SPARKASSE
Bank Malta plc

2023
Pillar 3
Disclosures

PRIVATE & CORPORATE BANKING / WEALTH MANAGEMENT / FUND CUSTODY

PILLAR 3 DISCLOSURES

GLOSSARY OF ABBREVIATIONS

- AT1 Additional Tier 1
- CBM Central Bank of Malta
- CCR Counterparty Credit Risk
- CET 1 Common Equity Tier 1
- COI Cost-to-Income
- CRD Capital Requirements Directive
- CRR Capital Requirements Regulation
- CSRBB Credit Spread Risk in the Banking Book
- CVA Credit Valuation Adjustment
- EBA European Banking Authority
- ECAI External Credit Assessment Institution
- ESG Environmental, Social and Corporate Governance
- EVE Economic Value of Equity
- EWI Early Warning Indicator
- FVTOCI Fair Value Through Other Comprehensive Income
- FVTPL Fair Value Through Profit or Loss
- G-SII Globally Systematically Important Institution
- HQLA High Quality Liquid Assets
- ICAAP Internal Capital Adequacy Assessment Process
- ILAAP Internal Liquidity Assessment Process
- INED independent non-executive director
- IRRBB Interest Rate Risk in the Banking Book
- LCR Liquidity Coverage Ratio
- MANCO Management Committee
- MFSA Malta Financial Services Authority
- NED non-executive director
- NSFR Net Stable Funding Ratio
- OEM Original Exposure Method
- O-SII Other Systematically Important Institution
- RAS Risk Appetite Statement
- RI Risk Indicator
- ROE Return on Equity
- RWA Risk Weighted Assets
- SREP Supervisory Review and Evaluation Process
- T2 Tier 2
- TIMCO Treasury and Investment Management Committee

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1. INTRODUCTION

Sparkasse Bank Malta public limited company (the 'Bank'), being a licensed credit institution supervised under Directive 2013/36/EU, is required to comply with the disclosure requirements laid down in Part Eight of CRR[1] (as amended in particular by Regulation (EU) 2019/876 of the European Parliament and the Council of 20 May 2019 amending Regulation (EU) No 575/2013, herein referred to as CRR II or CRR). Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 lays down the implementing technical standards with regards to the disclosures emanating from Part Eight of CRR, including specific templates and tables to be presented (the "ITS").

The Bank is classified as an 'Other Institution' in terms of the CRR. This is because the Bank (and the Group) do not meet the definition of a large institution as defined in Article 2 point (146) of the CRR. In addition, in a communication dated 20 July 2020, the MFSA had confirmed that the Bank should not be classified as a small and non-complex institution. In light of this, the Bank (and the Group) are required to publish the disclosures required under Titles II and III of Part Eight of the CRR in the manner set out in Article 433c CRR, subject to the exceptions for non-material, proprietary or confidential information referred to in Article 432 CRR. As an 'other institution' that is a 'non-listed institution', it has to disclose the following information on an annual basis:[2]

- points (a), (e) and (f) of Article 435(1) CRR and points (a), (b) and (c) of Article 435(2) CRR, regarding risk management objectives and policies;
- point (a) of Article 437 CRR, regarding own funds;
- points (c) and (d) of Article 438 CRR, regarding own funds requirements and risk-weighted exposure amounts;
- the key metrics referred to in Article 447 CRR; and
- points (a) to (d), (h) to (k) of Article 450(1) CRR, regarding remuneration policy.

The Bank is not subject to Article 449a CRRII and corresponding provisions in the ITS (introduced by Commission Implementing Regulation (EU) 2022/2453) regarding the disclosure of environmental, social and governance ('ESG') risks.

The EBA issued the Guidelines amending Guidelines EBA/GL/2018/06 on disclosure of non-performing and forborne exposures (EBA/GL/2022/13) in October 2022. These Guidelines recognised that the reporting requirements in line with Article 433c of the CRR as outlined above, where limiting the disclosures on non-performing and forborne disclosures presented by small and non-complex institutions and other non-listed institutions. This was seen as creating an information asymmetry and limiting the publicly available information, keeping in mind that many small and non-complex and other non-listed institutions tend to have higher than EU average levels of non-performing loans. In light of this, these Guidelines re-introduced the requirement on small and non-complex and other non-listed institutions to disclose information on the credit quality of forborne exposures, the credit quality of performing and non-performing exposures by past due days, the performing and non-performing exposures and related provisions and collateral obtained by taking possession and executions processes.

The Bank is required to comply with the aforementioned disclosure requirements on both an individual and consolidated basis. With respect to the scope of consolidation, the group comprises both the Bank (having 21380099RT73NFBYS559 as its legal entity identifier ('LEI')) and its financial holding company, Sparkasse (Holdings) Malta Limited (having 21380033CFFM2V1ZCK65 as its LEI) (herein referred to as the 'Holding Company' or 'SHM', and together as the 'Group'). Unless otherwise specifically indicated, the disclosures presented are applicable to both the Bank and the Group.

The Bank's Board of Directors has adopted a Pillar 3 Disclosures Policy, which sets out the Bank's policy to comply with the disclosure requirements laid down in Part Eight of the CRR (following the changes introduced by CRRII; commonly referred to as Pillar 3 disclosures) and to establish the principles for internal processes, systems and controls to verify that the Bank's disclosures are appropriate and in compliance with the said requirements. In line with the said policy, this Pillar 3 Disclosures document has been approved by the Board of Directors, following review by the Audit Committee and Risk Committee. This document is not subject to external audit.

This document includes the applicable Pillar 3 disclosures for the Bank and the Group for the reference year ending 31 December 2023. All disclosures are presented in the Bank's functional currency, that is the Euro. All figures presented in this document have been computed in

[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

[2] Article 433c(2) CRR

line with International Financial Reporting Standards ('IFRSs') as adopted by the EU, being the Bank's and the Group's applicable accounting framework.

The table overleaf outlines the Pillar 3 disclosure requirements applicable pursuant to Article 433c (2) CRR, all of which are required to be disclosed annually.

Applicable Article	Description of Disclosure	Illustrative Disclosure	Link to Section for Disclosure
Point (a) of Article 435(1)	The strategies and processes used to manage each category of risk	Selected sections from EU OVA, EU OVB, EU LIQA, EU CRA, EU MRA, EU ORA & EU OR1	Section 2
Point (e) of Article 435(1)	A declaration approved by the management body on the adequacy of the risk management arrangements of the relevant institution providing assurance that the risk management systems put in place are adequate with regard to the institution's risk profile and strategy	Selected sections from EU OVA, EU OVB & EU LIQA	Section 11
Point (f) of Article 435(1)	A concise risk statement approved by the management body succinctly describing the relevant institution's risk profile associated with the business strategy, including: - key ratios and figures providing external stakeholders a comprehensive view of the institution's risk management, including how the risk profile interacts with the risk tolerance - information on intragroup transactions and transactions with related parties which may have a material impact on the risk profile of the consolidated group	Selected sections from EU OVA, EU OVB, EU LIQA & EU CRA	Section 11
Point (a) of Article 435(2)	The number of directorships held by the members of the management body	Selected sections from EU OVA & EU OVB	Section 2.2
Point (b) of Article 435(2)	The recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise	Selected sections from EU OVA & EU OVB	Section 2.2
Point (c) of Article 435(2)	The policy on diversity with regard to the selection of members of the management body, its objectives and any relevant targets, and the extent to which these objectives and targets have been achieved	Selected sections from EU OVA & EU OVB	Section 2.2
Point (a) of Article 437	A full reconciliation of CET1 items, AT1 items and Tier 2 instruments issued by the institution	EU CC1 & EU CC2	Section 4.1
Point (c) of Article 438	Upon demand from the competent authority, the result of the institution's internal capital adequacy assessment process	Selected sections from EU OVC	Not applicable – the Bank did not receive any such demand from the competent authority
Point (d) of Article 438	The total risk weighted exposure amount and the corresponding total own funds requirement, broken down by different risk categories	EU OV1	Section 4.2
Point (c) of Article 442	*Information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance sheet exposures, including their related accumulated impairment, provisions and negative fair values due to credit risk and amounts of collateral and financial guarantees received	EU CQ1; EU CR1; EU CQ7	Section 5 includes template EU CR1. The Bank did not have any forborne exposures nor did it take over any collateral during the year. Therefore templates EU CQ1 and EU CQ7 are not applicable for the Bank.
Point (d) of Article 442	An ageing analysis of accounting past due exposures	EU CQ3	Section 5

Points (a) to (h) Article 447	Disclosure of key metrics	EU KM1	Section 9 includes disclosures of key metrics covering points (a) to (g) of Article 447 Point (h) of Article 447 is not applicable for the Bank since the Bank is neither a G-SII nor a non-EU G-SII
Point (a) of Article 450(1)	Information concerning the decision making process used for determining the remuneration policy, as well as the number of meetings held by the Management body overseeing remuneration during the financial year	Selected sections from EU REMA	Section 10
Point (b) of Article 450(1)	Information about the link between pay and performance	Selected sections from EU REMA	Section 10
Point (c) of Article 450(1)	The most important design characteristics of the remuneration system	Selected sections from EU REMA	Section 10
Point (d) of Article 450(1)	The ratios between fixed and variable remuneration	Selected sections from EU REMA	Section 10
Point (h) of Article 450(1)	Aggregate quantitative information on remuneration	EU REM1; EU REM2 & EU REM3	Section 10
Point (i) of Article 450(1)	The number of individuals that have been remuneration EUR1million or more per financial year	EU REM4	Not applicable – the Bank does not have any individuals who have been remunerated EUR1million or more during the financial year
Point (j) of Article 450(1)	Upon demand from the relevant Member State or competent authority, the total remuneration for each member of the Management body or senior management	Selected sections from EU REMA	Not applicable – no such demand was received by the Bank from the competent authority
Point (k) of Article 450(1)	Information on whether the institution benefits from a derogation laid down in Article 94(3) of Directive 2013/36/EU	Selected sections from EU REMA	Section 10

Despite the Bank only being required to disclose the above, it has decided to make certain additional disclosures on a voluntary basis, in order to provide comprehensive information to the Bank's stakeholders. The following are the disclosures which the Bank opted to include on a voluntary basis:

- EU CCyB2 – Amount of institution-specific countercyclical capital buffer
- EU CCR1 – Analysis of CCR exposures by approach
- EU MR1 – Market Risk under the standardised approach
- EU CCR2 – Transactions subject to own funds requirements for CVA risk
- EU OR1 – Operational risk own funds requirements and risk-weighted exposure amounts
- EU LR2 – LRCom: Leverage ratio common disclosure
- EU LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

2. RISK MANAGEMENT OBJECTIVES AND POLICIES & GOVERNANCE ARRANGEMENTS

Article 435 of CRR requires institutions to disclose their risk management objectives and policies for each separate category of risk, as well as a description of the Bank's governance arrangements. The following section gives an overview of the Bank's risk management approach, followed by risk management objectives and policies for each category of risk.

2.1 OVERARCHING RISK MANAGEMENT APPROACH

2.1.1 Interaction of the Bank's Business Model with Risk Profile

One of the Bank's main business lines is to act as depositary and custodian, servicing a wide variety of companies in the financial services sector. The Bank's customers keep their clients' monies and assets with the Bank, and the nature of these balances is unpredictable. For this reason, the Bank has adopted a policy of keeping very high liquidity balances with the Central Bank of Malta, such that if there are changes in the circumstances of its customers, necessitating rapid withdrawals of cash, this money would be readily available. As such the liquidity risk present in the Bank's operations is lower than that of banks involved in substantial lending activities.

The substantial volume of investment services related transactions and payments processed by the Bank naturally imply that operational risk is a material risk exposure faced by the Bank, together with credit risk, which consumes the largest risk weighted assets ('RWA') allocation to Pillar 1 risks.

The Bank has a conservative risk appetite with respect to credit risk, hence the policy to invest primarily in investment grade securities. The diversification and credit quality in the bond portfolio implies a limited risk of and from default. Impairment in the credit portfolio has been minimal, historically. Appetite for market risk is low and governed by loss limits. As of 31 December 2023 the Bank held only one security accounted for at FVTPL, namely SWIFT shares which the Bank holds pursuant to it being a member of SWIFT, and which will be retained. No other positions were held with trading intent.

Operational risk is monitored closely by the relevant front line departments via logging business volumes and ensuring that flows remain within capacity. A lot of effort also goes into maintaining connectivity to financial markets, sub-custodians, execution venues and reputable counterparties. Such channels are essential for the Bank's business, and a specific network management team monitors and reviews all the Bank's counterparty relationships for the provision of investment services.

2.1.2 Material Transactions within the Group, Affiliated and Related Parties

The Bank does not engage in any material transactions with its parent company (SHM) and any other related parties, and its risk profile is not affected by the parent in any tangible manner. The consolidated Group structure is simple, composed of the Bank itself and its financial holding company, SHM.

2.1.3 Key Risk Ratios and Figures

An outline of operational risk key ratios and metrics is presented below, confirming that Bank's business was carried out within the applicable limits set out in the Risk Appetite Statement ('RAS').

Monthly Statistics	Breaches in 2023?
Payment volume	No
AML flags	No
Settlements execution effort	No
Trade desk execution effort	No
Corporate actions processed	No
Forex forward transactions	No
Quarterly Statistics	
Transfer agent relationships	No
Sub-custodian relationships	No
Brokers and Trading counterparties	No

The above list of metrics is used by the Risk Management Function to monitor that business volumes are within approved RAS limits for key high volume activities. No breaches have been notified to the Board in 2023.

As illustrated in the table below, over 2022 and 2023 the Bank was managed with a sufficient clearance over the key risk limits, as defined by the early warning and risk indicators for its regulatory and other management ratios. In light of the significant increase in the Bank's profits for the current financial year ended 31 December 2023, when compared to the previous financial year, the Bank experienced a material improvement in its profitability ratios, with the return on equity ratio increasing above the early warning indicator and the cost to income ratio decreasing well below the early warning indicator. The higher profit levels generated also contributed to increased own funds for the Bank, translating into higher leverage and capital adequacy ratios when compared to the previous financial year. The Bank also had a healthy excess of its MREL-TREA and MREL-LRE requirements. As stated earlier, the Bank has maintained its conservative asset allocation policy, with liquidity ratios increasing across the board.

