned Benchmarks[17] 0.7% (Dec-24: 2.1%) in accordance with the below criteria and based on expert judgement:

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

Template 5 identifies those exposures sensitive to impact from climate change physical events. Exposures were further assessed to identify impact from chronic and acute climate change events. Chronic climate change events include hazards

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

[15] FSR-2021.pdf (centralbankmalta.org)

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

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

relating to gradual changes in weather and climate and having a possible impact on economic output and productivity, while Acute climate change events includes hazards that may cause sudden damage to properties, disruption of supply chains, depreciation of assets as well as result in operational downtime and lost manufacturing for fixed assets. For the purposes of this analysis reference was made to sources referred in the EBA guidelines to classify each Local Administrative Unit[18] into whether it is subject to chronic climate change events, acute climate change events or both. The Bank's largest exposure is through loans collateralised by residential immovable property, which carry a weighted average maturity of more than 26 years, followed by loans collateralised by commercial immovable property, with a weighted average maturity of 12 years.

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

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

	Gross carrying amount (Mln EUR)					Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR)			GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)						
		Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation	Of which environm e-ntally sustaina ble	Of which stage 2 exposu res	Of which non-performi ng exposure s		Of which stage 2 exposu res	Of which non-perfor ming exposu res		Of which Scope 3 finance d emissio ns	<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Avera ge weig hted matur ity
Exposures towards sectors that highly contribute to climate change*	750.67	4.59	10.30	47.11	35.79	(13.60)	(0.57)	(12.55)	-	-	220.74	150.55	273.28	106.10	-
A - Agriculture, forestry and fishing	58.80	-	-	0.18	0.09	(0.11)	(0.02)	(0.00)	-	-	11.12	1.92	2.03	43.73	16
B - Mining and quarrying	2.50	-	-	-	-	(0.01)	-	-	-	-	2.50				5
C - Manufacturing	90.39	2.00	8.37	15.51	8.53	(0.91)	(0.11)	(0.56)	-	-	66.65	12.43	2.27	9.04	5
C.10, 11, 12 - Manufacture of food products, Beverages and Tobacco	13.87	-	-	-	0.02	(0.20)	-	(0.02)	-	-	11.37	1.01	0.76	0.73	5
C.13, 14, 15 - Manufacture of Textiles, apparel, leather and related products	0.02	-	-	-	-	(0.00)	-	-	-	-	0.00	0.02	0.00	0.00	7

C.16, 17, 18 - Manufacture of Wood, paper products, and printing	0.43	-	-	-	-	(0.00)	-	-	-	-	0.08	0.13	0.00	0.22	13
C.19, 20, 21 - Manufacture of Coke products, refined petroleum products, chemical products, pharmaceuticals, medicinal chemical and botanical products	0.00	-	-	-	-	(0.00)	-	-	-	-	0.00	0.00	0.00	0.00	-
C.22, 23, 24, 25 - Manufacture of Rubber and plastics products, other non-metallic mineral products, basic metals and fabricated metal products, except machinery and equipment	29.54	2.00	-	0.25	4.45	(0.12)	-	(0.09)	-	-	10.31	11.24	0.88	7.11	9
C.26, 27 - Manufacture of Computer, electronic, optical and electrical equipment	10.68	-	4.50	5.49	-	(0.05)	(0.03)	-	-	-	10.11	0.00	0.00	0.57	4
C.28 - Manufacture of machinery and equipment n.e.c.	8.62	-	-	1.52	-	(0.04)	(0.03)	-	-	-	8.62	0.00	0.00	0.00	3
C.29, 30 - Manufacture of Motor vehicles and transport equipment	14.49	-	3.87	8.06	0.14	(0.08)	(0.01)	(0.07)	-	-	14.42	0.00	0.00	0.07	1
C.31 - Manufacture of furniture	0.48	-	-	0.19	-	(0.04)	(0.04)	-	-	-	0.29	0.03	0.00	0.16	8
C.32 - Other manufacturing	12.26	-	-	-	3.92	(0.38)	-	(0.38)	-	-	11.45	0.00	0.63	0.18	2
C.33 - Repair and installation of machinery and equipment	0.00	-	-	-	-	(0.00)	-	-	-	-	0.00	0.00	0.00	0.00	-
D - Electricity, gas, steam and air conditioning supply	6.44	0.03	-	-	-	(0.01)	-	-	-	-	5.19	0.43	0.60	0.22	4
D35.1 - Electric power generation, transmission, and distribution	6.42	0.03	-	-	-	(0.01)	-	-	-	-	5.17	0.43	0.60	0.22	4
D35.2 - Manufacture of gas; distribution of gaseous fuels through mains	0.02	-	-	-	-	(0.00)	-	-	-	-	0.02	-	-	-	20
E - Water supply; sewerage, waste management and remediation activities	1.93	-	-	-	-	(0.00)	-	-	-	-	0.19	0.00	0.00	1.74	18
F - Construction	106.86	-	-	1.12	8.19	(3.12)	(0.00)	(3.11)	-	-	33.55	15.66	46.04	11.61	10
F.41 - Construction of buildings	75.72	-	-	-	5.81	(3.01)	-	(3.01)	-	-	29.54	14.75	26.74	4.69	9
F.42 - Civil engineering	20.23	-	-	-	-	(0.01)	-		-	-	0.21	0.00	13.68	6.34	18
F.43 - Specialised construction activities	10.91	-	-	1.12	2.38	(0.10)	(0.00)	(0.10)	-	-	3.80	0.91	5.62	0.58	9

