SPARKASSE
Bank Malta plc

2020
Annual Report

PRIVATE & CORPORATE BANKING / WEALTH MANAGEMENT / FUND CUSTODY

MISSION STATEMENT

Our goal is to deliver highly personalised banking and innovative investment solutions backed by experience, competence and robust support services.

Sparkasse Bank Malta plc has built its reputation on understanding the needs of individuals, whatever their walk of life, developing relationships and responding to them effectively and discreetly.

We believe in relationships – both with our clients as well as with our institutional partners.

GLOSSARY OF ABBREVIATIONS

- **ACM** Audit Committee
- **AC** Amortised Cost
- **AR** Annual Report
- **AVS** Anteilsverwaltungssparkasse Schwaz
- **BCP** Business Continuity Management
- **BoD** Board of Directors
- **CAR** Capital Adequacy Ratio
- **CBM** Central Bank of Malta
- **CET1** Common Equity Tier 1
- **CRD** Capital Requirements Directive
- **CRR** Capital Requirements Regulation
- **EBA** European Banking Authority
- **ECL** Expected Credit Loss
- **FIAU** Financial Intelligence Analysis Unit
- **FVOCI** Fair Value Through Other Comprehensive Income
- **FVTPL** Fair Value Through Profit and Loss
- **IAS** International Accounting Standards
- **IASB** International Accounting Standards Board
- **ICAAP** Internal Capital Adequacy Assessment Process
- **IFRIC** International Financial Reporting Interpretations Committee
- **IFRS** Internal Financial Reporting Standards
- **IFSP** Institution of Financial Services Practitioners
- **ILAAP** Internal Liquidity Adequacy Assessment Process
- **LCR** Liquidity Coverage Ratio
- **LSI** Less Significant Institution
- **MD** Managing Director
- **NED** Non-Executive Director
- **MANCO** Management Committee
- **MFSA** Malta Financial Services Authority
- **NII** Net Interest Income
- **NSFR** Net Stable Funding Ratio
- **ROE** Return on Equity
- **ROA** Return on Assets
- **RWA** Risk Weighted Assets
- **SBM** Sparkasse Bank Malta plc
- **SEPA** Single Euro Payments Area
- **SHM** Sparkasse (Holdings) Malta Limited
- **SIC** Standing Interpretations Committee
- **SPS** Sparkasse Schwaz AG
- **T1** Tier 1 Capital
- **TIMCO** Treasury and Investment Management Committee

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DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors of Sparkasse Bank Malta plc present their report and the audited financial statements for the year ended 31st December 2020.

PRINCIPAL ACTIVITIES

Sparkasse Bank Malta plc (''the Bank'') is licensed as a Credit Institution under the Banking Act of Malta 1994. In addition to its Banking License, the Bank is also licensed under the Investment Services Act under as a Category 2 and a Category 4a license holder.

The above investment services licenses allow the Bank to provide Investment Services of an Advisory and Non-Advisory nature as well as to act as Custodian and Depositary to fund licensed in Malta. Investment services represents a significant part of the Bank's business model.

In addition, to the above, in late 2018, the Bank was granted a license by the Central Bank of Ireland to provide Depositary Services to funds established in Ireland.

COVID – 19

The first quarter of the year was marred by the events and the impact of the Coronavirus that caught the world by surprise and disrupted daily lives, businesses, travel and economies.

Malta registered its first case of COVID on the 6th March 2020. Prior to this date however, the Bank was closely following developments in this regard and had decided to implement precautionary measures early in the year. It introduced its remote working protocol for the majority of its work force in February prior to the local outbreak. Ever since, the Bank has continued to operate in this mode and has managed to do so successfully for the rest of the year and into 2021.

During this period the Bank did not experience any disruptions to its daily operations as its priorities were focused on supporting its business, protect and foster staff health and safety and heighten monitoring of the Bank's financial assets as a result of the stock market volatility triggered by the pandemic.

As granting of loans is not a core business for the Bank this element of inherent risk brought about by the pandemic was of no effect to the Bank.

General overview and key notes

2020 was yet another successful year for the Bank in terms of revenue.

Despite the challenges brought about by the COVID-19 pandemic, the Bank recorded strong revenues for the year to the tune of EUR 13.6 million compared to the higher water mark of EUR 14.6 million achieved in the previous year.