Metric	YE 2022	YE 2023	EWI	RI
Leverage ratio	5.0%	6.2%	3.75%	3.3%
Return on Assets	0.4%	1.4%	0.2%	0.0%
Return on Equity	7.9%	20.3%	8.0%	5.0%
Cost to Income ratio	66.2%	39.5%	60.0%	70.0%
Liquid Assets to Total Assets	59.0%	63.2%	50%	40%
LCR	324.6%	344.7%	200%	150%
NSFR	416.7%	423.9%	200%	150%
RWAs as a % of Total Assets	14.9%	16.2%	25%	35%
Capital Adequacy Ratio	34.1%	38.8%	20.0%	17.0%
MREL-TREA	37.8%	44.0%	30.0%	28.0%
MREL-LRE	5.5%	7.0%	5.60%	5.40%

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

The Bank has a preference for not operating at full capacity, both in terms of investment allocation and operational volumes. A degree of flexibility is retained via buffers on key metrics.

The table below summarises the Bank's strategies and processes for managing each key risk exposure:

Primary category of risk	Strategies and processes to manage risk
Credit Risk	- Lending limits by product type for the lending portfolio - Collateral obtained for lending products adjusted for haircuts on each lending facility - Different levels of approvals for the granting of new and renewal of existing credit facilities, including involvement of the Credit Review Committee and Board - Exposure limits by issuer type for the financial assets portfolio - Unrated or Tier 2 instruments limited to 5 million in total and only up to 1 million per issuer - Investing strictly in investment grade securities
IRRBB	- Limiting the duration profile of the securities portfolio, with the Risk Management Function keeping the Board well informed with respect to duration risk and its implications - The Bank measures its exposure to IRRBB using both an economic value of equity and an earnings-based measure - Regular simulations of interest rate shocks and their impact on the investment portfolio notified to the Board
Market Risk	- Position and loss limits for positions with a direct P&L impact - Investing in ETFs for diversified equity exposure (if at all) - Aiming to buy positive yielding bonds, below par
Operational Risk	- Operational business volume limits - Controls by design to outright avoid certain risks - Insurance coverage on various aspects of the Bank's business
Profitability Risk	- Diversifying Malta revenue streams by operating a branch in Ireland - The Bank is also planning to launch Discretionary Portfolio Management in 2024 subject to obtaining the necessary MFSA licence
Climate and Environmental Related Risk	- Minimal involvement in financing (or even banking) companies which directly cause substantial pollution - Minimal amount of customers engaged in activities which expose them to disruption from extreme climate events - No collaterals held in the form of immovable property or farmland which is exposed to risks from fires, draught, earthquakes, and other climate & environmental risks
Liquidity Risk	- Maintaining high levels of liquidity, including significant balances held with the CBM, which exposure poses an insignificant liquidity risk - Investing only in highly liquid securities which can be sold in a timely manner and without incurring undue costs, to meet the Bank's liquidity needs (or used as collateral for borrowing from the CBM)

Stress testing takes place at multiple intervals throughout the year, with multiple severe but plausible scenarios used to stress different areas of the Bank's business. Stress testing forms an integral part of the ICAAP, ILAAP and Recovery Plan documents.

The scenarios are tailored each year in response to global macro developments and operational realities faced by the Bank, to cover all material risks relevant to the Bank. Impact from operational events, credit quality in the portfolio and liquidity adequacy are all tested in the scenarios developed.

It is worth mentioning that the scenarios developed by the Bank are also tailored for its specific characteristics, such as no immovable property collaterals being held and no material links to the Maltese tourism and construction sectors.

The Bank also performs ad-hoc stress testing as needed in order to assess the potential impact of expected or realised events which could result in the Bank having to amend strategy in certain areas.

The results of both annual (ICAAP, ILAAP and Recovery Plan) and ad-hoc stress tests feed into the Bank's risk management decisions. In the event that the potential impact of an expected or realised event on the Bank is estimated to be material, the Bank would devise the appropriate corrective action including changes to the Bank's exposures.

Each key risk is defined in more detail in Section 3 of this document.

2.2 GOVERNANCE ARRANGEMENTS

The information in this section is provided in line with the requirements emanating from Article 435(2) of the CRR, taking into consideration the derogation for 'other institutions' that are 'non-listed institutions', pursuant to Article 433c(2) of the CRR.

As a 'less significant institution', the Bank is not subject to the limitation of directorships and counting rules under Article 91(3) and (4) of the CRD. The number of directorships effectively held for each member of the Board of Directors (including, without limitation, with a group company or an entity with a qualifying holding) regardless of whether the directorship is with an entity that pursues or does not pursue a commercial objective, is given in the table below. The term 'directorship' means a position as a member of the management body of an institution or another legal entity. 'Non-Executive' refers to a directorship in which a person is responsible for overseeing and monitoring management decision-making without executive duties within an entity. 'Executive' refers to a directorship in which a person is responsible for effectively directing the business of an entity. The total number of directorship for each of the Bank's Board members given in the table below excludes their position as director with the Bank, but includes directorship with SHM (if any).

	Effective number of Directorships as at 31st December 2023								
	Sparkasse Bank Malta plc (SBM)			Sparkasse (Holdings) Malta Ltd	Other entities - Commercial			Other - Non-Commercial	Total Other Directorships (excluding SBM)
	Chair	Executive	Non-Executive		Chair	Executive	Non-Executive		
Mag Harald Wanke	1			1	3				4
Mr Paul Mifsud		1		1				1	2
Mr Serge D'Orazio			1		3		6		9
Mr James Bonello			1				9	1	10
Mr Mark Curmi			1			2			2
Mr Conor Molloy			1		7		1		8

The Bank appointed Mr Conor Molloy as Non-Executive Director and Chair of the Audit Committee with effect from 22nd March 2023. Mr Molloy resigned on 23rd February 2024. The Bank is in the process of selecting a new director to replace him.

The Bank selects the members of the Board of Directors in accordance with its Policy on the suitability assessment of the members of the Board of Directors and key function holders (the 'Suitability Policy').

The knowledge, skills and expertise of the members is assessed upon nomination and on an ongoing basis. The Directors' profiles are given in the 'Board of Directors' section of the Annual Report. The Bank's internal suitability assessment confirmed that the Bank's Board of Directors has the knowledge, skills and expertise required to perform its duties diligently. The Board comprises members with extensive knowledge and practical experience in banking and careers in senior positions in the financial or professional services sector.

The Bank organises seminars and training sessions for members of the Board on a regular basis, which complement professional development of the Board members at their own initiative. Topics of training sessions organised by the Bank in the period under review included ESG risk, AML/CFT compliance, and stress testing.

The Bank aims to ensure that the Board is composed of an adequate number of Directors and receives sufficient support from within the Bank so that it can continue functioning in the event of a sudden or unexpected departure of a member of the Board or Senior Management. The succession planning policy envisages that the Bank may fill the open position either permanently by the appointment of a new director, or temporarily, as a casual vacancy. Members of Senior Management may be replaced by a candidate recruited internally (e.g., a deputy) or externally. The members of the Management Committee ('MANCO') will be able to continue the Bank's day-to-day operations in the case of unexpected or prolonged absence of a member of Senior Management, until his or her return or replacement. The Board of Directors may exercise the executive powers that were granted to the member of Senior Management and, or may designate one or more members of staff to take certain executive decisions *ad interim*, until the replacement comes into effect..

The Bank seeks to ensure a diverse pool of Directors, with a broad set of qualities and competences and to achieve a variety of views and experiences and facilitate independent opinions and sound decision-making within the Board. The Bank's policy is to make reasonable efforts to achieve diversity on the Board of Directors, in terms of educational and professional background, gender, age and geographical provenance. This objective is taken into account in the selection and recruitment or replacement of Directors.

The Bank has not set any specific targets for its diversity policy so far, given the relatively compact size of the Board, which it considers to be commensurate to the Bank's needs and proportionate taking into account its size and the nature of its business. Nevertheless, the Bank has managed to achieve diversity at Board level in terms of educational and professional background, age and geographical provenance. Gender diversity is apparent in particular at the level of senior staff heading business units, internal control and support functions.

2.3 BOARD AND MANAGEMENT COMMITTEES

The Bank's Board of Directors is responsible for setting, approving and overseeing the implementation of the overall business strategy and key policies of the Bank, its overall risk strategy and internal governance and internal control framework.

Audit and Risk Committee

The Board of Directors is supported in its supervisory function by Board committees. Currently, the Bank has an Audit Committee and a Risk Committee.

The objective of the Audit Committee is to advise the Board on the Bank's internal control, internal audit and risk management systems and the Bank's accounting policies and external audit. The Risk Committee's objective is to advise the Board of Directors on risk appetite and risk management within the Bank and overseeing the implementation of the Bank's risk management framework. The functions of the Board committees are listed in their respective Terms of Reference.

As at 31st December 2023, the Board Committees were composed of the following members:

Audit Committee	Risk Committee
Mr Conor Molloy, Chair (INED)	Mr Mark Curmi, Chair (INED)
Mr Harald Wanke (NED / Chair of the Board)	Mr Harald Wanke (NED / Chair of the Board)
Mr James Bonello (INED)	Mr Serge D'Orazio (INED)

Mr Molloy resigned as INED and Chair of the Audit Committee with effect from 23rd February 2024. The Bank is in the process of selecting a candidate to replace him.

Management Committees and Sub-Committees

Senior management, namely the Managing Director (performing the role of CEO) and the Chief Technology Officer, is supported in its executive functions by management committees and their respective sub-committees. In 2023, there were three (3) management committees: the Management Committee in Malta, the Ireland Branch Committee and the Regulatory Steering Committee .

The Management Committee in Malta ('MANCO') is composed of the heads or managers of all departments. Its objective is to support and assist senior management in the performance of its management tasks, in particular by ensuring effective continuity, communication, coordination and cooperation between senior management and the departments, unit and functions within the Bank and between the various departments, units and functions themselves. The MANCO is chaired by and reports to the Managing Director.

The MANCO has established the following permanent sub-committees:

- the Credit Review Committee, which is involved in the approval of credit facility proposals and monitoring credit facilities and overdrawn balances;
- the Treasury and Investment Management Committee ('TIMCO'), which supports and assists in the performance of liquidity and investment management;
- The Customer Evaluation Committee, which evaluates existing customer relationships, including customer transactions and changes in the customer risk profile and advises on action to be taken to mitigate ML / TF risk and escalation and de-escalation measures.
- the Business Committee, which supports and assists the Managing Director in the performance of his management function related to the development of new markets, products and services and significant changes to existing ones, in particular in relation to the implementation of the Bank's Product Approval Policy

The Ireland Branch Committee is the management committee established with the objective to support and assist senior management and the Head of Ireland Branch, in the performance of their management tasks in respect of the Ireland Branch. It is chaired by the Head of Ireland Branch.

The Ireland Branch Committee has established the following sub-committees:

(i) the On-boarding Committee, which approves the engagement with potential new customers of the Ireland Branch;

(ii) the Depositary Committee, which coordinates and monitors the effective discharge of depositary obligations and running of depositary operations at the Ireland Branch.

The Regulatory Steering Committee was established in January 2023 and replaced the SREP Team and Resolution Committee. Its objective is to support and assist the Managing Director in (i) managing and coordinating projects and initiatives to ensure compliance with regulatory and supervisory requirements and expectations across various departments and functions, (ii) managing and coordinating the Bank's internal resolution planning and resolvability work programme, and (iii) facilitating the supervisory review and evaluation process (SREP) and resolution planning process conducted by the MFSA.

3. KEY RISK EXPOSURES

This section outlines the Bank's key risk exposures, including an overview of each risk category and the strategies and processes used to manage those risks. More detailed quantifications are presented in subsequent sections of this document, provided that they fall within the scope of Pillar 3 disclosures as explained earlier in Section 1 of this document or are considered to provide valuable information to the Bank's stakeholders.

3.1 CREDIT RISK

3.1.1 Credit Risk Identification

Credit risk is one of the main risk categories to which the Bank is exposed, namely through investment in debt securities and balances held with the Central Bank of Malta ('CBM') and other credit institutions.

Credit risk is defined as the potential for loss due to failure of a borrower to meet its contractual obligation to repay a debt in accordance with the agreed terms. In determining the extent of its exposure to credit risk, the Bank shall assess the credit quality of its financial assets, including balances held with CBM and other credit institutions, loans and advances to customers, including undrawn credit lines and investments in debt securities.

The Bank's business model has steered clear of heavy involvement in the provision of credit to the general economy, focusing instead on investment services activities. The majority of credit risk exposure stems from the Bank's proprietary bond portfolio and amounts held in Nostro accounts with counterparties. The Bank's lending book is not substantial when compared to total assets. The increase in interest rates by the ECB has restricted the growth of the Bank's lending book, primarily because the Bank's Fund customers are not currently leveraging their portfolios in a significant way.

The Bank's credit risk profile is split over the following categories:

<u>Issuer Risk</u>

Issuer risk refers specifically to the risk of default by issuers of debt securities held by the Bank; between 30% and 40% of total assets are held in a diversified portfolio of debt securities. The Bank's exposure to this risk arises from the potential deterioration in the financial condition of the issuers (various kinds, such as sovereign exposures, supranational issuers, financial institutions and corporates) caused by various factors driving into default.

<u>Default risk</u>

Default risk is defined by the Bank as the potential risk that a borrower or counterparty fails to meet their obligations in accordance with the agreed terms. The Bank's exposure to default risk arises from the possibility, remote however it may be, that one of its correspondent banks or borrowers fails to fulfil its obligations.

<u>Concentration risk</u>

The Bank's exposure to concentration risk stems from the probability that one of the Bank's counterparties to whom the Bank is exposed in terms of numerous exposures, defaults. For example, a correspondent bank with whom the Bank holds multiple currency accounts.

The Bank's exposure to concentration risk takes the following forms:

- Name concentration risk defined as the risk of imperfect diversification in the Bank's loan and investment portfolio because of large exposures to specific individual issuers or correspondent banks;
- Sectoral concentration risk defined as the risk of imperfect diversification in the Bank's investment portfolio because of uneven distribution of exposures to particular sectors or industries; and
- Country concentration risk defined as the risk of default arising from political or economic events in a specific country, including political or social unrest, exchange controls, moratoria, currency devaluation, nationalisation and expropriation of assets.

Counterparty credit risk

Counterparty credit risk ('CCR') arises from the risk that a counterparty to a transaction defaults before the final settlement of the transaction's cash flows. The Bank's exposure to such risk may arise from the Bank acquisition of debt securities and the Bank's execution of foreign exchange deals for and on behalf of its customers.