G - Wholesale and retail trade; repair of motor vehicles and motorcycles	71.50	1.50	0.01	11.48	1.15	(0.82)	(0.12)	(0.63)	-	-	12.66	10.53	18.10	30.21	14
H - Transportation and storage	27.57	-	1.92	0.14	-	(0.03)	(0.00)	-	-	-	11.45	7.76	8.18	0.18	7
H.49, 50, 51 - Transport via land, pipelines, water and air	11.67	-	1.92	0.14	-	(0.00)	(0.00)	-	-	-	5.98	2.65	3.02	0.02	6
H.52 - Warehousing and support activities for transportation	15.90	-	-	-	-	(0.03)	-	-	-	-	5.47	5.11	5.16	0.16	8
I - Accommodation and food service activities	138.57	-	-	5.36	0.00	(0.00)	(0.00)	(0.00)	-	-	8.87	46.79	81.84	1.07	12
L - Real estate activities	246.11	1.06	-	13.32	17.83	(8.59)	(0.32)	(8.25)	-	-	68.56	55.03	114.22	8.30	10
Exposures towards sectors other than those that highly contribute to climate change:	3104.18	0.71	1.45	24.78	12.54	(6.52)	(0.50)	(4.94)	-	-	366.42	374.87	497.90	1864.99	21
K - Financial and insurance activities	360.30	0.71	-	2.21	0.00	(0.31)	(0.00)	(0.00)	-	-	119.51	57.27	41.28	142.24	10
Exposures to other sectors (NACE codes J, M - U)	2804.39	-	1.45	22.57	12.54	(6.21)	(0.50)	(4.94)	-	-	246.91	317.60	456.62	1783.26	22
TOTAL	3915.36	5.30	11.75	71.89	48.33	(20.12)	(1.07)	(17.49)	-	-	587.16	525.42	771.18	2031.61	21

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

	Gross carrying amount (Mln EUR)													
		of which exposures sensitive to impact from climate change physical events												
		Breakdown by maturity bucket					of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events	Of which Stage 2 exposures	Of which non-performing exposures	Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		
		<= 5 years	> 5 year <= 10 years	> 10 year <= 20 years	> 20 years	Average weighted maturity							of which Stage 2 exposures	Of which non-performing exposures
A - Agriculture, forestry and fishing	58.81	11.13	1.92	2.03	43.73	16	-	41.45	10.89	0.18	0.09	(0.11)	(0.02)	(0.00)
B - Mining and quarrying	2.50	2.50	0.00	0.00	0.00	5	-	0.00	-	-	-	(0.01)		
C - Manufacturing	90.39	66.64	12.43	2.27	9.04	5	-	28.46	0.80	15.51	8.53	(0.91)	(0.11)	(0.56)
D - Electricity, gas, steam and air conditioning supply	6.43	5.18	0.43	0.60	0.22	4	-	0.27	0.00	-	-	(0.01)	-	-
E - Water supply; sewerage, waste management and remediation activities	1.93	0.19	0.00	0.00	1.74	18	-	1.85	0.09	-	-	(0.00)		--
F - Construction	106.86	33.55	15.66	46.04	11.61	10	-	92.49	13.35	1.12	8.19	(3.12)	(0.00)	(3.11)
G - Wholesale and retail trade; repair of motor vehicles and motorcycles	71.49	12.65	10.53	18.10	30.21	14	-	51.34	7.18	11.48	1.15	(0.82)	(0.12)	(0.63)
H - Transportation and storage	27.57	11.45	7.76	8.18	0.18	7	-	20.20	1.46	0.14	-	(0.03)	(0.00)	-
L - Real estate activities	246.11	68.83	55.03	114.22	8.30	10	-	180.01	41.49	13.32	17.83	(8.59)	(0.32)	(8.25)
Loans collateralised by residential immovable property	2,262.66	28.57	55.47	416.22	1,762.40	26	-	1,898.58	364.08	15.37	14.23	(2.91)	(0.08)	(2.46)
Loans collateralised by commercial immovable property	694.29	104.22	183.05	311.38	95.64	12	-	608.94	85.35	15.57	14.23	(0.80)	(0.05)	(0.79)
Repossessed collaterals	3.10	-	-	-	-	-	-	3.10	-	-	-	-	-	-