The drop in revenue was entirely attributed to the decrease in interest income due to the Bank's exposure to Euro. Current ECB interest rate policy combined with the Bank's risk averse approach in managing its assets continues to impact the revenue achievable form interest income.

Profit of the year after impairment provision was EUR 3.9 million versus that of EUR 5.8 million in the previous year. The drop in profit was mainly a result of an impairment charge and the reduction in net interest income as explained above. The general increase in expenses mainly related to IT costs and Regulatory contributions also impacted profit levels. Total costs for the year came in at EUR 8 million compared to EUR 7.4 million for the previous years.

In terms of new business the Bank was successful in growing both its balance sheet as well as assets under custody both locally as well as in Ireland.

DIRECTORS' REPORT *(continued)*

Balance sheet as at year end increased to EUR 876 million from EUR 810 million, and assets under custody to EUR 5.0 billion from EUR 3.3 billion in 2019. The increase in assets was mainly a result of the Bank's ability to continue to attract depository and custody business both in Malta and Ireland.

Key ratios for the year remain robust showing strong and sustainable profits with a Capital Adequacy Ratio ("CAR") of 26.83%, a Cost to Income Ratio of 69%, and a Return on Equity ("ROE") of 4.0%. These positive figures further confirm the Bank's sound business model and its capability of operating within its key strategic ratios.

Risk

Throughout the year, the Bank continued with its de-risking strategy and the implementation of further internal controls in an effort to mitigate against ICT risk, ML/TF risk and Operational risk.

Focus and resources were invested in the implementation of more automated processes, strengthening of controls at the first lines of defence, training and developing the Bank's organisational structure in a manner that is conducive to functionality, effectiveness and control.

As technology continues to play a more significant role within banking, the Board has continued to support further investment in this area both in terms of its infrastructure as well as with the recruitment of further expertise for its IT department. The Board continues to identify its IT capabilities as critical for the Bank's growth and sustainability. Investment in this area has reached circa 12% of total costs.

During the year the Bank also worked closely with the FIAU in demonstrating the Bank's automation capabilities and processes in relation to the Bank's commitment to combat ML/TF. In this regard a directive previously placed upon the Bank was removed as a result of the Bank's positive efforts in implementing heightened controls and risk mitigating processes.

Internal Governance

The key responsibilities of the Bank's Board of Directors consist of 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. The Board of Directors has appointed an Audit Committee to assist it in its oversight function and to advise on the Bank's internal control, internal audit and risk management systems and the Bank's accounting policies and external audit.

Senior Management, currently vested in the Managing Director (CEO), is responsible for the implementation of the strategies set by the Board of Directors and is accountable to the Board of Directors for the day-to-day running of the Bank. Senior Management is supported in this task by the following management committees, with the aim to ensure effective communication, coordination and cooperation between Senior Management and the departments, unit and functions within the Bank, top-down and bottom-up, as well as between the various departments, units and functions themselves:

- The Management Committee in Malta, with the following sub-committees: Credit Review Committee, Treasury and Investment Management Committee and Account Closing Committee;
- The Ireland Branch Committee, with the following sub-committees: Onboarding Committee and Depositary Committee.

The Bank's internal control framework is based on the "three lines of defence" model for risk management:

- The business units act as a first line of defence: they take risks and are responsible for their operational management on a day-to-day basis.
- The risk management function and compliance functions (regulatory compliance and AML / CTF compliance) form the second line of defence. The risk management function facilitates the implementation of the Bank's risk management framework and has

DIRECTORS' REPORT *(continued)*

responsibility for further identifying, monitoring, analysing, measuring, managing and reporting on risks and forming a holistic view on all risks. The compliance function monitors compliance with legal and regulatory requirements and internal policies, provides advice on compliance to the Board of Directors and staff; it establishes policies and processes to manage compliance risks and to ensure compliance.

- Internal Audit acts as the third line of defence. The internal audit function conducts risk-based and general audits and is in charge of the independent review of the first two lines of defence.

The Bank is organised so that the internal control functions (second and third lines of defence) are independent from the business and support units they control, with an appropriate segregation of duties and reporting lines.