In the latest ICAAP report for the year ended 31 December 2023, the Bank identified counterparty credit risk as one of its risk exposures. The source of CCR for the Bank is the execution of foreign exchange transactions for and on behalf of its customers, as well as foreign exchange forward transactions entered into with the Bank's customers and corresponding back-to-back foreign exchange forward transactions entered into with the Bank's counterparties.

The Bank is not exposed to general or specific wrong-way risk. Therefore, no such policies have been drafted to date. In addition, given the nature of the Bank's CCR exposure, changes in the creditworthiness of the Bank (as evidenced by an eventual credit rating downgrade or otherwise), would not result in an increase in the amount of collateral which the Bank is required to keep.

3.1.2 Credit Risk Management Policy & Setting of Risk Limits

In view of the Bank's limited involvement in the provision of credit, the Bank primarily relies on credit ratings of issuers and counterparties and position limits when assessing and managing credit risk.

No hedging is used, with the primary credit mitigation on the Bank's lending portfolio being collateral in excess of the loan value. The Bank applies collateral value haircuts and lends out amounts only up to the point covered by the collateral as adjusted for the haircut. Defaults in the lending portfolio are very rare and collateral coverage is sufficient on all current facilities.

In terms of the debt securities portfolio, which currently stands in excess of EUR 318 million (2022:EUR343million), the Bank has a mandate to invest mostly in investment grade securities with a preference for AAA supranational bond issues. Around 27% of the bond portfolio is allocated to supranational issues in fact, with around 28% in sovereign exposures. 38% of the Bank's bonds are rated AAA. The Bank is currently scaling down the size of its bond portfolio, preferring to hold cash with CBM.

The Bank is only allowed to buy up to EUR 5 million in unrated securities, usually local bonds.

Since most bonds currently in issue on the global market are unsecured, the Bank relies on credit ratings issued by various agencies to manage credit risk. News concerning the issuers in the portfolio is monitored on a regular basis to determine exits from certain positions if needed, ratings are checked each time the portfolio report is run and financial statements are analysed on a rotating basis. Positions are scaled down or exited from when risks are identified, and the price of the bond permits an exit.

The Bank observes a -5% price drop as a "stop-and-check" point on bond positions to determine whether there are issuer specific concerns, or whether the price movement is part of a broader (market) trend.

Credit risk limits apply, both in terms of lending amounts and via exposures to issuers. The target portfolio diversification in terms of sovereign vs. corporate exposures and the different allocations to different corporates is determined in accordance with the Bank's Investment and Liquidity Strategy. Large exposure limits and total profit for the year before tax are borne in mind when designing these limits.

The Bank is seeking to limit the number of lending facilities larger than 5 million Euros, except in the cases of loans backed by highly liquid collateral; in which case Large Exposure limits are considered when sizing the loan.

Balances held with counterparties are reviewed daily to avoid excessive exposures to any counterparty. The ratings of counterparties are also checked, with the Bank holding assets with reputable and well-rated counterparties. Efforts to open relationships with new counterparties is a routine part of the Bank's business contingency planning.

3.2 MARKET RISK

3.2.1 Market Risk Identification

Market risk is defined as the risk that the fair value, or future cash flows, of financial instruments, will fluctuate due to changes in market variables including interest rates, foreign exchange rates and market prices. The Bank identifies the following types of market risk exposures:

- Foreign exchange risk – defined as the risk of loss brought about by a change in exchange rates vis-à-vis the Bank's foreign currency holdings. The Bank's functional currency is the Euro but it operates in various other currencies, thus giving rise to foreign exchange risk.

- Investments price risk – defined as the risk of loss due to changes in the prices of investments. The Bank is exposed to investments price risk by virtue of its investment in equity securities, units in collective investment schemes, as well as by its investments in debt securities held in the 'Hold-to-Collect-and-Sell' portfolio. Following the assessment made in the latest ICAAP report, the Bank has confirmed that its exposure to this risk is immaterial. The 'Hold-to-Collect-and-Sell' portfolio has been removed from the RAS as is not currently used.

- Credit Valuation Adjustment ('CVA') risk – defined as the risk of changes in the mark-to-market value of the Bank's exposure to its derivative transaction counterparties. The Bank is exposed to CVA risk by virtue of it entering into foreign exchange forward transactions both with its customers as well as its counterparties in order to hedge client transactions.

- Credit Spread Risk in the Banking Book ('CSRBB') – defined as the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments, which is not explained by interest rate risk in the banking book ('IRRBB') or by expected credit default risk. The Bank's exposure to CSRBB arises from its holding of financial assets measured at fair value through other comprehensive income and those measured at fair value through profit or loss. In the last ICAAP submission, the Bank concluded that its exposure to such risk is immaterial given that less than 10% of the Bank's financial assets are subject to this risk. In fact, as at the end of the financial year ended 31 December 2023, the only financial asset accounted for at fair value was the S.W.I.F.T. shares holding (fair value of EUR 93,120).

3.2.2 Market Risk Management Objectives and Policies

In defining its risk appetite for foreign exchange risk, the Bank limits its open foreign exchange positions to EUR 50,000 equivalent. Any open foreign exchange positions which exceed this amount are reduced by buying or selling the respective foreign currency. The Bank monitors its foreign exchange position on a daily basis and executes transactions accordingly. As part of its portfolio of services, the Bank also offers foreign exchange forward contracts to its customers. In this respect, the Bank eliminates its exposure to foreign exchange risk by entering into 'back-to-back' transactions with its counterparties to perfectly hedge any foreign exchange forward contract entered into with its customers.

Investment price risk arises from the Bank's relatively small exposure to equity, with a maximum exposure of EUR 5 million and a EUR 2.5 million loss limit. The said allocation appetite was not being used as of the end of December 2023.

The Bank defines its appetite for market risk in terms of position and loss limits as outlined in the RAS. FVTPL positions are revalued via independent pricing sources on a frequent basis, and the unrealised gain/loss is determined. The "distance to trigger" is monitored frequently.

3.3 OPERATIONAL RISK

3.3.1 Operational Risk Identification

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Such risk can take various forms in such as sanctions risk, anti-money laundering risk, internal fraud risk, external fraud risk, conduct risk, ICT risk, business process risk and key staff dependency risk and others. Such risks can arise by various internal and external facts which pose a threat to the Bank's operations.

3.3.2. Operational Risk Management Objectives and Policies

Operational Risk stems from activities all across the Bank's operations and is mitigated via the internal controls maintained by risk owners in the first line of defence. These controls are documented in an internal controls library and assessed via various audits/reviews and contribute to the reduction of the inherent risk within a particular business line/function.

Owing to the substantial investment services activity transacted by the Bank, the Bank is aware of the level of operational risk inherent in the Bank's operations. In terms of strategy, operational risk is accepted, understood and controlled.

The Bank's risk appetite statement ('RAS') limits for operational risk in terms of business volume. The Bank is expected to run its business within these limits, and to grow headcount and/or improve technology when business growth necessitates expanding limits beyond current capacity.

The Bank's Risk Management function is the second line of defence internal control function in charge of operational risk management. Staff complement is currently one Risk Manager with direct access to the Board of Directors, supported by one Risk Analyst and a Senior Manager in the role of Information Security Officer.

In the first line of defence, each department involved in business and support functions is responsible for risks and risk mitigating controls and submit operational risk reports on operational incidents, to the Risk Management function.

The Risk Management function receives input from the Head of Compliance and the Head of AML on risk related matters.

Inherent risks are identified by the risk owners with the guidance of the Risk Manager. Risks are also identified from sources such National Risk Assessments and incidents incurred by other banks and financial services firms.

The Bank has adopted a 5 by 5 risk assessment matrix. Overall risk assessments take place as part of each Risk Management Report presented to the Board, apart from the ICAAP document.

Operational risk reporting takes two broad forms:

- Operational risk reports to the Risk Management Function
- Statistics reported by the relevant departments

The Bank has a template for operational risk incidents which must be filled in for incidents which result in losses greater than EUR 500 and/or various reputational risk related incidents. These templates can be filled and submitted by anyone in the Bank. Operational incidents are communicated to the Board of Directors at least on a quarterly basis via the Risk Manager's report.

Departmental statistics are available to the Risk Management Function on a monthly basis, and are aggregated in the form of an operational risk dashboard, also forwarded to the MANCO and Board of Directors on a quarterly basis. The statistics on business volumes are compared to operational risk limits as defined in the RAS, to check for breaches.

The Risk Management Function gathers monthly departmental level data on business volumes and errors/losses, and computed error rates for presentation to the Board on an annual basis. Members of the Risk Management Function may request to join any department/Branch meetings they wish to attend, to have first-hand knowledge of risk related discussions and be able to contribute and guide accordingly.

The Bank mitigates operational risk in the follow manner:

- Controls of various kinds
- Insurance policies of various types
- Outright curtailing appetite for certain risks

In a broad sense, appetite in the context of operational risk management means for example: removing a sanctioned country from the list of available countries to which to remit payments via online channel, to completely eliminate the risk of such a payment slipping through by error.

The Bank has many such in-built safeguards, to restrict the perimeter of possible operational risk occurring in its various forms. Examples of such are not opening accounts for PEPs and not accepting any physical cash deposits.

3.4 LIQUIDITY RISK

The Bank is funded primarily via customer deposits, mostly corporate in nature and there are no planned changes to this funding profile. Owing to the nature of the deposits received (demand deposits), the Bank keeps a very high level of liquidity. Fund customers deposit liquidity which can be withdrawn in a moment's notice either to be paid out as redemptions to investors or to be used to purchase securities which are then held in custody with the Bank. Other corporate entities that keep their clients' monies with the Bank may also withdraw substantial amounts in response to changes in their own customer base.

The Bank has chosen not to lend out substantial amounts to fund long term projects and instead invests in investment grade securities which it is able to liquidate or borrow against should the need arise.

The strategy in place for liquidity risk management is precisely to maintain high cash balances with the CBM and up to 40% of total assets in investment grade securities as allowed by the Board approved RAS. As of 31 December 2023, financial investments represented 34% of the Bank's total assets.

The Bank monitors its liquidity position using three main metrics, namely the Liquidity Coverage Ratio ('LCR'), the Net Stable Funding Ratio ('NSFR') and the Liquid Assets to Total Assets ratio. The Bank defines early warnings and recovery indicators for each of these limits and ensures that it operates above the prescribed early warning indicator on an ongoing basis. With respect to the LCR and NSFR, the EWI is set at a buffer which not only ensures that the minimum regulatory requirement is met, but also setting a sufficient buffer to enable to meet customer demands for withdrawals. The Finance department presents these ratios, together with other liquidity reports, to MANCO and the Board, on a quarterly basis. The table below summarises the LCR, NSFR and Liquidity Assets to Total Assets ratio as at the end of 2023 and 2022.

Metric	YE 2022	YE 2023	EWI	RI
LCR	324.6%	344.7%	200%	150%
NSFR	416.7%	423.9%	200%	150%
Liquid Assets to Total Assets	59.0%	63.2%	50%	40%

As outlined in the table above, the Bank has operated above the early warning indicators for all liquidity ratios presented.

The table below illustrates a breakdown of the Bank's liquid assets as at the end of the financial years ending 31 December 2023 and 2022. It also contemplates a hypothetical extreme scenario whereby 40% of the customer deposits are withdrawn at a single point in time.

Metric	YE 2022	YE 2022	YE 2023	YE 2023
Cash held with CBM	EUR469.75M		EUR530.58M	
Balances held with correspondent banks in Nostro accounts	EUR60.81M		EUR61.70M	
Financial Investments in debt securities	EUR343.37M		EUR317.70M	
Total Liquid Assets	**EUR899.32M**		**EUR936.42M**	
Amounts owed to customers		EUR838.41M		EUR859.86M
Simulated 40% outflow (illustrative purposes)		(EUR335.36M)		(EUR343.94M)

As illustrated in the table above, in the extreme scenario that 40% of customer deposits would be withdrawn on demand, the Bank would be able to absorb such withdrawal using its cash balances held with CBM, without the need to sell any of its financial investments or borrow against such assets. This shows that the Bank has sufficient liquidity buffers in place, which it intends to maintain at similar levels for the foreseeable future.

Institutions also need to assess whether their off-balance sheet commitments expose them to liquidity risk. Given that the Bank's off-balance sheet commitments, in the form of unutilised credit lines, which amounted to just EUR 31.8million, the Bank is confident that it can meet these commitments using available liquidity and does not consider its off-balance sheet commitments as giving rise to material liquidity risk.

Liquidity concentration risk is another aspect of liquidity risk which the Bank considers as part of its liquidity risk management. In light of the Bank's business model, the Bank generates a significant portion, amounting to 26% as at the end of 2023, of its deposits from fund customers. Despite this apparent sectoral concentration, the Bank considers this liquidity to be sticky in nature. In addition, the fund customers contributing these deposits hold underlying assets in various sectors meaning that downward pressures on one sector would not impact all of the Bank's fund customers in the same manner. The Bank also looks at depositor concentration by managing the amount of deposits that a single depositor can deposit with the Bank. This is agreed upon both initially when the Bank enters into the agreement with the said customer, as well as through ongoing customer monitoring. This ensures that depositor inflows and outflows remain within the Bank's a priori expectations.

As outlined earlier, the Group is made up of the Bank and its financial holding company, SHM. The only legal entity within the Group that has funding needs is the Bank itself. The Bank's branch in Ireland is not a subsidiary and forms an integral part of the Bank. Therefore, no liquidity is transferred within the Group.

The Bank also monitors its liquidity position through the liquidity maturity ladder, which is presented in Note 5 of the Annual Report and re-presented in the table overleaf. As explained earlier, most of the Bank's deposits are demand deposits, resulting in the liquidity gap shown in the 'Less than 3 Months' bucket. Having said this, the Bank holds a portfolio of high quality liquid assets, which despite having a longer term to maturity (and therefore allocated in the other maturity buckets), can be sold on the market to meet any liquidity needs which may arise.