Template 2 below shows the Gross carrying amount of loans collateralised with commercial and residential immovable property and of repossessed real estate collaterals grouped by the level of energy efficiency of the collaterals. The energy efficiency is measured in terms of kWh/m² energy consumption and in terms of the label of the Energy Performance Certificate (EPC) of the collateral. The level of energy efficiency by EPC label of collateral is aligned with the Bank's Green home loan.

EPCs are defined as a certificate recognised by a Member State or by a legal person designated by it, which indicates the energy performance of a building or building unit, calculated according to a methodology adopted in accordance with the Energy Performance of Buildings Directive (EPBD). For loans collateralised by residential immovable property customers are required to obtain an EPC. This became mandatory as from 2009. This means that the Bank does not have an EPC for more than half of its residential real estate collateral and the majority of its commercial real estate collateral. The banking sector is faced with the challenging task to obtain data relating to EPCs. The Bank is currently working together with the banking industry to address data gaps in this area.

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

	Total gross carrying amount (Mln EUR)															
		Level of energy efficiency (EP score in kWh/m² of collateral)						Level of energy efficiency (EPC label of collateral)							Without EPC label of collateral	
		0; <= 100	> 100; <= 200	> 200; <= 300	> 300; <= 400	> 400; <= 500	> 500	A	B	C	D	E	F	G		Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated
Total EU area	**2,960.05**	**412.96**	**491.28**	**80.60**	**0.00**	**0.00**	**0.00**	**36.07**	**63.89**	**204.86**	**330.73**	**199.33**	**104.71**	**45.25**	**1,975.21**	**0%**
Of which Loans collateralised by commercial immovable property	694.29	2.12	2.45	0.12	-	-	-	0.09	0.77	1.00	1.83	0.78	0.22		689.60	0%
Of which Loans collateralised by residential immovable property	2,262.66	410.84	488.83	80.48	-	-	-	35.98	63.12	203.86	328.90	198.55	104.49	45.25	1,282.51	0%
Of which Collateral obtained by taking possession: residential and commercial immovable properties	3.10	-	-	-	-	-	-	-	-	-	-	-	-	-	3.10	0%
Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

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

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

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

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

The Group is continuously upgrading and refining its management information systems, with significant investments budgeted in the 2026-2028 Business Plan for enhanced transparency and disclosures, operational emission reduction pathways which are required to be developed as well as further training across the groups frontlines.

ESG products, services and initiatives

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

Green Deposit Product

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

APS Green Home Loan

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

APS Green Finance

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

APS Loan Up

In 2024 APS Bank and The Foundation for Affordable Housing launched LoanUp, an innovative product offering enhanced borrowing rates and favourable terms, marking a significant step towards making homeownership more attainable. Preferential terms are extended to applicants with lower incomes, dependents, and those seeking shorter loan terms.