The composition of the Board of Directors during the period under review was as follows:

- Harald Wanke Chairman of the Board of Director
- Paul Mifsud Managing Director
- James Bonello Independent Non-Executive Director (appointed with effect from 6th July 2020)
- Serge D'Orazio Independent Non-Executive Director
- Andrew Manduca Independent Non-Executive Director and Chairman of the Audit Committee

Capital – Dividends and Reserves

From profits generated in 2019, in 2020 the Bank proceeded to complete its increase in share capital by a further Eur4.0M to Eur34.0M. Similarly from profit generated in 2020 the intention is to further capitalise Eur2.0M in share capital in line with the bank's on-going dividend policy of reinvesting in the Bank to support the growth of its business.

Liquidity, Own Funds and Other Ratios

Total Assets at year-end stood at EUR 876 million up from EUR 810 million in 2019. The Bank registered the following important banking ratios at year end:

Own Funds	EUR 38.0 million
Common Equity Tier 1 Ratio	26.83%
Total Risk Weighted Assets	EUR 141.5 million
Leverage Ratio	4.31%
Liquidity Coverage Ratio	388.91%
Net Stable Funding Ratio	440.87%

Projects and Going Forward

The Bank remains committed to its business in Malta and Ireland, its service lines and in providing a prompt and professional service to its customers.

DIRECTORS' REPORT *(continued)*

As the Bank seeks to grow its business and capital base, the Bank is also conscious of the inherent risks in the market. In this respect the Bank shall remain vigilant on what new business it will take on while seeking to protect its existing business.

As in previous years, the Bank will continue to invest in its internal resources in an effort to continue strengthening its operations by further investment in, Human Resources, and IT.

Corporate Social Responsibility

As part of the Bank's Corporate Social Responsibility Programme the Bank continues to support the local heritage through sponsorship programs offered by "Din L-Art Helwa" for the restoration of Maltese heritage and culture where it continued to support the restoration of the Saint Nicholas and St. Michael the Archangel painting by Mattia Preti located at the Sarria Church. The Bank also supports several other initiatives of a cultural and charitable nature and local NGO's.

Standard License Conditions

In accordance with Rule R4-5.3.5 of Investment Service Rules for Investment Service Providers and paragraph 2.30 of SLC applicable for Custodians issued by the Malta Financial Services Authority, licence holders are required to disclose any regulatory breaches of standard licence conditions in their annual report.

In this respect the Directors confirm that no breaches of such Rules and no other breach of regulatory requirements, which were subject to an administrative penalty or other regulatory sanction, were reported.

Auditors

BDO Malta have expressed their willingness to continue in office as auditors of the Bank and a resolution proposing their reappointment will be submitted in the forthcoming Annual General.

Approved by the Board of Directors on the 9th April 2021 and signed on its behalf by its Directors:

Harald Wanke

Chairman of the Board

Paul Mifsud

Managing Director

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Harald Wanke

Chairman of the Board / ACM

Was born and resides in Austria. He graduated in economics after which he joined the bank of Sparkasse Schwaz as a senior manager within the Marketing Department. He was then appointed member of the Managing Board, a post he retained until 1988. Prior to his election as Chairman on the board of Sparkasse Schwaz he held the post of Assistant Chairman for a number of years. In 2000, Sparkasse Bank Malta plc started its operation and Mr. Wanke has been Chairman on the local board ever since. He holds further positions on the board of Global Fund Selection SICAV acting as president and president of the Savings Banks Group of Tirol and Vorarlberg.

Paul Mifsud

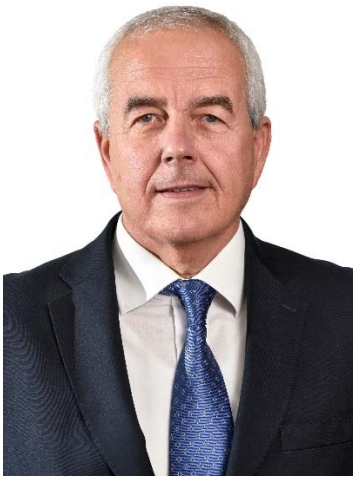
Managing Director

Attended Downside School, a Benedictine school in Bath (UK). Gained his experience in finance through his education at the Centre International De Glion, in Switzerland where he graduated in Management and Finance. He furthered his education in securities from The Chartered Institute for Securities & Investment in London. In 2015, he completed his Masters as a Chartered Banker from Bangor University, Wales.