2023	Total EUR	Less than 3 months EUR	Between 3 months and 1 year EUR	Between 1 year and 5 years EUR	Over 5 years EUR	No maturity EUR
Assets						
Cash and Balances with Central Bank of Malta	**530,577,834**	**515,563,454**	-	-	-	15,014,380
Loans and advances to banks	61,704,110	61,704,110	-	-	-	-
Loans and advances to customers	8,855,664	480,620	6,869,159	1,505,885	-	-
Financial investments measured at amortised cost	317,709,569	999,565	28,919,116	186,084,702	101,706,186	-
Financial investments measured at FVTPL	93,120	-	-	-	-	93,120
Derivative financial assets	995,334	995,334	-	-	-	-
Accrued income	894,469	894,469	-	-	-	-
Other assets	22,727	22,727	-	-	-	-
	920,852,827	**580,660,279**	35,788,275	187,590,587	101,706,186	15,107,500
Liabilities						
Amounts owed to banks	2,461,220	2,461,220	-	-	-	-
Amounts owed to customers	859,864,838	850,725,071	1,139,767	8,000,000	-	-
Derivative financial liabilities	995,334	995,334	-	-	-	-
Accruals and deferred income	708,183	708,183	-	-	-	-
Lease liabilities	293,709	-	202,848	90,861	-	-
Other liabilities	968,666	968,666	-	-	-	-
	865,291,950	855,858,474	1,342,615	8,090,861	-	-
Maturity gap		(275,198,195)	34,445,660	179,499,726	101,706,186	
Cumulative gap		(275,198,195)	(240,752,535)	(61,252,809)	40,453,377	

The Bank considers that the liquidity risk management arrangements put in place are adequate with regards to the Bank's profile and strategy. The Bank holds sufficient cash and High Quality Liquid Assets ('HQLA') to be able to meet deposit withdrawals, whether they arise in normal or stressed operating conditions. Furthermore, the Bank has adequate buffers on key liquidity ratios to permit it to withstand a number of adverse scenarios without breaching the minimum regulatory requirements.

3.5 LEVERAGE

In order to prevent the risk of excessive leverage, CRR II introduced the requirement for institutions to keep a Tier 1 capital leverage ratio of at least 3%. This requirement is seen as providing a credible backdrop without hampering economic growth.

In light of this, the Bank has incorporated the leverage ratio in the Bank's set of key indicators to gauge the Bank's performance and adherence to regulatory requirements. The Bank has set a recovery indicator at the minimum regulatory requirement of 3.30%, as well as an early warning indicator at 3.75%, which provides sufficient buffer for action to be taken when the Bank approaches the minimum regulatory requirement and thus is at risk of experiencing excessive leverage.

The Bank monitors the leverage ratio on a continuous basis and management incorporates such ratios in investment and strategic decisions.

Given that the two main components of the leverage ratio are Tier 1 capital and total exposure measure, the Bank can increase the leverage ratio either by increasing Tier 1 capital or decreasing the total exposure measure. In the short-term, the most likely course of action would be to decrease the total exposure measure. The Transactions Monitoring Team within the AML Department flags large incoming deposits to the Managing Director, the Risk Manager and the Senior Finance Manager. This ensures that sudden increases in total assets are detected intraday and addressed in a timely manner.

Strategically, the Bank may decide to take measures to increase its Tier 1 capital through retained profits or reinvestment of dividends by the Bank's parent company, SHM, or else through additional capital injections by SHM beyond the dividend amount received.

The Bank's Tier 1 capital is composed primarily of issued and fully paid up ordinary share capital and therefore no maturity considerations apply in this respect. The Bank's total exposure measure is highly dependent on the customer deposits, which due to the nature of the Bank's customer base, could be subject to significant intra-day fluctuations. These are mostly related to routine redemptions from large fund customers who may at times sell substantial amounts of investment holdings, temporarily deposit the cash settlements with the Bank and then eventually pay out redemptions to investors. Given that the Bank holds a significant portion of its assets in call deposits with the Central Bank of Malta and other correspondent banks, customer withdrawal and deposit patterns are likely to have a direct impact on the Bank's total assets and total exposure measure, at any particular time. The Bank does not hold nor does it have an appetite for entering into debt arrangements which would be utilised to meet client deposit withdrawals, explaining why customer deposit patterns are directly reflected in the Bank's total assets. Having said this, the Bank does contemplate borrowing from the Central Bank of Malta, as one of its recovery options. The off-balance sheet exposure amount, which includes primarily the counterparty credit risk exposure arising from forward foreign exchange transactions, also contributes to the leverage exposure measure, albeit to a lesser extent when compared to total assets.

The Bank has very limited appetite for asset encumbrance. In fact, encumbered assets as at the end of the financial year represent solely those assets which are required to be kept as collateral or in pledged accounts pursuant to the Bank's business relationships with its correspondent banks and counterparties, as well as assets pledged for the variation margin arising from the Bank's foreign exchange forward transactions entered into with its customers and counterparties. The Bank has some securities pledged to the CBM in order to be on standby if borrowing is ever required. All such encumbered assets are denominated in Euro.

3.6 INTEREST RATE RISK IN THE BANKING BOOK

3.6.1 IRRBB Identification

Interest rate risk in the banking book ('IRRBB') is defined in the 'Guidelines issued on the basis of Article 84(6) of Directive 2013/36/EU' issued by the EBA during October 2022, as 'the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments, including gap risk, basis risk and option risk.'

Gap risk refers to the risk resulting from the term structure of interest-rate sensitive instruments that arises from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve (also referred to as parallel risk) or differentially by period (also referred to as non-parallel risk).

On the other hand, basis risk arises from the impact of relative changes in interest rates on interest-rate sensitive instruments that have similar tenors but are priced using different interest rate indices. Basis risk arises from the imperfect correlation in the adjustment of the rates earned and paid on different interest-rate sensitive instruments with otherwise similar rate change characteristics. This risk arises mainly from hedging exposures to one interest rate with exposure to a rate which reprices under slightly different conditions.

Finally, option risk refers to the risk arising from options, whether embedded or explicit, where the institution or its customers can alter the level and timing of their cash flows. This refers primarily to the risk arising from interest-rate sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so and the risk arising from the flexibility embedded implicitly or within the terms of the interest-rate sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client. Since the Bank does not enter into interest-rate hedging nor does it offer or hold interest-rate sensitive instruments with optionality, the Directors do not deem the Bank to be exposed to basis risk or option risk.

As a result, any reference to IRRBB within this document shall only be understood in terms of the Bank's exposure to gap risk.

3.6.2 IRRBB Risk Management

The Bank's loan business strategy is geared towards the mitigation of IRRBB. In this respect, the Bank grants loans to customers of a limited maturity, with the maximum loan maturity being limited to 5 years and a maximum overdraft term of 12 months.

In addition, the Bank mostly grants loans subject to variable interest rates. This ensures that any changes to market interest rates are reflected in the interest rates earned on the Bank's loan portfolio.

In general, the Bank does not pay credit interest on customer deposits. Having said this, the Bank offers an overnight deposit account to its institutional clients, also known as the Liquidity Management Account ('LMA') which account bears positive interest. Interest rates in this respect are being monitored and updated on a regular basis by the Bank's TIMCO. Apart from gearing its business strategy towards mitigating IRRBB, the Bank has in place a number of controls surrounding its exposure to IRRBB as outlined below:

- Monitoring of interest rates - The Bank's TIMCO monitors the key macroeconomic interest rates on an ongoing basis in an effort to identify developments in the current and future interest rate environment. Any identified updates to market interest rates are reported to Credit Review Committee and eventually reflected in the interest rates charged to customers as per the Credit Facility Agreement signed by the said customer.

- Monthly gap analysis - The Bank's Finance department performs monthly gap analysis to assess the sensitivity of the Bank's interest bearing assets and liabilities to a 200 basis point change in interest rates. This assessment is performed separately for each major currency of operation, namely EUR, USD and GBP. TIMCO also contemplates a range of shocks from 300 to 500 basis points, shock to interest rates as part of its ongoing monitoring of the Bank's financial investments portfolio.

- Restricting replacement bond purchases to short maturities - In the context of rising inflation figures and central bank posture changing to favour sustained normalization of interest rates, bond valuations were expected to become under pressure. Hence the Bank moved away from its previous policy of laddering the portfolio, to re-investing bond maturities into short term dated issues until the re-pricing in the bond market unfolds fully.

3.6.3 IRRBB Risk Measurement

The Bank measures its exposure to IRRBB using both an Economic Value of Equity ('EVE') measure and an Earnings-based measure. In estimating the exposure to IRRBB in terms of potential changes to the Bank's EVE, the Bank uses the Standardised EVE outlier test, as outlined in the aforementioned guidelines issued by the EBA during October 2022 and the Draft Regulatory Technical Standards thereto. On the other hand, for the earnings-based measure, the Bank uses the 'Gap analysis re-pricing gap' measure, whereby the Bank would calculate the impact on its net interest income as a result of a change in interest rates.

The Bank performs these quantifications on an annual basis as part of its capital requirements assessment under the economic perspective.

4. OWN FUNDS & RISK WEIGHTED EXPOSURE AMOUNTS

Article 437 of the CRR requires institutions to disclose details regarding their own funds, including both a quantitative illustration of the components of own funds and the resulting capital ratios.

4.1 COMPOSITION OF REGULATORY OWN FUNDS

The tables overleaf provide an overview of the composition of the Bank's and the Group's regulatory own funds, including a detailed outline of the components of own funds and applicable regulatory adjustments. The same table provides an illustration of the Bank's and the Group's capital ratio as at financial year end 31 December 2023, including applicable buffers and excess (if any) of the total capital above the minimum regulatory requirements. No restrictions to the calculation of own funds have been applied and the capital ratios have been calculated in line with the basis laid down in the CRR.

EU CC1 - Composition of regulatory own funds

Individual

		Amounts	Source based on reference numbers/letters of the balance sheet under regulatory scope of consolidation
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	46,200,000	Vide EU CC2 *'Shareholders' equity'* row 1
	of which: Ordinary Share Capital	*46,200,000*	Vide EU CC2 *'Shareholders' equity'* row 1
2	Retained earnings	13,821,342	Vide EU CC2 '*Shareholders' equity*' row 4
3	Accumulated other compherensive income (and other reserves)	4,667,069	Vide EU CC2 '*Shareholders' equity*' rows 2 & 3
6	Common Equity Tier 1 (CET 1) capital before regulatory adjustments	64,688,411	
	Common Equity Tier 1 (CET 1): regulatory adjustments		
7	Additional value adjustments (negative amount)	(93)	
8	Intangible assets (net of related tax liability)	(4,609,805)	Vide EU CC2 '*Assets*' row 1
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(4,609,898)	
29	Common Equity Tier 1 (CET1) capital	60,078,513	
45	Tier 1 capital (T1 = CET1 + AT1)	60,078,513	
59	Total capital (TC = T1 + T2)	60,078,513	
60	Total Risk exposure amount	154,849,136	
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	38.7981%	
62	Tier 1 capital	38.7981%	
63	Total capital	38.7981%	
64	Institution CET1 overall capital requirements	9.8414%	
65	Of which: capital conservation buffer requirement	2.5000%	
66	Of which: countercyclical capital buffer requirement	0.3102%	
EU-67b	Of which: additional own funds requirements to address the risks other than the risk of excessive leverage	2.5313%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	23.4879%	

Consolidated

		Amounts	Source based on reference numbers/letters of the balance sheet under regulatory scope of consolidation
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	18,000,000	Vide EU CC2 *'Shareholders' equity'* row 1
	of which: Ordinary Share Capital	18,000,000	Vide EU CC2 *'Shareholders' equity'* row 1
2	Retained earnings	44,207,595	Vide EU CC2 '*Shareholders' equity*' row 4
3	Accumulated other compherensive income (and other reserves)	4,667,069	Vide EU CC2 '*Shareholders' equity*' rows 2 & 3
4	Minority interests (amount allowed in consolidated CET 1)	1,000	Vide EU CC2 '*Shareholders' equity*' row 5
6	Common Equity Tier 1 (CET 1) capital before regulatory adjustments	66,875,664	
	Common Equity Tier 1 (CET 1): regulatory adjustments		
7	Additional value adjustments (negative amount)	(93)	
8	Intangible assets (net of related tax liability)	(4,609,805)	Vide EU CC2 '*Assets*' row 1
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(4,609,898)	
29	Common Equity Tier 1 (CET1) capital	62,265,766	
45	Tier 1 capital (T1 = CET1 + AT1)	62,265,766	
59	Total capital (TC = T1 + T2)	62,265,766	
60	Total Risk exposure amount	156,962,178	
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 capital	39.6693%	
62	Tier 1 capital	39.6693%	
63	Total capital	38.7981%	
64	Institution CET1 overall capital requirements	9.8299%	
65	Of which: capital conservation buffer requirement	2.5000%	
66	Of which: countercyclical capital buffer requirement	0.2987%	
EU-67b	Of which: additional own funds requirements to address the risks other than the risk of excessive leverage	2.5313%	
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	24.3706%	

As illustrated in tables EU CC1 above, the Bank's and the Group's own funds are composed solely of Common Equity Tier 1 ('CET 1') capital, including ordinary share capital, retained earnings, property revaluation reserve and minority interests in the case of the Group own funds. In light of this, rows EUR-3a to EUR-5a as per the illustrative template, have been excluded from the table depicted above. Similarly, since the Bank and the Group did not hold any Additional Tier 1 ('AT1') and Tier 2 ('T2') as at 31 December 2023, rows 30 to 58 as per the illustrative template have been excluded from EU CC1 displayed above.

The regulatory adjustments section of the own funds table includes additional valuation adjustments in line with Article 105 of the CRR and intangible assets deducted from own funds pursuant to Article 37 of the CRR. Given that no additional regulatory adjustments were applied as of the end of the financial year, rows 9 to 27a as per the illustrative template have been excluded.

The next section of the own funds table sets out the applicable buffers. The Bank is subject to a capital conservation buffer of 2.5%, as well as an institution-specific countercyclical capital buffer which fluctuates in line with the Bank's exposure to selected geographies. The Bank is also subject to a 4.5% Pillar 2 requirement, applicable as from March 2023 onwards, which the Malta Financial Services Authority ('MFSA') established in 2023, following its Supervisory Review and Evaluation Process ('SREP') review. This represented a 0.5% decrease in the Bank's previously applicable Pillar 2 requirement of 5%, which was imposed by the MFSA during 2021.

As at the date of writing, MFSA has not set a systemic buffer nor has it listed the Bank as a G-SII or an O-SII. In light of this, rows 67 and 67a included in the illustrative template, have been excluded from the own funds tables presented in this section.

Finally, the Bank is not subject to any amounts which are below the thresholds for deduction, applicable caps for inclusion of provisions in T2 or capital instruments subject to phase-out arrangements. Therefore, rows 72 to 85 as per the illustrative template have been excluded from the presentation of composition of own funds for the Bank.