ECO-Loan

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

Malta Sustainability Forum

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

APS Talks on Sustainability

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

Other Initiatives

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

8.2. Social Risk

8.2.1. Business Strategy and Processes

The Bank can be both impacted by and have an impact on social factors through lending to counterparties and its investments in assets. The economic and financial activities of counterparties or invested assets may be subject to the negative impact of social factors, such as breaches of human rights, demographic change, digitalisation, health or working conditions, which might affect the value and risk profile of such activities and in turn translate into a financial impact on the Bank. Simultaneously, the economic and financial activities of counterparties or invested assets can have a negative impact on environmental and social factors, which could in turn translate into a direct financial impact on the institution or affect it through reputational, litigation or business model risks.

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

Group proactively manages a portfolio of lending which are designated as Social Loans and in 2024 expanded its social product suite with 'Loan Up'. In addition, a methodology is currently being developed on broader social risks as set out within the European Sustainability Reporting Standards (ESRS) namely ESRS chapters S1, S2, S3 and S4 in order to understand the extent of the bank's impacts and risks.

INITIATIVES AND POLICIES TO MANAGE SOCIAL RISK

Community Relations

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

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

Trade Unions

The Bank recognises the Malta Union of Bank Employees (MUBE) as the sole and exclusive bargaining agency for the managerial, clerical and non-clerical categories of employees. The Bank's relationship with the MUBE has been productive throughout the years, with ongoing communication between both parties on various topical matters. The Bank has a current Collective Agreement which covers a period of three years 2023 – 2025.

Consumer Relationships

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

The Bank continues to devote increasing attention and resource towards ensuring that its customers feel comfortable and confident in engaging with the Bank through several physical and virtual interactive spaces. Moreover, the Bank recently organised a two-day workshop focused on equipping its teams with the knowledge and skills to better support vulnerable customers.

Significant investment has gone into upgrading the Bank's network of Retail branches, making them more modern in design and experience for its customers and colleagues alike. Branches are now being equipped with improved office spaces and furniture, modern waiting and meeting areas, as well as interactive digital display monitors that are available for customers to use.

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

Employee Matters

The Bank's people strategy continues to be aimed at being the 'Employer of Choice' through maintaining an Employee Value Proposition (EVP) that encompasses a unique set of benefits and values in return for the skills, capabilities and experience of our people. A strong EVP is crucial for attracting, engaging, and retaining top talent. The Bank continued to attract and retain the best talent. Employee churn rate for FY2024 increased to 10.5% when compared to 7.6% for the previous year. However, the churn rate remained within an average of 11% experienced over the last five years. Vacant positions continued to attract a good number of applications having the qualifications, skills, competencies, and experience required.

A strong EVP not only attracts top talent but also keeps employees motivated and engaged. Being the 'Employer of Choice' means ensuring that all employees are supported in achieving their full potential supported by a competitive remuneration package, that includes fixed and variable remuneration. The remuneration package includes an occupational pension plan with fixed monthly contributions made by the Bank to all employees employed for more than two years. Being the Employer of Choice is achieved through a strong people policy framework and the ongoing support and investment in the development of employees' skills, knowledge and competencies required to meet todays and future needs. This strong investment in development is coupled with opportunities for career development and growth.

The People Policy Framework encompasses polices on diversity, equity and inclusion, health and wellbeing, preventative medical care, subsidised sports activities, zero-tolerance to bullying, harassment and discrimination, performance development, succession planning, work-life blend and employee screening. By integrating these elements, the Bank further strengthens its EVP and continues to be an attractive employer with a highly engaged workforce. At the end of Q1 2024 out of 89% of employees that responded to an Employee Engagement Survey 87% would recommend APS Bank plc as a great place to work, whilst 92% responded that they were proud to work for APS Bank plc.

Diversity, Equity and Inclusion (DEI) Policy

The DEI policy continued to support the Bank in fostering, cultivating, and preserving a culture of diversity, equity and inclusion amongst all employees. Its aim is to create an inclusive environment that respects the dignity and diversity of all its people, in line with the Bank's Values. Throughout an employee's life cycle – attraction, recruitment, onboarding, development, retention, and separation – the Bank works hard to give every person an equitable opportunity to grow and to thrive. The Bank's employee complement increasingly comprises of a diverse array of people from different backgrounds, cultures, ages, genders and experiences, employed in various disciplines, specialisations and roles and a good gender balance.

Fostering a diverse and inclusive workplace where all employees feel respected and valued enhances engagement and innovation. In Q4 2024, 89% of employees responding to a DEI survey agree and strongly agree that the Bank values diversity and 86% that the Bank builds teams that are diverse.