Joined the Bank in 2006 as Managing Director after the acquisition of Quest Investment Services – a company he was a Senior Partner in, performing Investment Advisory Services. He was instrumental in developing the Bank' s business and presence in Malta and making the Bank become a major player in Fund Custody and Wealth Management. His areas of expertise are securities including trading, settlements, advisory, custody and compliance.

Andrew Manduca

Non-Executive Director / ACM



Mr. Manduca joined the Board of Directors in June 2016. He is also the Chairman of the audit committee of the Bank.

Mr. Manduca was the founder partner in 1980 of a small Maltese accounting firm that went on to become the member firm of Deloitte in 1989. He retired as Chairman and Senior Partner of Deloitte Malta in December 2015. He is a Certified Public Accountant and a fellow of the Chartered Association of Certified Accountants (UK). He is a former President of the Malta Institute of Accountants, a former President of the Institute of Financial Services Practitioners ("IFSP") and a former member of the Board of Governors of Finance Malta.

He was educated at St Edwards College and subsequently served on the Board of Governors of this school for 21 years.

BOARD OF DIRECTORS *(continued)*

Serge D'Orazio

Non-Executive Director / ACM

Was born and resides in Luxembourg. He graduated in Economics at Panthéon Sorbonne in Paris after which he joined the KBL European Private Bankers in Luxembourg, where he spent all his banking career spanning over thirty-two years working in the Securities, Depositary and Fund business. Between 1997 and 2015, he held positions as Head of Relationship Management of Institutional Clients and Head of Investment Funds & Global Custody Services. From January 2015 to December 2017, he held the position of General Manager of Institutional & Professional Services (Luxembourg), directly reporting to the Bank's Executive Committee.

After retiring from KBL, he was appointed as Non-Executive Director at Sparkasse Bank Malta plc while also holding other independent directorships with various other Investment Funds and Fund Management Companies, all domiciled in Luxembourg.

Mr. D'Orazio was also a member of various working groups and committees within the Luxembourg financial centre (ALFI, ABBL) and is still today coordinator of ALFI's Conferences Advisory Committee. He was also a visiting Professor at the Université de Liège in Belgium.

James Bonello

Non-Executive Director
(Appointed on 6th July 2020)

Mr. Bonello was appointed to the Board of Directors in July 2020.

He started his banking career with Barclays Bank D.C.O. in 1965, and held various senior management positions within Mid-Med Bank Ltd, which took over the business of Barclays Bank in Malta in 1975. Between 1989 and 1993, he was seconded by the bank to the Malta International Business Authority (now the Malta Financial Services Authority) where he served as Chief Executive. In 1998, he resumed his duties within the bank and was appointed General Manager Operations with responsibility for Credit and Finance.

Upon HSBC's acquisition of Mid-Med Bank in 1999, Mr Bonello was appointed Head of Commercial Banking within HSBC Bank Malta p.l.c. He was also appointed Executive Director on the bank's Board in 2002. In 2004, he retired from the bank and took over as Secretary General of the Malta Bankers' Association, which position he held until his retirement in 2018.

Mr. Bonello is a Fellow of the Institute of Financial Services, Malta, and served for ten years on the Institute's Council, the last two years as President.

HEADS OF DEPARTMENTS AND MANAGEMENT

HEADS OF DEPARTMENTS AND MANAGEMENT

The below personnel are members of Management of Sparkasse Bank Malta plc and are all involved in some extent or other to support and assist the Managing Director and other executives, if any, in the performance their management tasks, in particular by ensuring effective 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.