The tables below provide a reconciliation of the Bank's and the Group's regulatory own funds to the balance sheet as presented in the Annual Report. Given that the accounting and regulatory scope of consolidation are identical, columns (a) and (b) as presented in the illustrative disclosure, have been merged into one column for the purpose of this disclosure.

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

Individual

		Balance sheet as in published financial statements & Under regulatory scope of consolidation	Reference
		As at period end	
Assets (include breakdown by asset classes according to the balance sheet in the published financial statements)			
1	Intangible assets	4,609,805	Vide EU CC1 row 8
	Total assets	**4,609,805**	
Shareholders' equity			
1	Called up share capital	46,200,000	Vide EU CC1 row 1
2	Fair value reserve	-	Vide EU CC1 row 3
3	Property revaluation reserve	4,667,069	Vide EU CC1 row 3
4	Retained earnings	13,821,342	Vide EU CC1 row 2
	Total shareholders' equity	**64,688,411**	

Consolidated

		Balance sheet as in published financial statements	Reference
		As at period end	
Assets (include breakdown by asset classes according to the balance sheet in the published financial statements)			
1	Intangible assets	4,609,805	Vide EU CC1 row 8
	Total assets	**4,609,805**	
Shareholders' equity			
1	Called up share capital	18,000,000	Vide EU CC1 row 1
2	Fair value reserve	-	Vide EU CC1 row 3
3	Property revaluation reserve	4,667,069	Vide EU CC1 row 3
4	Retained earnings	44,207,595	Vide EU CC1 row 2
5	Minority interests	1,000	Vide EU CC1 row 4
	Total shareholders' equity	**66,875,664**	

4.2 RISK WEIGHTED EXPOSURE AMOUNTS

The tables below provide an overview of the Bank's and the Group's risk weighted exposure amounts and the respective own funds requirement, for each identified risk category of exposure.

EU OV1 - Overview of total risk exposure amounts

Individual

		Total risk exposure amount (TREA)		Total own funds requirement
		2023	2022	2023
1	Credit risk (excluding CCR)	114,032,263	102,517,170	9,122,581
2	*Of which the standardised approach*	*114,032,263*	*102,517,170*	*9,122,581*
6	Counterparty Credit Risk - CCR	4,985,654	6,739,791	398,852
EU 8b	*Of which credit valuation adjustment - CVA*	*109,345*	*145,537*	*8,748*
9	*Of which other CCR*	*4,876,309*	*6,594,254*	*390,105*
20	Positions, foreign exchange and commodities risks (Market Risk)	-	1,122,879	-
21	*Of which standardised approach*	-	*1,122,879*	-
23	Operational risk	35,831,218	23,827,650	2,866,497
EU 23a	*Of which basic indicator approach*	*35,831,218*	*23,827,650*	*2,866,497*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	25,685	-
29	**Total**	**154,849,136**	**134,207,490**	**12,387,931**

Consolidated

		Total risk exposure amount (TREA)		Total own funds requirement
		2023	2022	2023
1	Credit risk (excluding CCR)	116,145,305	102,751,530	9,291,624
2	*Of which the standardised approach*	*116,145,305*	*102,751,530*	*9,291,624*
6	Counterparty Credit Risk - CCR	4,985,654	6,739,791	398,852
EU 8b	*Of which credit valuation adjustment - CVA*	*109,345*	*145,537*	*8,748*
9	*Of which other CCR*	*4,876,309*	*6,594,254*	*390,105*
20	Positions, foreign exchange and commodities risks (Market Risk)	-	1,122,879	-
21	*Of which standardised approach*	-	*1,122,879*	-
23	Operational risk	35,831,218	23,827,650	2,866,497
EU 23a	*Of which basic indicator approach*	*35,831,218*	*23,827,650*	*2,866,497*
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	25,685	-
29	**Total**	**156,962,178**	**134,441,850**	**12,556,974**

The Bank uses the standardised approach to measure the risk weighted exposure amount and resulting capital requirement for credit risk. As a result, the entire credit risk exposure amount and own funds requirement is included in row 2 in table EU OV1 above, with rows 3 to 5 as presented in the illustrative template being excluded for the purpose of this disclosure.

The Bank calculates its risk weighted exposure amounts for CCR using the Original Exposure Method, with none of these exposures being exposures to central counterparties. In light of this, the risk weighted exposure amount and the own funds requirement presented in row 6 are split between CVA, as presented in row EU 8b and other CCR, as presented in row 9. Rows 7 to EU 8a as included in the illustrative template have been excluded for the purpose of this disclosure.

With respect to market risk, the Bank identified foreign exchange risk as being a material inherent risk exposure and calculates the total risk exposure amount and own funds requirement in this respect in line with Chapter 3 of Title IV of Part Three of the CRR. As a result, the total risk exposure amount and own funds requirement for market risk is included in row 21, with row 22 as included in the illustrative disclosure being excluded from the table displayed above. Having said this, the residual risk exposure of the Bank to foreign exchange risk is immaterial owing to the controls put in place in this respect. In line with Article 351 of the CRR, institutions are only required to calculate an own funds requirement for foreign exchange risk provided that their overall net foreign-exchange position exceeds 2% of their total own funds. Given that for the year ended 31 December 2023, the Bank's and the Group's net foreign-exchange position was below 2% of their respective own funds, no capital allocation was made in respect of foreign exchange risk.

Another material risk category for the Bank is operational risk, whereby the Bank uses the Basic Indicator Approach to calculate the risk weighted exposure amount and own funds requirement for this risk. Consequently, the Bank allocates the entire risk weighted exposure amount and own funds requirement for operational risk to row EU 23a, with rows EU 23b and EU 23c as presented in the illustrative disclosure being eliminated from the Bank's disclosure.

Row 24 of table EU OV1 displayed above includes the total risk weighted exposure amount and own funds requirement for deferred tax assets that are dependent on future profitability and arise from temporary differences, and in aggregate are equal to or less than 10% of CET 1 capital of the Bank.

Finally, the Bank does not consider settlement risk as being a material risk exposure arising from its current and future activities. In addition, the Bank did not have any securitisation exposures for the current and previous years ending 31 December 2023 and 2022, respectively. Also, for both years presented, the Bank did not have any risk weighted exposure amounts and own funds requirements in relation to large exposures exceeding the limits in Articles 395 to 401 of the CRR. Pursuant to this, rows 15, 16 to EU 19a and EU 22a as presented in the illustrative disclosure have been excluded from the EO OV1 tables presented above. All rows stating 'Not applicable' (that is rows 10 to 14 and rows 25 to 28) have also been excluded for the purpose of this disclosure.

4.3 COMBINED BUFFER REQUIREMENT

As explained in Section 5.1 above, the Bank's combined buffer requirement is composed of the capital conservation buffer and the countercyclical capital buffer. The capital conservation buffer amounts to 2.5% of total risk weighted exposure amount. The countercyclical capital buffer is calculated in line with the geographical exposure to the respective country for which a countercyclical capital buffer has been issued. The tables below illustrate the computation of the institution-specific countercyclical capital buffer for the Bank and the Group.

EU CCyB2 - Amount of institution-specific countercyclical capital buffer

Individual

1	Total risk exposure amount	154,849,136
2	Institution specific countercyclical capital buffer rate	0.31%
3	Institution specific countercyclical capital buffer requirement	480,290

Consolidated

1	Total risk exposure amount	156,962,178
2	Institution specific countercyclical capital buffer rate	0.30%
3	Institution specific countercyclical capital buffer requirement	468,781

5. CREDIT RISK

The Bank uses the standardised approach to calculate the total risk weighted exposure amount and capital requirement for credit risk. This approach requires institutions to assign a risk weight to its exposures, which risk weight would correspond to the credit quality step assigned to the said exposure.

For rated exposures, the Bank assigns the credit quality step to the respective exposure in line with the assigned external credit rating. In assigning the external credit rating, the Bank makes reference to ratings issued by Fitch, Moody's and S&P. No changes were implemented in this respect during 2023. Where available, the Bank uses ratings published by external credit assessment institutions ('ECAIs') for the following exposure classes:

- Central governments or central banks
- Institutions
- Corporates
- Equity

The Bank assigns risk weights to its exposures in line with Articles 111 to 134 of the CRR. With respect to rated exposures, the Bank assigns the corresponding credit quality step and risk weight in line with the below:

- When only one external credit rating is available, that credit rating is used to assign the credit quality step and risk weight;
- When two external credit ratings are available, the Bank uses the lower rating to assign the credit quality step and risk weight;
- When three external credit ratings are available, the Bank takes the lower two ratings and if these are different, the higher rating is used to assign the credit quality step and risk weight.

The tables below present the Bank's and the Group's on and off balance sheet exposures and risk weighted exposure amounts classified by exposure class.

Given that the Bank nor the Group had exposures to the following exposures classes, rows 3, 9 and 11 to 13, as per the illustrative disclosure, have been excluded from the below disclosures.

- Public sector entities
- Secured by mortgages on immovable property
- Exposures associated with particularly high risk
- Covered bonds; and
- Institutions and corporates with a short-term credit assessment

EU CR4 - Standardised approach - Credit risk exposure and CRM effects

Individual

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWEAs and RWEAs density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWEAs	RWEAs density (%)
1	Central governments or central banks	608,404,009	-	608,404,009	7,945,110	21,549,251	3.50%
2	Regional government or local authorities	11,923,979	-	11,923,979	-	-	0.00%
4	Multilateral development banks	75,498,601	-	75,498,601	-	-	0.00%
5	International organisations	11,038,869	-	11,038,869	-	-	0.00%
6	Institutions	137,610,952	-	137,610,952	-	42,520,537	30.90%
7	Corporates	82,719,011	46,801,244	82,719,011	4,771,227	41,465,608	47.39%
8	Retail	380,747	30,823	381,947	4,725	290,004	75.00%
10	Exposures in default	-	-	-	-	-	0.00%
14	Collective investment undertakings	-	-	-	-	-	0.00%
15	Equity	93,120	-	93,120	-	93,120	100.00%
16	Other items	17,606,638	-	17,606,638	-	12,990,053	73.78%
17	Total	945,275,926	46,832,066	945,277,126	12,721,061	118,908,572	12.41%

Consolidated

	Exposure classes	Exposures before CCF and before CRM		Exposures post CCF and post CRM		RWEAs and RWEAs density	
		On-balance sheet exposures	Off-balance sheet exposures	On-balance sheet exposures	Off-balance sheet exposures	RWEAs	RWEAs density (%)
1	Central governments or central banks	608,404,009	-	608,404,009	7,945,110	21,549,251	3.50%
2	Regional government or local authorities	11,923,979	-	11,923,979	-	-	0.00%
4	Multilateral development banks	75,498,601	-	75,498,601	-	-	0.00%
5	International organisations	11,038,869	-	11,038,869	-	-	0.00%
6	Institutions	137,610,952	-	137,610,952	-	42,520,537	30.90%
7	Corporates	82,719,011	46,801,244	82,719,011	4,771,227	41,465,608	47.39%
8	Retail	380,747	30,823	381,947	4,725	290,004	75.00%
10	Exposures in default	-	-	-	-	-	0.00%
14	Collective investment undertakings	-	-	-	-	-	0.00%
15	Equity	93,120	-	93,120	-	93,120	100.00%
16	Other items	19,719,680	-	19,719,680	-	15,103,095	76.59%
17	Total	947,388,968	46,832,066	947,390,168	12,721,061	121,021,614	12.60%

In turn, the tables below illustrate a breakdown of the Bank's and the Group's exposures by exposure class and respective risk weight assigned in accordance with articles 114 to 134 of the CRR.

EU CR5 - standardised approach

Individual

	Exposure classes	Risk weight							Total	Of which unrated
		0%	10%	20%	50%	75%	100%	250%		
1	Central governments or central banks	504,630,311	7,945,110	103,773,698	-	-	-	-	616,349,119	-
2	Regional government or local authorities	11,923,979	-	-	-	-	-	-	11,923,979	-
4	Multilateral development banks	75,498,601	-	-	-	-	-	-	75,498,601	-
5	International organisations	11,038,869	-	-	-	-	-	-	11,038,869	-
6	Institutions	-	-	90,530,910	45,331,375	-	1,748,668	-	137,610,952	5,123,024
7	Corporates	-	-	36,194,352	34,138,298	-	17,157,589	-	87,490,238	17,157,589
8	Retail	-	-	-	-	386,672	-	-	386,672	386,672
10	Exposures in default	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	93,120	-	93,120	93,120
16	Other items	4,616,585	-	-	-	-	12,990,053	-	17,606,638	17,606,638
17	Total	607,708,345	7,945,110	230,498,959	79,469,672	386,672	31,989,430	-	957,998,187	40,367,042

Consolidated

	Exposure classes	Risk weight							Total	Of which unrated
		0%	10%	20%	50%	75%	100%	250%		
1	Central governments or central banks	504,630,311	7,945,110	103,773,698	-	-	-	-	616,349,119	-
2	Regional government or local authorities	11,923,979	-	-	-	-	-	-	11,923,979	-
4	Multilateral development banks	75,498,601	-	-	-	-	-	-	75,498,601	-
5	International organisations	11,038,869	-	-	-	-	-	-	11,038,869	-
6	Institutions	-	-	90,530,910	45,331,375	-	1,748,668	-	137,610,952	5,123,024
7	Corporates	-	-	36,194,352	34,138,298	-	17,157,589	-	87,490,238	17,157,589
8	Retail	-	-	-	-	386,672	-	-	386,672	386,672
10	Exposures in default	-	-	-	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-	-	-	-
15	Equity	-	-	-	-	-	93,120	-	93,120	93,120
16	Other items	4,616,585	-	-	-	-	15,103,095	-	19,719,680	19,719,680
17	Total	607,708,345	7,945,110	230,498,959	79,469,672	386,672	34,102,472	-	960,111,229	42,480,084

The Bank also monitors the credit quality of its exposures. The table overleaf present the Bank's and the Group's performing and non-performing exposures, and related accumulated impairment, including an analysis of days past due.