Health and Wellbeing

During 2024, the Bank continued to support the mental, physical and social wellness of its employees. The Bank prioritises employee well-being by offering health benefits, promoting work-life balance, and creating a supportive work environment. The Bank provides a health insurance scheme to all employees and provides for regular preventive health checkups, has an on-premises gym and active sport and social committees. In Q1 2024 94% of employees agreed and strongly agreed that their manager genuinely cares for their wellbeing.

In addition, the Bank has an Employee Assistance Programme (EAP), which is continually enhanced to support the mental wellbeing of its employees. The EAP offers confidential counselling, guidance and support to assist employees resolve work, family and personal issues.

Moreover, the Bank's Provident Fund, with contributions made by both the Bank and its employees supports employees in situations that may create challenges in the living or wellbeing standards of employees and their close dependents. The Fund has the objectives of supporting staff:

a) in the course of a long-term illness or condition that may significantly impair the individual's way of life;
b) following the demise of the staff member or a close dependant;
c) in the provision of material items, or to finance the full or partial purchase thereof, required in cases of changed personal circumstances, including illness, disability, accident and similar;
d) in the provision of financial assistance for situations that may create challenges in the living or wellbeing standards of the staff member; and
e) in any other situation or circumstance which the Committee may feel is deserved of assistance in accordance with the values of the Bank and the scope of the Fund.

Preventive Medical Care and Sports Activity Policy

Every three years each employee has the option of attending a preventive medical examination/check-up according to their age. This policy complements other wellbeing initiatives organised by the Bank to promote the physical, mental and social health and wellbeing of its employees to achieve their full potential and live a healthy and active lifestyle. The Bank also subsidises sports activities for its employees besides having a gym on its premises.

Zero-tolerance Policy

The Bank is committed to maintaining a respectful and inclusive workplace. It maintains zero-tolerance to cases of bullying, harassment and unlawful discrimination and supports a workplace that promotes a dignified working environment and harmonious relations among its employees based on respect, understanding and appreciation. As in FY2023 there were no reported cases of bullying, harassment or discrimination in FY2024.

Performance Development

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

Succession Planning

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

Remote Working and Flexibility

To support the work-life balance of its employees, the Bank offers flexible working hours, reduced working schedules and remote working options. These initiatives have been made possible through investments in systems and solutions that allow for remote working and access to a wider talent pool.

Employee Screening

By incorporating thorough screening processes, the Bank makes informed hiring decisions to create a safer, more productive work environment. Employee screening presents a critical opportunity to ensure prospective and existing employees are aligned with its desired corporate culture, embrace its values and are 'fit and proper' to discharge their duties and responsibilities.

The Bank uses various tools for screening its employees as part of its due diligence process. Employees are also expected to abide with other policies including its Code of Ethics and other regulatory policies and guidelines.

Training and Career Development

The Bank is committed to foster a culture of continuous learning and development for all its employees. A substantial budget is approved for investment in training annually, offering a comprehensive range of training and career development opportunities, that supports the continuous development of skills and competencies. This has a positive impact on employees' morale and motivation, employees' performance and career development, ultimately leading to the Bank's growth.

These programmes include various inhouse training sessions, coaching and mentoring, international travelling, business travelling, conferences and seminars, professional training grants schemes, an effective employee onboarding programme, future banker programme, eLearning courses and external training courses.

A Competency framework has also been developed, outlining the required competencies for all job positions across the Bank. This framework will enhance the recruitment process and the identification of individual personalised training needs, improving performance management by clearly defining expectations across all roles. Having this framework in place will ensure employees are skilled in their current roles and prepare them for future career advancement.

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

8.2.2. Governance

The roles and responsibilities of the Board and Senior Management in relation to the management of ESG risks are explained in detail in Section 8.1.2. In addition to environmental considerations, the ESG Committee focuses on the social aspect. The Committee oversees the implementation of social sustainability initiatives and commitments to ensure their effectiveness in delivering social impact. It oversees the reputational impacts of the Group's business strategies and practices, monitors policies and initiatives to ensure appropriate safeguards are in place for dealing fairly and ethically with third party stakeholders.