Business

- Anna Mironova — Head of Securities, Custody and Depositary
- Beppe Cassar — Manager – Private and Corporate Banking
- Donncha Morrissey — Head of Ireland Branch
- Neil Gambin — Manager – Operations and Payments

Support

- Christian Reiter — Head of I.T.
- Daniele Cop — Head of Legal / Company Secretary
- Elvio DeGabriele — Manager – Finance
- Rachelle Camilleri Bugelli — Manager – Account Administration and Records

Internal Control

- Alexandra Sciberras — Head of A.M.L.
- Miguel Attard — Head of A.M.L. and Compliance – Ireland Branch
- Simon Schembri Rivera — Manager – Risk
- Stephanie Ebejer — Head of Compliance

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORT

The Companies Act (Cap. 386) (the "Act") requires the directors of Sparkasse Bank Malta plc (the "Bank") to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank as at the end of the financial year and of the profit or loss of the Bank for that period. In preparing the financial statements, the Directors are responsible for:

- Ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the European Union;
- Selecting appropriate accounting policies and applying them consistently;
- Making accounting judgments and estimates that are reasonable in the circumstances;
- Ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Bank will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal controls relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Companies Act (Cap.386) and the Banking Act (Cap. 371). They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank and to enable them to ensure that the financial statements have been properly prepared in accordance with the provisions of the Companies Act (Cap. 386) and the Banking Act (Cap. 371).

After reviewing the Bank's plans for the coming financial years, the Directors are satisfied that at the time of approving the financial statements, it is appropriate to continue adopting the going concern basis in the financial statements.

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

Management is responsible, with oversight from the Directors, to establish a control environment and maintain policies and procedures to assist in achieving the objective of ensuring, as far as possible, the orderly and efficient conduct of the Bank's business. This responsibility includes establishing and maintaining controls pertaining to the Bank's objective of preparing financial statements as required by the Act and managing risks that may give rise to material misstatements in those financial statements. In determining which controls to implement in order to prevent and detect fraud, Management considers the risks that the financial statements may be materially misstated as a result of fraud.

REMUNERATION REPORT

REMUNERATION REPORT

Elements and Principles of the Remuneration Policy

For the sake of this report, Identified Staff, are Staff personnel whose actions are deemed to have a critical operational effect and have material impact on the risk profile of the Bank. Such Identified Staff are mainly the members of the Board of Directors and Management Committee.

The remuneration packages offered to these staff personnel are broken down as follows:

- Fixed Element: this basically encompasses the salary set out the in the personnel's employment contract which is based on local market conditions, level of expertise and experience and performance.
- Variable Element: such a variable element is seen as a means to motivate the staff employed at the Bank to reach the targets set out in the beginning of the year. Performance of the staff personnel is taken to be of critical importance for the pay out of such a variable element.
- Further to the above, staff is entitled to other non-cash benefits such as health insurance and pension plan.
- The Managing Director is also entitled to the use of a company car.

Directors

The remuneration of the Directors is not performance related and does not include any profit sharing schemes or any other benefits apart from the Bank's contributions to the Pension plan and Deferred Variable Remuneration for the Executive Directors. Both Executive Directors have a contract which binds them to the Bank on a day-to-day basis. The other Non-Executive Directors attend the necessary meetings such as Management Committee meetings, Board Meetings and Annual General Meetings as deemed necessary. The fees attributable to Directors, including Non-Executive Directors, are as follows:

	Fixed Remuneration		Variable Remuneration	
	2020	2019	2020	2019
	EUR	EUR	EUR	EUR
Executive Directors	243,086.00	266,010.84	96,410.33	103,142.05
Non-Executive Directors	284,872.00	144,704.33	-	-
	527,958.00	**410,715.17**	**96,410.33**	**103,142.05**

Staff Emoluments

The Bank aims to ensure that new recruits have the necessary skills and attributes necessary to work for Sparkasse Bank Malta plc. All staff personnel are hired on an indefinite contract basis, after completing a statutory period of probation. This is all set out and represented in the staff's employment contracts.

All staff personnel of the Bank are eligible for annual salary increments as the Board of Directors deem fit. All staff is also entitled to a performance bonus which does not exceed 100% of the fixed component of the total remuneration of each individual. It is usually equivalent to one month's pay of the individual monthly gross salary.

Senior Management who are seen as Identified Staff by the Bank and thus, represented by the Bank's Board of Directors, Business Line Managers and other senior personnel are entitled to a performance bonus which may exceed one month's gross salary of the individual.

All staff personnel are also entitled to other benefits such as a pension plan contribution after three years of service at the Bank and a private health insurance scheme.