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

<u>Individual & Consolidated</u>

		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 recevied	
		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					
			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		On performing exposures	On non-performing exposures
005	Cash balances at central banks and other demand deposits	592,323,556	592,323,556	-	-	-	-	(70,878)	(70,878)	-	-	-	-	-	-	-
010	Loans and advances	8,879,316	8,584,906	294,410	97,286	-	97,286	(1,164)	(236)	(929)	(97,286)	-	(97,286)	-	8,517,581	-
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
030	*General government*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	*22,500*	*22,500*	-	-	-	-	*(14)*	*(14)*	-	-	-	-	-	-	-
050	*Other financial corporations*	*8,462,628*	*8,178,651*	*283,977*	*86,165*	-	*86,165*	*(892)*	*(97)*	*(795)*	*(86,165)*	-	*(86,165)*	-	*8,143,799*	-
060	*Non-financial corporations*	*13,352*	*3,788*	*9,564*	*9,897*	-	*9,897*	*(168)*	*(48)*	*(121)*	*(9,897)*	-	*(9,897)*	-	-	-
070	*of which SMEs*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
080	*Households*	*380,836*	*379,967*	*869*	*1,224*	-	*1,224*	*(91)*	*(78)*	*(13)*	*(1,224)*	-	*(1,224)*	-	*373,782*	-
090	Debt securities	317,784,892	317,784,892	-	-	-	-	(75,323)	(75,323)	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
110	*General government*	*176,294,404*	*176,294,404*	-	-	-	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	*71,128,146*	*71,128,146*	-	-	-	-	*(45,629)*	*(45,629)*	-	-	-	-	-	-	-
130	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	*70,362,342*	*70,362,342*	-	-	-	-	*(29,694)*	*(29,694)*	-	-	-	-	-	-	-
150	Off-balance sheet exposures	46,832,444	46,832,444	-	-	-	-	(378)	(378)	-	-	-	-		46,527,302	-
160	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
170	*General government*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
180	*Credit institutions*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
190	*Other financial corporations*	*46,801,244*	*46,801,244*	-	-	-	-	-	-	-	-	-	-		*46,525,097*	-
200	*Non-financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-		-	-
210	*Households*	*31,201*	*31,201*	-	-	-	-	*(378)*	*(378)*	-	-	-	-		*2,205*	-
220	**Total**	**965,820,209**	**965,525,798**	**294,410**	**97,286**	**-**	**97,286**	**(147,744)**	**(146,815)**	**(929)**	**(97,286)**	**-**	**(97,286)**	**-**	**55,044,883**	**-**

EU CQ3: Credit quality of performing and non-performing exposures by past due days

Individual & Consolidated

		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		Performing exposures	Not past due or past due ≤ 30 days	Past due > 30 days ≤ 90 days	Non-performing exposures	Unlikely to pay that are not past due or are past due ≤ 90 days	Past due > 90 days ≤ 180 days	Past due > 180 days ≤ 1 year	Past due > 1 year ≤ 2 years	Past due > 2 years ≤ 5 years	Past due > 5 years ≤ 7 years	Past due > 7 years	Of which defaulted
005	Cash balances at central banks and other demand deposits	592,323,556	592,323,556	-	-	-	-	-	-	-	-	-	-
010	Loans and advances	8,879,316	8,584,906	294,410	97,286	-	97,286	-	-	-	-	-	97,286
020	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
030	*General government*	-	-	-	-	-	-	-	-	-	-	-	-
040	*Credit institutions*	*22,500*	*22,500*	-	-	-	-	-	-	-	-	-	-
050	*Other financial corporations*	*8,462,628*	*8,178,651*	*283,977*	*86,165*	-	*86,165*	-	-	-	-	-	*86,165*
060	*Non-financial corporations*	*13,352*	*3,788*	*9,564*	*9,897*	-	*9,897*	-	-	-	-	-	*9,897*
070	*of which SMEs*	-	-	-	-	-	-	-	-	-	-	-	-
080	*Households*	*380,836*	*379,967*	*869*	*1,224*	-	*1,224*	-	-	-	-	-	*1,224*
090	Debt securities	317,784,892	317,784,892	-	-	-	-	-	-	-	-	-	-
100	*Central banks*	-	-	-	-	-	-	-	-	-	-	-	-
110	*General government*	*176,294,404*	*176,294,404*	-	-	-	-	-	-	-	-	-	-
120	*Credit institutions*	*71,128,146*	*71,128,146*	-	-	-	-	-	-	-	-	-	-
130	*Other financial corporations*	-	-	-	-	-	-	-	-	-	-	-	-
140	*Non-financial corporations*	*70,362,342*	*70,362,342*	-	-	-	-	-	-	-	-	-	-
150	Off-balance sheet exposures	46,832,444	-	-	-	-	-	-	-	-	-	-	-
160	*Central banks*	-			-								-
170	*General government*	-			-								-
180	*Credit institutions*	-			-								-
190	*Other financial corporations*	*46,801,244*			-								-
200	*Non-financial corporations*	-			-								-
210	*Households*	*31,201*			-								-
220	**Total**	**965,820,209**	**918,693,354**	**294,410**	**97,286**	**-**	**97,286**	**-**	**-**	**-**	**-**	**-**	**97,286**

5.1 COUNTERPARTY CREDIT RISK

The Bank calculates its capital requirement for CCR using the Original Exposure Method as outlined in Section 5 of Chapter 6 of Title II of Part Three of the CRR. Article 273a(2) of the CRR states that an institution may calculate the exposure value of its derivative positions in accordance with the method set out in Section 5 (that is the Original Exposure Method), provided that the size of its on and off balance sheet derivative business is equal to or less than both of the following thresholds on the basis of an assessment carried out on a monthly basis using the data as of the last day of the month:

- 5% of the institution's total assets; and
- EUR 100 million

Both of these thresholds were met during the entire financial year ending 31 December 2023, meaning that the Bank continued to use the Original Exposure Method (' OEM') to calculate the exposure value to CCR.

The table below presents an analysis of the Bank's CCR exposure and resulting risk weighted exposure amount. Given that the Bank only uses the Original Exposure Method, rows EU-2 to 5 as presented in the illustrative template have been excluded from the table displayed below. Furthermore, since the exposure to CCR arises from the activities performed by the Bank, the table below is applicable on both a Bank and Group level.

EU CCR1 - Analysis of CCR exposure by approach

Individual & Consolidated

		Replacement cost (RC)	Potential future credit exposure (PFE)	EEPE	Alpha used for computing regulatory exposure value	Exposure value pre-CRM	Exposure value post-CRM	Exposure value	RWEA
EU-1	EU - Original Exposure Method (for derivatives)	995,334	5,244,502		1.4	8,735,770	8,735,770	8,735,770	4,876,309
6	Total	995,334	5,244,502		1.4	8,735,770	8,735,770	8,735,770	4,876,309

6. MARKET RISK

As explained in Section 3 of this document, the Bank considers as material risk exposures foreign exchange risk and CVA risk. In light of this, it allocates the required capital requirement for both of these risks, as described in the following sections.

6.1 FOREIGN EXCHANGE RISK CAPITAL REQUIREMENT

In line with CRR, the Bank provides a Pillar 1 capital requirement for foreign exchange risk, which requirement is calculated using the standardised approach. The table below summarises the total risk weighted assets for foreign exchange risk and market risk for the Bank and the Group as at 31 December 2023. Given that the parent company operates only in Euro, no foreign exchange risk arises from transactions performed at holding level, meaning that the capital requirement on an individual and consolidated basis is identical. It is to be noted that since the Bank does not have any Pillar 1 requirements in relation to interest rate risk, commodity risk and equity risk then, rows 1, 2 and 4 to 8 of the illustrative template were excluded from the below disclosure.

EU MR1: Market risk under the standardised approach

Individual & Consolidated

		RWEAs
	Outright products	
3	Foreign exchange risk	-
9	**Total**	-

As per Article 351 of the CRR, an institution shall calculate an own funds requirement for foreign exchange risk if its overall net foreign-exchange position exceeds 2% of its own funds. As per the table below, given that the net foreign exchange position for the Bank amounted to less than 2% of the respective own funds, no own funds requirement was required to be allocated in this respect.

	Bank	Group
Total Own funds as at 31.12.2023	60,078,513	62,265,766
Overall Net Foreign-Exchange Position	965,551	965,551
% of own funds	1.61%	1.55%
Capital requirement (8% of net foreign-exchange position)	-	-

6.2 CREDIT VALUATION ADJUSTMENT

The Bank calculates its own funds requirement for CVA risk using the Standardised Method as outlined in Article 384 of the CRR. In light of this, rows 1 to 3 and EU-4 have been excluded from the illustrative disclosure. Given that CVA risk arises only from transactions performed by the Bank, the disclosure illustrated below is applicable on both an individual and consolidated basis.

EU CCR2 - Transactions subject to own funds requirements for CVA risk

Individual & Consolidated

		Exposure Value	RWEA
4	Transactions subject to the Standardised method	8,735,770	109,345
5	**Total transactions subject to own funds requirements for CVA risk**	8,735,770	109,345

7. OPERATIONAL RISK

The Bank uses the Basic Indicator Approach to measure the own funds requirement for operational risk, which method allocates a capital requirement equal to 15% of the average over three years of the relevant indicator, as defined in Article 316 of the CRR. The tables below illustrate the Bank's and the Group's operational risk capital requirement for the year ended 31 December 2023. The figures below are based on audited figures at the end of 2023, 2022 and 2021, respectively.

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

Individual

Banking activities		Relevant indicator			Own funds requirements	Risk-weighted exposure amount
		Year-3	Year-2	Year-1		
1	Banking activities subject to basic indicator approach (BIA)	11,925,546	15,757,332	29,647,070	2,866,497	35,831,218

Consolidated

Banking activities		Relevant indicator			Own funds requirements	Risk-weighted exposure amount
		Year-3	Year-2	Year-1		
1	Banking activities subject to basic indicator approach (BIA)	11,925,546	15,757,332	29,647,070	2,866,497	35,831,218

As stated earlier, since the Bank uses the Basic Indicator Approach to calculate the operational risk capital requirement, rows 2 to 5 as per the illustrative template have been excluded from the above tables.

As explained earlier, as from March 2023, the Pillar 2 capital requirement in relation to operational risk has been reduced to 4.5%, as a result of improvements noted by the MFSA during the 2022 SREP cycle.

8. LEVERAGE

The CRR requires institutions to control the risk of excessive leverage by requiring them to hold a leverage ratio of at least 3%. The tables below illustrate the computation of the Bank's and the Group's leverage ratios for the current and previous financial years. The risk of excessive leverage is not currently a concern for the Bank, given its strong profitability, limited growth in total exposure and capitalisation of profits.

EU LR2 - LRCom: Leverage ratio common disclosure

Individual

		CRR leverage ratio exposures	
		2023	2022
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs)	936,540,154	899,322,609
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	936,540,154	899,322,609
	Derivative exposures		
EU-9b	Exposure determined under the Original Exposure Method	8,735,770	10,713,331
13	Total derivatives exposures	8,735,770	10,713,331
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	46,832,444	48,622,294
20	(Adjustments for conversion to credit equivalent amount)	(25,466,174)	(26,719,751)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	(378)	-
22	Off-balance sheet exposures	21,365,892	21,902,543
	Capital and total exposure measure		
23	Tier 1 capital	60,078,513	45,746,302
24	Total exposure measure	966,641,816	931,938,483
	Leverage ratio		
25	Leverage ratio (%)	6.2152%	4.9087%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	6.2152%	4.9087%
26	Regulatory minimum leverage ratio requirement (%)	3.0000%	3.0000%
EU-26a	Additional own funds requirement to address the risk of excessive leverage (%)	0.0000%	0.0000%
EU-26b	Of which: to be made up of CET 1 capital	0.0000%	0.0000%
27	Leverage ratio buffer requirement (%)	0.0000%	0.0000%
EU-27a	Overall leverage ratio buffer requirement (%)	3.0000%	3.0000%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully-phased in	Fully-phased in
	Disclosure of mean values		
30	Total exposure measure (including the impact of applicable temporary exclusion 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)	966,641,816	931,938,483
30a	Total exposure measure (excluding the impact of applicable temporary exclusion 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)	966,641,816	931,938,483
31	Leverage ratio (including the impact of applicable temporary exclusion 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)	6.2152%	4.9087%
31a	Leverage ratio (excluding the impact of applicable temporary exclusion 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)	6.2152%	4.9087%

Consolidated

		CRR leverage ratio exposures 2023	CRR leverage ratio exposures 2022
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives and SFTs)	938,653,196	900,494,406
7	Total on-balance sheet exposures (excluding derivatives and SFTs)	938,653,196	900,494,406
	Derivative exposures		
EU-9b	Exposure determined under the Original Exposure Method	8,735,770	10,713,331
13	Total derivatives exposures	8,735,770	10,713,331
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	46,832,444	48,622,294
20	(Adjustments for conversion to credit equivalent amount)	(25,466,174)	(26,719,751)
21	(General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures)	(378)	-
22	Off-balance sheet exposures	21,365,892	21,902,543
	Capital and total exposure measure		
23	Tier 1 capital	62,265,766	46,875,241
24	Total exposure measure	968,754,858	933,110,280
	Leverage ratio		
25	Leverage ratio (%)	6.4274%	5.0235%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	6.4274%	5.0235%
26	Regulatory minimum leverage ratio requirement (%)	3.0000%	3.0000%
EU-26a	Additional own funds requirement to address the risk of excessive leverage (%)	0.0000%	0.0000%
EU-26b	Of which: to be made up of CET 1 capital	0.0000%	0.0000%
27	Leverage ratio buffer requirement (%)	0.0000%	0.0000%
EU-27a	Overall leverage ratio buffer requirement (%)	3.0000%	3.0000%
	Choice on transitional arrangements and relevant exposures		
EU-27b	Choice on transitional arrangements for the definition of the capital measure	Fully-phased in	Fully-phased in
	Disclosure of mean values		
30	Total exposure measure (including the impact of applicable temporary exclusion 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)	968,754,858	933,110,280
30a	Total exposure measure (excluding the impact of applicable temporary exclusion 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)	968,754,858	933,110,280
31	Leverage ratio (including the impact of applicable temporary exclusion 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)	6.4274%	5.0235%
31a	Leverage ratio (excluding the impact of applicable temporary exclusion 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)	6.4274%	5.0235%

The first section of the tables above presents the on-balance sheet exposures forming part of the total exposure measure. In this respect, rows 2 to 6 have been excluded from the illustrative template given that these items are not applicable for the Bank nor for the Group. With respect to derivative exposures, as explained earlier, the Bank uses the Original Exposure Method to calculate the exposure value of its derivative transactions. As a result, rows 8 to EU-9a and rows 10 to 12 as per the illustrative template have been excluded. Furthermore, the Bank does not engage in securities financing transactions subject to CCR, meaning that rows 14 to 18 and 28 to 29 in the illustrative disclosure are not applicable to the Bank's and the Group's leverage ratio computation and thus have been excluded from the EU LR2 tables above. The CRR allows institutions to make a number of exclusions from their total exposure measure. During financial years ending 2023 and 2022, the Bank did not elect to make any such exclusions and therefore rows EU-22a to EU-22k as per the illustrative template have been omitted.