The Remuneration Policy

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

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

The Responsible Lending Policy

As mentioned in Section 8.1.4, the Bank has in place a Responsible Lending Policy. The Policy sets out, in a clear and transparent manner, the assessment criteria to be used when evaluating lending proposals from an ESG perspective. In line with the mentioned Policy, the evaluation of proposals using ESG assessment criteria has the ultimate objective of grading a borrower and its financing proposal against pre-determined environmental, social and governance sustainability criteria and metrics. The criteria for social impact assessment include health and safety policies, diversity in management and staffing levels and labour issues. Social factors are taken into consideration when assessing syndicated loans and risk participation transactions.

8.2.3. Risk Management

As mentioned in Section 8.1.3, the Bank has in place an Environmental & Social Management Systems (ESMS) Policy. This Policy prohibits business relationships with customers engaged in, inter alia, activities involving harmful or exploitative forms of forced labour/harmful child labour, discriminatory practices, or practices which prevent employees from lawfully exercising their rights of association and collective bargaining; the production or trade in weapons and munitions; and he production or trade in radioactive materials, business or activities related to the nuclear industry or nuclear materials.

As highlighted above, ESG is one of the reputational dimensions considered in the Reputational Risk Management Matrix as part of the Reputational Risk Policy. The dashboard includes metrics pertaining to staff turnover, employee engagement and payments received from/remitted to high-risk jurisdictions. Further information on how the Bank integrates both environmental and social factors into its risk management framework is provided in Section 8.1.3. The Bank plans to enhance the integration of social risk into its risk management framework in the future.

8.3. Governance Risk

Governance factors[19] are defined as governance matters that may have a positive or negative impact on the financial position or solvency of an entity, sovereign or individual. In the context of ESG, this refers to factors that can have an impact on, or are impacted by, institutions' counterparties or investment assets, including governance arrangements for the environmental and social factors in counterparty policies and procedures. Examples of governance factors include executive leadership, executive pay, tax avoidance, and corruption and bribery.

The Board is committed to the well-being of the Bank by instilling robust corporate governance principles, sound management and general supervision of its affairs. The Board plays a salient role in setting the strategy of the Bank by providing leadership, integrity and judgement, upholding the highest standards of corporate governance. In terms of the Companies Act, Directors are required to promote the success of the Bank for the benefit of all shareholders, taking into account other key stakeholders. So as to progress the strategy and achieve long-term sustainable success, the Board must consider all relevant stakeholders in their decisions and ensure that any decision upholds the Bank's culture of 'collaboration, inclusivity, and purpose-driven strategy. This includes having frameworks in place to oversee and manage the Bank's exposures through its counterparties.

The Bank is environmentally, socially and ethically responsible. It has a positive influence on the community and supports good causes. Nevertheless, there is the risk that transactions carried out or a business relationship poses an environmental, social or ethical risk, and there is the risk of failure to consider emerging ESG issues. The impact would be the negative image and brand impairment which result in a competitor advantage. This risk is recognised and managed through the Reputational Risk Policy, in conjunction with a number of other policies, including the Anti-Bribery and Anti-Corruption Policy, Anti-Money Laundering and Combatting the Funding of Terrorism Policy, Sanctions Policy, Customer Due Diligence Principles and Third Party Providers (TPP) Policy and Procedures.

Consistent with its risk appetite, the Bank is fully committed to compliance with the salient legislative provisions aimed at the prevention of money laundering and funding of terrorism. In line with the Prevention of Money Laundering and Funding of Terrorism Regulation ("PMLFTR") and the FIAU Implementing Procedures, the Bank has developed a Customer Acceptance Policy that establishes procedures to manage the money laundering and terrorist financing risks posed by customers,

[19] As defined in the EBA Report on Management and Supervision of ESG Risks fort Credit Institutions and Investment Firms EBA/REP/2021/18

products and services. This Policy outlines measures for the on boarding of new customers as well as ongoing monitoring of existing customers.

As mentioned above, under the Responsible Lending Policy proposals are evaluated using ESG assessment criteria with the ultimate objective of grading a borrower and its financing proposal against pre-determined environmental, social and governance sustainability criteria and metrics. The criteria for the governance impact assessment include Board composition and independence, governance policies in place and due diligence processes.