REMUNERATION REPORT (continued)

Identified Staff Emoluments

	Fixed Remuneration		Variable Remuneration	
	2020	2019	2020	2019
	EUR	EUR	EUR	EUR
Identified Staff	1,110,995.35	861,229.51	261,075.34	327,609.81

Deferred Remuneration

Besides providing for the Annual Incentive and Bonus, the Bank shall also provide for "Deferred Variable Remuneration" for identified staff that shall serve to reward and incentivise sustainable long-term service, talent and performance of key personnel at the Bank. This should be achieved through financial reward in the form of deferred bonuses the provision of which shall be catered for through a scheme funded through annual profits and allocated to the scheme. These funds shall be held by the scheme in favour of members and subsequently distributed in accordance with the policy of this scheme. The criteria for an allotment into the scheme is based on the Capital Adequacy Ratio and the Return on Equity reported at the end of the financial year.

AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SPARKASSE BANK MALTA PLC

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRSs) and have been prepared in accordance with the requirements of the Companies Act (Cap. 386) and the Banking Act (Cap. 371).

What we have audited

We have audited the financial statements of Sparkasse Bank Malta plc («the Bank»), set out on pages 32 to 103, which comprise the statement of financial position as at 31 December 2020, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) in Malta, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

An overview of the scope of our audit

Our audit scope focused on the Bank's only operating location being Sliema in Malta. We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of material misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatements we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We determine materiality for the Bank to be EUR 263,000 which is approximately 7.2% of profit before tax and 0.7% of total equity. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition.

On the basis of risk assessments, our judgement was that overall performance materiality for the bank should be 74% of planning materiality, and clearly trivial error is EUR 9,000.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SPARKASSE BANK MALTA PLC *(continued)*

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1 Valuation of investments and the verification of related income streams

Key Audit Matter

Valuation of investments has been identified as a key audit matter because of the significance of their carrying value in the Statement of Financial Position. Likewise, income streams from investments represent a significant portion of all income included in the Statement of Comprehensive Income.

Related Disclosures

Refer to note 11 of the accompanying financial statements.

Audit Response

We checked, through independent sources, the year-end values of the investments held and re-calculated the carrying value for each investment. We obtained and analysed all the documents related to the sales and purchases of the investments, including bonds, treasury bills and funds. These substantive procedures were also carried out to verify the accuracy of the foreign exchange differences relating to investments (which comprise a significant part of total foreign exchange differences), the accuracy of the interest income on debt and fixed income securities and the accuracy of the movements in the revaluation reserve.

We have no key observations to report, specific to this matter.

2 Verification of loans and advances to banks and customers and the measurement of related impairment allowances

Key Audit Matter

Loans and advances to banks and customers represent a significant portion of the total assets of the Bank. Accordingly, the calculation of the expected credit loss allowances on these loans and advances may have a material impact on the Statement of Financial Position and the Statement of Comprehensive Income. This calculation involves a number of complex, judgemental and sensitive assumptions. It is to be noted that the Retail portfolio of the Bank is significantly lower than the Wholesale portfolio.

Related Disclosures

Refer to note 9 and 10 of the accompanying financial statements.

Audit Response

We obtained and analysed 100% of the reconciliations related to the Bank's current accounts with other banks and with the Central Bank. We have sent balance confirmation requests to other banks to get the replies directly from independent counterparty. We reviewed the Bank policy on provision allowances on loans and advances to banks and re-tested its application. We also obtained and analysed these banks' credit ratings.

We have also obtained and reviewed all the loans and advances provided to the customers of the Bank. The provision methodology in respect of these loans and advances was reviewed and its application tested. Security on these loans and advances was also checked. We also queried management on particular balances where repayment issues were noted.

We have no key observations to report, specific to this matter.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SPARKASSE BANK MALTA PLC *(continued)*

Other Information

The directors are responsible for the other information. The other information comprises the directors' report, remuneration report, detailed income statement and 5 years summary, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Directors' Report, we also considered whether the Directors' Report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386). Based on the work we have performed, in our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap.386).