With respect to the computation of the leverage ratio, the Bank and the Group do not have any public sector investments and promotional loans. Therefore, row EU-25 is not applicable and has been excluded from this disclosure.

The tables below provide a reconciliation between the Bank's and the Group's total assets as included in the Annual Report and the leverage ratio exposure measure as per row 24 of the tables above. As outlined below, the total exposure measure is equal to the total assets adjusted for derivative financial instruments and off-balance sheet items. Derivative financial instruments include the counterparty credit risk exposure for foreign exchange forward contracts entered into by the Bank, calculated using the Original Exposure Method. Off-balance sheet items include unutilised credit lines granted to customers, following the application of a 20% credit conversion factor, as well as bank guarantees which carry a 100% credit conversion factor. All specific provisions have already been deducted from the carrying amounts of the related assets and off-balance sheet items and are therefore not a source of difference between total assets as per the balance sheet and the total exposure measure. Given that these two items are the sole sources of differentiation, rows 2 to 7, 9 and 11 to 12, as per the illustrative disclosure, have been excluded from the tables presented below.

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

Individual

		Applicable amount
1	Total assets as per published financial statements	937,535,488
8	Adjustment for derivative financial instruments	7,740,436
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	21,365,892
13	**Total exposure measure**	**966,641,816**

Consolidated

		Applicable amount
1	Total assets as per published financial statements	939,648,530
8	Adjustment for derivative financial instruments	7,740,436
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	21,365,892
13	**Total exposure measure**	**968,754,858**

9. KEY METRICS

The tables below summarise the key regulatory metrics for the Bank and the Group as at the end of the current and previous financial years ending 31 December 2023 and 2022.

Key metrics template

Individual

		2023	2022
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	60,078,513	45,746,302
2	Tier 1 capital	60,078,513	45,746,302
3	**Total capital**	**60,078,513**	**45,746,302**
	Risk-weighted exposure amounts		
4	Total risk exposure amount	154,849,136	134,207,490
	Capital ratios (as a percentage of risk weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	38.7981%	34.0863%
6	Tier 1 ratio (%)	38.7981%	34.0863%
7	**Total capital ratio (%)**	**38.7981%**	**34.0863%**
	Additional own funds requirements to address risks other than the risk of excessive leverage (as percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	4.5000%	5.5000%
EU 7b	*of which: to be made up to CET 1 capital (percentage points)*	*2.5313%*	*3.3125%*
EU 7c	*of which: to be made up to Tier 1 capital (percentage points)*	*3.3750%*	*4.2500%*
EU 7d	**Total SREP own funds requirements (%)**	**12.500%**	**13.5000%**
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5000%	2.5000%
EU8a	Conservation buffer due to macro-prudential or systemic risk identified at the leve of a Member State (%)	0.0000%	0.0000%
9	Institution specific countercyclical capital buffer (%)	0.3102%	0.0135%
EU 9a	Systemic risk buffer (%)	0.0000%	0.0000%
10	Global Systematically Important Institution buffer (%)	0.0000%	0.0000%
EU 10a	Other Systematically Important Institution buffer (%)	0.0000%	0.0000%
11	**Combined buffer requirement (%)**	**2.8102%**	**2.5135%**
EU 11a	**Overall capital requirements (%)**	**15.3102%**	**16.0135%**
12	**CET 1 available after meeting the total SREP own funds requirements (%)**	**23.4879%**	**18.0728%**
	Leverage ratio		
13	Total exposure measure	966,641,816	931,938,483
14	Leverage ratio (%)	6.2152%	4.9087%
	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 (%)	0.0000%	0.0000%
EU 14b	*of which: to be made up of CET 1 capital (percentage points)*	*0.0000%*	*0.0000%*
EU 14c	**Total SREP leverage ratio requirements (%)**	**3.0000%**	**3.0000%**
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0.0000%	0.0000%
EU 14e	**Overall leverage ratio requirement (%)**	**3.0000%**	**3.0000%**
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (weighted value - average)	716,589,956	640,633,668
EU 16a	Cash outflows - Total weighted value	219,230,742	210,369,035
EU 16b	Cash inflows - Total weighted value	11,337,488	12,991,815
16	Total net cash outflows (adjusted value)	207,893,254	197,377,220
17	**Liquidity coverage ratio (%)**	**344.6913%**	**324.5733%**
	Net Stable Funding Ratio		
18	Total available stable funding	511,915,119	509,182,358
19	Total required stable funding	120,768,628	122,201,451
20	**NSFR ratio (%)**	**423.8809%**	**416.6746%**

As illustrated in the above table, the Bank's own funds increased by circa EUR14.3million during 2023, which increase is primarily attributable to EUR13.1million in profits generated by the Bank during the year ended 31 December 2023. This represents a significant increase in profit after tax when compared to the previous financial year, whereby profits amounted to EUR3.9million. During the current financial year, the Bank also performed another revaluation exercise for its property, which is accounted for at fair value, which exercise resulted in an increase in the Bank's property value and property revaluation reserve of EUR840thousand (net of related income taxes). In line with the increase in the Bank's balance sheet size, brought about primarily by increased funding from customer deposits, the Bank's risk weighted assets increased by EUR17.3million. Given that the increase in own funds outweighed the increase in risk weighted assets, the Bank's capital adequacy ratio increased by 5.6% during 2023, reaching 38.8% by the end of December.

Similarly to the capital ratio, the Bank's leverage ratio increased during 2023, primarily as a result of the increase in own funds, as explained in the previous section.

Finally, as illustrated by the Bank's LCR and NSFR ratios, the Bank continues to preserve its healthy liquidity position, with an LCR ratio of 344.7% and an NSFR ratio of 423.9%, as of the end of December 2023, representing an increase of 20.1% and 7.2%, respectively, when compared to the previous financial year. Both of these ratios are well in excess of the 100% regulatory requirement.

Consolidated

		2023	2022
	Available own funds (amounts)		
1	Common Equity Tier 1 (CET1) capital	62,265,766	46,875,241
2	Tier 1 capital	62,265,766	46,875,241
3	**Total capital**	**62,265,766**	**46,875,241**
	Risk-weighted exposure amounts		
4	Total risk exposure amount	156,962,178	134,441,850
	Capital ratios (as a percentage of risk weighted exposure amount)		
5	Common Equity Tier 1 ratio (%)	39.6693%	34.9274%
6	Tier 1 ratio (%)	39.6693%	34.9274%
7	**Total capital ratio (%)**	**39.6693%**	**34.8666%**
	Additional own funds requirements to address risks other than the risk of excessive leverage (as percentage of risk-weighted exposure amount)		
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	4.5000%	5.5000%
EU 7b	*of which: to be made up to CET 1 capital (percentage points)*	*2.5313%*	*3.3125%*
EU 7c	*of which: to be made up to Tier 1 capital (percentage points)*	*3.3750%*	*4.2500%*
EU 7d	**Total SREP own funds requirements (%)**	**12.5000%**	**13.5000%**
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)		
8	Capital conservation buffer (%)	2.5000%	2.5000%
EU8a	Conservation buffer due to macro-prudential or systemic risk identified at the leve of a Member State (%)	0.0000%	0.0000%
9	Institution specific countercyclical capital buffer (%)	0.2987%	0.0132%
EU 9a	Systemic risk buffer (%)	0.0000%	0.0000%
10	Global Systematically Important Institution buffer (%)	0.0000%	0.0000%
EU 10a	Other Systematically Important Institution buffer (%)	0.0000%	0.0000%
11	**Combined buffer requirement (%)**	**2.7987%**	**2.5132%**
EU 11a	**Overall capital requirements (%)**	**15.2987%**	**16.0132%**
12	**CET 1 available after meeting the total SREP own funds requirements (%)**	**24.3706%**	**18.9142%**
	Leverage ratio		
13	Total exposure measure	968,754,858	933,110,280
14	Leverage ratio (%)	6.4274%	5.0235%
	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 (%)	0.0000%	0.0000%
EU 14b	*of which: to be made up of CET 1 capital (percentage points)*	*0.0000%*	*0.0000%*
EU 14c	**Total SREP leverage ratio requirements (%)**	**3.0000%**	**3.0000%**
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)		
EU 14d	Leverage ratio buffer requirement (%)	0.0000%	0.0000%
EU 14e	**Overall leverage ratio requirement (%)**	**3.0000%**	**3.0000%**
	Liquidity Coverage Ratio		
15	Total high-quality liquid assets (HQLA) (weighted value - average)	716,589,956	640,633,668
EU 16a	Cash outflows - Total weighted value	219,230,742	210,369,035
EU 16b	Cash inflows - Total weighted value	11,337,488	13,226,175
16	Total net cash outflows (adjusted value)	207,893,254	197,142,860
17	**Liquidity coverage ratio (%)**	**344.6913%**	**324.9591%**
	Net Stable Funding Ratio		
18	Total available stable funding	511,915,119	510,311,295
19	Total required stable funding	121,886,337	122,318,631
20	**NSFR ratio (%)**	**419.9939%**	**417.1983%**

The position of the Bank is mirrored in Group-wide figures as presented above, with an increase in consolidated own funds, capital adequacy and leverage ratios. Similarly, the Group liquidity position continues to be robust, with both the liquidity coverage and net stable funding ratios, increasing during the current financial year ended 31 December 2023.

The table overleaf illustrate the progression in the Bank's LCR and NSFR during 2023, with the LCR being presented on a monthly basis, including the average ratio for the 12 months until December 2023. On the other hand, the NSFR is presented on a quarterly basis, including the average ratio for the 4 quarters until December 2023.

Liquidity Coverage Ratio

Individual & Consolidated

	January	February	March	April	May	June	July	August	September	October	November	December	Average
Total Liquid Assets	685,540,748	758,297,224	765,859,866	874,060,222	831,104,925	729,788,132	695,438,525	687,917,904	681,351,237	683,015,986	721,758,194	716,589,956	735,893,577
Total Liquidity Outflows	220,044,905	235,990,295	236,330,314	268,070,626	255,785,869	232,002,504	225,217,100	218,542,669	216,681,122	228,291,357	226,828,377	219,230,742	231,917,990
Total Liquidity Inflows	12,471,054	14,460,795	15,301,713	17,191,810	15,354,323	16,279,231	13,871,585	15,896,353	23,504,543	52,703,187	43,558,506	11,337,488	20,994,216
Net Liquidity Outflows	207,573,851	221,529,501	221,028,601	250,878,816	240,431,546	215,723,273	211,345,515	202,646,316	193,176,579	175,588,170	183,269,870	207,893,254	210,923,774
Liquidity Coverage Ratio ('LCR')	330.2635%	342.3008%	346.4981%	348.3994%	345.6722%	338.2983%	329.0529%	339.4673%	352.7090%	388.9875%	393.8226%	344.6913%	348.8908%

As illustrated in the table above, the Bank registered an average LCR for 2023 of 348.89%, with the maximum ratio of 393.82% registered for November 2023 and the lowest ratio of 329.05% recorded for the month of July.

Net Stable Funding Ratio

Individual

	March	June	September	December	Average
Total available stable funding	537,929,126	513,308,558	489,004,304	509,182,358	512,356,087
Total required stable funding	116,512,659	115,320,343	122,402,043	122,201,451	119,109,124
Net Stable Funding Ratio ('NSFR')	461.6916%	445.1154%	399.5067%	416.6746%	430.1569%

Consolidated

	March	June	September	December	Average
Total available stable funding	539,058,063	519,372,753	489,131,082	511,915,119	514,869,254
Total required stable funding	116,512,659	115,320,343	122,402,043	121,886,337	119,030,345
Net Stable Funding Ratio ('NSFR')	462.6605%	450.3739%	399.6102%	419.9939%	432.5529%

As presented in the table above, the Bank and the Group registered an average NSFR for 2023 of 430.16% and 432.55%, respectively. The lowest ratio was recorded for the month of September 2023, amounting to 399.51% for the Bank and 399.61% for the Group, while the highest ratio was registered for the month of March at 461.69% for the Bank and 462.66% for the Group.

10. REMUNERATION POLICY

10.1 GOVERNANCE

Being a 'less significant institution', the Bank is not required to set up a Remuneration Committee. The Bank has decided not to set up such Committee and therefore the functions of such Committee remain vested in the Board of Directors. The composition of the Board of Directors is set out in the Directors' Report.

The Bank did not engage external consultants to advise on the remuneration framework.

The Bank's current Remuneration Policy, applicable as at year-end 2023, is based on the following legal and regulatory requirements:

- Articles 92 to 94 of Directive 2013/36/EU (the Capital Requirements Directive)
- Banking Rule 21 '*Remuneration policies and practices*' (BR/21/2022)
- Commission Delegated Regulation (EU) 2021/93 of 25th March 2021, supplementing Directive 2013/36/EU
- Article 5 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27th November 2019 on sustainability-related disclosures in the financial services sector

The Remuneration Policy is set, approved and its implementation overseen by the Board of Directors The Remuneration Policy is applicable to the Bank as a whole, including the Bank's branch in Ireland and staff located in Austria.

The Remuneration Policy is reviewed annually. The last review of the Bank's Remuneration Policy for 2023 to 2025 was approved by the Board of Director in December 2023. The Remuneration Policy was updated in view of the self-assessment to identify staff whose professional activities have or may have a material impact on the Bank's risk profile performed in November 2023, and changes were made to grades and salary ranges. The said changes are not expected to have a material impact on remuneration of the Bank's staff overall.

Remuneration of Directors, in particular in the form of directors' fees, is subject to approval by the shareholders in general meeting, on recommendation by the Board of Directors, in accordance with the Bank's memorandum and articles of association.

The Board of Directors oversees the remuneration of the members of senior management and the heads of the internal control functions, including the risk management and compliance functions, and ensures the proper involvement of the internal control and other relevant functions within the Bank, notably the compliance function, risk management function and internal audit. The Managing Director, with the support of the HR Department, is responsible for the implementation of the Bank's Remuneration Policy and determines the remuneration of members of staff other than Senior Management, within the brackets and limits set out in the Remuneration Policy.