Annex 1: Qualitative Disclosures[20]

	Pillar 3 Report Section
EU LIQB: Qualitative information on LCR, which complements template EU LIQ1	7. Liquidity and Funding
Table 1 - Qualitative information on Environmental risk	8.1 Environmental Risk
Table 2 - Qualitative information on Social risk	8.2 Social Risk
Table 3 - Qualitative information on Governance risk	8.3 Governance Risk

[20] Applicable either on a quarterly or semi-annual basis. The frequency of ESG qualitative disclosures is being updated to annual, in line with the Consultation paper on 'ITS on disclosures on ESG risks, equity exposures and the aggregate exposure to shadow banking entities'.

Annex 2: Non-Applicable Disclosures

Template	**Reason for non-disclosure**
EU CMS1 - Comparison of modelled and standardised risk weighted exposure amounts at risk level	The Bank does not use internal models to derive the RWAs
EU CMS2 - Comparison of modelled and standardised risk weighted exposure amounts	The Bank does not use internal models to derive the RWAs
EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range	The Bank does not utilise the IRB approach
EU CR7 – IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques	The Bank does not utilise the IRB approach
EU CR8 – RWEA flow statements of credit risk exposures under the IRB approach	The Bank does not utilise the IRB approach
EU CR10 – Specialised lending and equity exposures under the simple risk weighted approach	The Bank does not perform any specialised lending
EU CCR1 – Analysis of CCR exposure by approach	The Bank is not exposed to Counterparty Credit Risk
EU CCR4 – IRB approach – CCR exposures by exposure class and PD scale	The Bank is not exposed to Counterparty Credit Risk
EU CCR5 – Composition of collateral for CCR exposures	The Bank is not exposed to Counterparty Credit Risk
EU CCR6 – Credit derivatives exposures	The Bank is not exposed to Counterparty Credit Risk
EU CCR7 – RWEA flow statements of CCR exposures under the IMM	The Bank is not exposed to Counterparty Credit Risk
EU CCR8 – Exposures to CCPs	The Bank is not exposed to Counterparty Credit Risk
EU TLAC1 - Composition - MREL and, where applicable, G-SII requirement for own funds and eligible liabilities	The Bank is not a G-SII or an entity being part of a G-SII
EU ILAC - Internal loss absorbing capacity: internal MREL and, where applicable, requirement for own funds and eligible liabilities for non-EU G-SIIs	The Bank is not a G-SII or an entity being part of a G-SII
EU TLAC2a - Creditor ranking - Entity that is not a resolution entity	APS Bank is a resolution entity
EU TLAC3a - creditor ranking - resolution entity	The Bank is not a G-SII or an entity being part of a G-SII
EU MR1 - Market risk under the standardised approach	The Bank does not utilise the IMA Approach
EU MR2-A - Market risk under the internal Model Approach (IMA)	The Bank does not utilise the IMA Approach

EU MR2-B - RWA flow statements of market risk exposures under the IMA	The Bank does not utilise the IMA Approach
EU MR3 - IMA values for trading portfolios	The Bank does not utilise the IMA Approach
EU MR4 - Comparison of VaR estimates with gains/losses	The Bank does not utilise the IMA Approach
EU-SEC1 - Securitisation exposures in the non-trading book	The Bank does not perform any securitisation
EU-SEC2 - Securitisation exposures in the trading book	The Bank does not perform any securitisation
EU-SEC3 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor	The Bank does not perform any securitisation
EU-SEC4 - Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor	The Bank does not perform any securitisation
EU-SEC5 - Exposures securitised by the institution - Exposures in default and specific credit risk adjustments	The Bank does not perform any securitisation
Template 3: Banking book - Climate change transition risk: Alignment metrics	The Bank is working on this and will provide updates in the future
Template 4: Banking book - Climate change transition risk: Exposures to top 20 carbon-intensive firms	The Bank does not hold any exposure relating to the top 20 Carbon-intensive firms
Template 6 - Summary of GAR KPIs	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 7 - Mitigating actions: Assets for the calculation of GAR	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 8 - GAR	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 9.1 - Mitigating actions: Assets for the calculation of BTAR	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 9.2 - BTAR %	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 9.3 - Summary table - BTAR %	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]
Template 10 - Other climate change mitigating actions that are not covered in the EU Taxonomy	The Bank avails itself from a temporary suspension in disclosure as per EBA No action letter[21]

[21] https://www.eba.europa.eu/publications-and-media/press-releases/eba-issues-no-action-letter-application-esg-disclosure-requirements-and-updates-eba-esg-risks