The Bank's internal control functions also play a role in the review of the Remuneration Policy. Firstly, the Compliance Department, under the responsibility of the Head of Compliance, analyses the Bank's compliance with applicable legislations, regulations, internal policies and risk culture, both in drafting the text of the policy and in its implementation. Secondly, the Risk Management function is required to assist in assessing how the variable remuneration structure affects the Bank's risk profile and culture. Finally, the internal audit function is tasked with carrying out an independent review of the design, implementation and effects of the Bank's Remuneration Policy on its risk profile and the way these effects are managed, in accordance with the internal audit plan.

10.2 REMUNERATION SYSTEM

The Bank's remuneration strategy is designed to competitively reward the achievement of long-term sustainable performance by identifying and rewarding competence and loyalty. Sustainable performance can be achieved by attracting and motivating the very best people who are committed to maintaining a long-term career with the Bank and performing their role in the long-term interests of the Bank and its stakeholders.

The Board aims to ensure that the level of remuneration is aligned to the market and above all its business strategy. Performance, although of utmost importance, should not only be judged on what is achieved over the short and long-term, but also on how this is achieved. The Bank takes the view that the latter contributes to the long-term sustainability of the business.

The Bank's remuneration system is designed on the following basic principles and components:

- Fixed pay (that is salaries payable to all employees) which primarily reflects relevant professional experience and organisational responsibility;
- Allowances and benefits (as applicable);
- Savings plan, awarded to the Bank's staff in Malta in the grades identified in the Remuneration Policy; staff at the Ireland Branch have access to a retirement benefit scheme instead;
- Annual performance bonus, payable to all employees upon the achievement of the Bank's pre-set performance targets, described in more detail in the subsequent sections of this report; and
- Deferred variable remuneration, awarded to the Bank's identified staff and eligible staff who are admitted as members to this scheme.

The Bank's remuneration system is designed to ensure that everyone within the Bank works towards the same goal, while avoiding departments taking excessive risks or pursuing objectives which are in conflict with the Bank's business strategy, with the aim of securing higher remuneration. Furthermore, the remuneration of identified staff, being those who have a material impact on the Bank's risk profile, is partly dependent on performance targets based on the Bank's Capital Adequacy Ratio, which reflects the Bank's primary risk exposures. While performance at Bank level is assessed for the Bank as a whole, the performance of departments and staff performing internal control functions is appraised, and variable remuneration determined, taking into account on the nature and objectives of the internal control function concerned.

The Bank's Remuneration Policy and related employment conditions are gender neutral, i.e., there is no differentiation between staff of the male, female or diverse genders. The Remuneration Policy is based on equal pay for male and female workers for equal work or work of equal value.

Identified staff refers to staff whose professional activities have or may have a material impact on the Bank's risk profile. In identifying such staff, the Bank performs a self-assessment based on the qualitative and quantitative criteria set out in Commission Delegated Regulation (EU) 2021/93. The outcome of this assessment is included in the Bank's Remuneration Policy.

Performance related variable remuneration reflects and supports a sustainable and risk adjusted performance. The variable component of total remuneration per annum shall not exceed 100% of the fixed component (annual salary) for each individual.

All variable remuneration awarded by the Bank to its staff is payable exclusively in cash.

The derogation laid down in Article 94(3) CRD was transposed into Maltese law by BR/21/2022 - Remuneration Policies and Practices (paragraph 20). The Bank is not a large institution as defined in point (146) of Article 4(1) of the CRR and the value of its assets on average and on an individual basis was less than €5 billion over the four-year period immediately preceding the financial year 2023, as referred to in Article 94(3)(a) CRD. The Bank therefore benefits from, and relies on, a derogation from the following requirements:

(i) a portion of variable remuneration to be paid in instruments as per para 19 (xii) BR21/2022 (Article 94(1)(l) CRD): 21 identified staff members benefitted from this derogation. The total amount of their remuneration as at 31st December 2023 was EUR2,2114,331 in fixed remuneration and EUR440,461 in variable remuneration;

(ii) deferral of a portion of variable remuneration over a period of minimum four (4) years as per para 19 (xiii) BR21/2022 (Article 94(1)(m) CRD): 14 identified staff members benefitted from this derogation. The total amount of their remuneration as at 31st December 2023 was EUR1,692,369 in fixed remuneration and EUR386,032 in variable remuneration;

(iii) discretionary pension benefits to be held and paid in instruments as per para 19 (xv) BR21/2022 (Article 94(1)(o) second paragraph CRD): the Bank does no grant such benefits.

10.2.1 Annual performance bonus

The annual performance bonus, which as stated earlier, can be awarded to all Bank staff, is linked to the achievement of the annual performance target as determined by the Board of Directors for every financial year and manifested in the Bank's budgets as approved by the

Board. The annual bonus pool is determined upon the achievement of the Bank's performance target, following which the annual performance bonus for each Bank employee can be awarded and paid out. Apart from the Bank's performance in general (which determines the size of the annual bonus pool), the performance of each employee and the department of which that employee forms part, also play a role in setting the annual performance bonus. The bonus payable to each employee is limited in size and complexity and is subject to a maximum limit, expressed as a coefficient of the monthly salary.

10.2.2 Deferred remuneration scheme

This scheme serves to reward and incentivise sustainable long-term service, talent and performance of key personnel at the Bank. This is achieved through financial reward in the form of deferred bonuses, the provision of which is catered for through a scheme funded through annual profits. Awards to the scheme may be reduced or reversed individually or collectively, for instance as *ex post* risk adjustments or as a recovery measure in line with the Bank's Recovery Plan.

Eligibility for participating in the scheme is limited to the Bank's identified staff and eligible staff admitted to the scheme. Admission to this scheme is not automatic, but is determined by the Board of Directors, on recommendation from the Managing Director. Such recommendation is made at the end of each financial year for participation in the scheme from the following year. Staff heading the Bank's internal control functions (including regulatory compliance, AML compliance, risk management and internal audit) do not participate in this scheme.

Funds are allocated to this scheme upon the attainment of the Bank's pre-set targets which are based on Return on Equity and the Capital Adequacy Ratio. Once it is determined that the pre-defined targets have been met, funds are allocated to the scheme from profits for the year under review, which funds are paid to the members of the scheme in three equal instalments payable in the subsequent three (3) financial years. The deferred bonus allocations awarded to each member of the scheme are expressed as a percentage of the fixed annual salary of the said member, determined by the Managing Director. In case of Senior Management, the allocation awarded is also subject to approval from the Board of Directors.

10.2.3 Malus and clawback arrangements

Deferred variable remuneration awarded under the Deferred Remuneration Scheme may be subject to malus arrangements in that deferred remuneration which was awarded in previous periods but has not yet vested (and hence not paid out) could be reduced if the Bank is in a recovery situation or experiencing deteriorated or negative financial earnings.

The Bank reserves the right, without prejudice to the general principles of civil and employment law, to reclaim upfront and deferred variable remuneration paid out to identified or eligible staff in the previous five years, if one of the following events occurs which require a performance or risk adjustment based on back testing:

- Fraudulent activity of the employee during the performance period;
- Dismissal for serious cause;
- Evidence of a severe misbehaviour or a breach of duty;
- Untruthful information provided by the employee, which information could have consequences on previous performance evaluations; or
- Severe lack of personal reliability and integrity.

10.3 REMUNERATION AWARDED DURING THE FINANCIAL YEAR

The table below provides a breakdown of the total remuneration awarded during the financial year to the Bank's Board of Directors (the management body) and other identified staff. Fixed remuneration includes salaries and allocations to employees' savings plans, while variable remuneration includes annual performance bonuses and amounts awarded under the Deferred Remuneration scheme.

Given that the Bank's holding company, Sparkasse (Holdings) Malta Ltd, does not employ any staff, the consolidated figures defer from the individual figures by the amount payable to the holding company's directors, all of which consists of fixed remuneration payable in cash. Such directors' fees (for SHM) are payable upon signing of the Annual Report, meaning that the entire amounts are deferred to the following financial. year.

Individual

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5.00	1.00	1.00	18.00
2		Total fixed remuneration	295,000	309,375	145,469	1,519,487
3		Of which: cash-based	295,000	270,000	145,469	1,437,919
7		Of which: other forms	-	39,375	-	81,568
9	Variable remuneration	Number of identified staff	1.00	1.00	1.00	18.00
10		Total variable remuneration	44,708	98,808	35,599	261,345
11		Of which: cash-based	44,708	98,808	35,599	261,345
12		Of which: deferred	44,708	53,808	14,354	58,380
17	Total remuneration (2 + 10)		**339,709**	**408,183**	**181,068**	**1,780,833**

Consolidated

			MB Supervisory function	MB Management function	Other senior management	Other identified staff
1	Fixed remuneration	Number of identified staff	5	1	1	18
2		Total fixed remuneration	310,000	324,375	145,469	1,519,487
3		Of which: cash-based	310,000	285,000	145,469	1,437,919
7		Of which: other forms	-	39,375	-	81,568
9	Variable remuneration	Number of identified staff	1	1	1	18
10		Total variable remuneration	44,708	98,808	35,599	261,345
11		Of which: cash-based	44,708	98,808	35,599	261,345
12		Of which: deferred	44,708	53,808	14,354	58,380
17	Total remuneration (2 + 10)		**354,709**	**423,183**	**181,068**	**1,780,833**

The Bank's senior management (as at 31 December 2023) is composed of the Bank's Managing Director and the Chief Technology Officer. The Managing Director is included in the second column under 'MB Management function' while the Chief Technology Officer is included under 'Other senior management'. All of the Bank's remuneration, both fixed and variable, is payable entirely in cash. Having said this, the allocation to the savings plan is not payable until the employee leaves employment (under the conditions set out in the remuneration policy) and is therefore allocated to the 'other forms' category. In light of this, rows 4 to 6, 8 and EU-13a to 16, as per the illustrative disclosure, have been excluded from this table.

During 2023, none of the Bank's staff, including identified staff as disclosed above, have received variable remuneration which exceed their fixed remuneration entitled.

10.4 DEFERRED REMUNERATION

The table below provides a breakdown of the total deferred remuneration awarded and paid to the Bank's Board of Directors (the management body) and other identified staff under the Deferred Remuneration Scheme.

As outlined earlier, deferred remuneration payable by the Bank is entirely cash based. In light of this, rows 3 to 6, 9 to 11, 17 to 18 and 21 to 22 as presented in the illustrative disclosure, have been excluded from the table presented below. Given that the Bank did not make any *ex post* implicit adjustments to deferred remuneration during the current financial year, nor has it awarded deferred remuneration for previous performance periods which is subject to retention periods, columns f and EU-h as presented in the illustrative disclosure, have also been excluded from the table below.

Given that SHM does not employ any staff to whom deferred remuneration is payable, the table below applies on both an individual and consolidated basis.

EU REM3 - Deferred Remuneration

Individual & Consolidated

	Deferred and retained remuneration	Total amount of deferred remuneration awarded for previous performance periods	Of which due to vest in the financial year	Of which vesting in subsequent financial years	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year	Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years	Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year
1	MB Supervisory function	84,125	44,708	39,417	-	139,500	44,708
2	Cash based	*84,125*	*44,708*	*39,417*	-	*139,500*	*44,708*
7	MB Management function	111,425	53,808	57,617	-	225,000	53,808
8	Cash based	*111,425*	*53,808*	*57,617*	-	*225,000*	*53,808*
13	Other senior management	*30,063*	*14,354*	*15,709*	-	*47,250*	*14,354*
14	Cash based	*30,063*	*14,354*	*15,709*	-	*47,250*	*14,354*
19	Other identified staff	133,808	58,380	75,427	-	254,250	58,380
20	Cash based	*133,808*	*58,380*	*75,427*	-	*254,250*	*58,380*
25	Total amount	329,358	156,897	172,461	-	618,750	156,897

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11. DECLARATIONS BY THE BOARD OF DIRECTORS AND MANAGING DIRECTOR

This Pillar 3 Disclosures document for the accounting period ended 31st December 2023, including the declarations below, were approved by the Board of Directors of Sparkasse Bank Malta public limited company (the 'Bank') on the 24th April 2024.

11.1 PILLAR 3 DISCLOSURES POLICY

The Bank's Board of Directors has adopted a Pillar 3 Disclosures Policy which sets out the Bank's policy to comply with the disclosure requirements laid down in Part Eight of the CRR (following the changes introduced by CRRII ; commonly referred to as 'Pillar 3 disclosures'), including the roles and responsibilities of the bodies and functions involved in ensuring compliance with Pillar 3 Disclosures requirements and the principles governing the internal processes, systems and controls to verify that the Bank's disclosures are appropriate and in compliance with the said requirements.

The Bank is allowed to omit certain disclosures listed in Titles II and III of Part Eight of the CRR where the information is regarded as being non-material, proprietary or confidential in accordance with Article 432 CRR. Presently, the Bank does not apply any disclosure waivers.

The Bank's Pillar 3 Disclosures are prepared internally based on information provided by various departments and functions, under the direction of the Managing Director. The Pillar 3 disclosures are reviewed by the Bank's Internal Audit Function and Risk Committee, prior to approval by the Board of Directors.

The Risk Management function is involved in the preparation of the Pillar 3 disclosures and advises on whether or not the disclosures required under Part Eight of CRR convey the Bank's risk profile comprehensively, and if not, which additional information should be disclosed. The Compliance Department is tasked with monitoring compliance with Pillar 3 Disclosures requirements and internal policies and procedures, in accordance with the compliance monitoring programme, following a risk-based approach.

The Bank's internal audit function is responsible for the independent review of internal processes, systems and controls to verify that the Bank's disclosures are appropriate and in compliance with Pillar 3 Disclosures requirements, in accordance with the internal audit plan following a risk-based approach.

The Pillar 3 Disclosures document is published in electronic format on the Bank's website.

The Managing Director has confirmed that the Bank has made the disclosures required under Part Eight of CRR in accordance with the Pillar 3 Disclosures Policy.

11.2 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank's overall risk profile associated with the business strategy is described in Section 2 of the Pillar 3 Disclosures document. The Board of Directors declares that the Bank's risk management arrangements put in place, as explained in Section 2 of the Pillar 3 Disclosures document, are adequate with regard to the Bank's profile and strategy.

The Bank does not engage in any material transactions with its parent company (SHM) and any other related parties, and its risk profile is not affected by the parent in any tangible manner. The consolidated Group structure is simple, composed of the Bank itself and its financial holding company, SHM.

SPARKASSE
Bank Malta plc

101, Townsquare, Ix-Xatt ta' Qui-si-Sana, Sliema, SLM 3112, Malta.
Tel: 21335705 Fax: 21335710 E-mail: info@sparkasse-bank-malta.com