In addition, in light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report. We have nothing to report in this regard

Responsibilities of the Directors

As explained more fully in the Statements of Directors' Responsibilities set out on page 19, the directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with EU IFRS and the requirements of the Maltese Banking Act (Cap. 371) and the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SPARKASSE BANK MALTA PLC *(continued)*

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Under the Maltese Companies Act (Cap. 386) and Banking Act (Cap. 371) we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit.
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SPARKASSE BANK MALTA PLC *(continued)*

- The information given in the directors' report is not consistent with the financial statements.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

Appointment

We were first appointed as the statutory auditor by the General Meeting of Shareholders for the financial year ended 31 December 2001. This appointment was renewed on the annual basis by the shareholders till the current year. The total uninterrupted engagement period as statutory auditor, including previous renewals and reappointments amounts to 20 years.

Consistency with the additional report to the audit committee

Our audit opinion on the financial statements expressed herein is consistent with the additional report to the audit committee of the Bank which was issued on 09 March 2021.

Non-audit services

No prohibited non-audit services referred to in Article 18A(1) of the Accountancy Profession Act (Cap.281) were provided by us to the Bank and we remain independent of the Bank as described in the Basis for the Opinion section of our report.

No other services besides statutory audit services and services disclosed in the annual report and in the financial statements, were provided by us to the Bank.

BDO Malta
Certified Public Accountants
Registered Audit Firm

It-Torri Street
Msida MSD 1824
Malta

9th April 2021

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2020 EUR	2019 EUR
Interest receivable and similar income	1	6,840,467.23	7,449,231.20
Interest payable and similar charges	1	(1,879,675.66)	(1,368,701.55)
Net interest income		**4,960,791.57**	**6,080,529.65**
Fees and commission income	2	8,612,643.35	8,240,284.07
Fees and commission expense	2	(1,188,467.87)	(1,333,937.46)
Net fee and commission income		**7,424,175.48**	**6,906,346.61**
Impairment provision reversal		56,387.90	33,425.70
Net Fair Value Movement on Financial Assets at FVTPL		(106,663.89)	200,525.62
(Increase) of Net Impairment Loss on Financial Assets		(2,153,470.87)	(1,365,787.39)
Profit on foreign exchange activities		1,215,909.37	1,298,640.40
Other operating income		441,767.88	47,250.25
		(546,069.61)	214,054.58
Results from operating activities		**11,838,897.44**	**13,200,930.84**
Staff costs		(4,300,489.08)	(3,914,141.45)
Depreciation and amortisation	12-15	(1,025,910.70)	(881,850.16)
Other operating costs		(2,872,732.92)	(2,561,075.70)
		(8,199,132.70)	(7,357,067.31)
Profit before income tax	3	**3,639,764.74**	**5,843,863.53**
Income tax expense	5	(2,025,170.00)	(1,959,751.64)
Profit for the year		**1,614,594.74**	**3,884,111.89**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
- change in fair value		(220,016.94)	(145,673.06)
- income taxes		77,005.93	50,985.57
Other comprehensive income (net of income tax)		(143,011.01)	(94,687.49)
Items that will not be reclassified to profit or loss			
Freehold Premises			
- surplus arising on revaluation		-	3,743,586.61
- income taxes		-	(299,486.93)
Other comprehensive income (net of income tax)		-	3,444,099.68
Total comprehensive income for the year		**1,471,583.73**	**7,233,524.08**
Earnings per share	6	**70.61**	**199.16**

STATEMENT OF FINANCIAL POSITION

	Note	2020 EUR	2019 (As Restated) EUR
Assets			
Cash and Balances held with Central Bank of Malta	8	574,370,801.65	442,218,881.20
Loans and advances to banks	9	65,255,102.28	93,466,175.52
Loans and advances to customers	10	17,975,029.13	18,708,207.71
Financial assets at Amortised Cost	11.1	202,941,373.42	183,272,107.89
Financial assets at Fair Value through other Comprehensive Income	11.2	-	54,639,537.91
Financial assets mandatorily measured at Fair Value through Profit or Loss	11.3	68,460.00	3,169,494.15
Property, plant and equipment	12	9,036,798.89	9,239,742.12
Intangible assets	13	2,756,136.38	2,326,356.83
Right-of-Use Assets	14	1,052,956.39	1,153,058.95
Prepayments and accrued income	15	1,168,144.29	1,387,366.51
Deferred tax Asset	16	1,698,784.93	1,119,499.00
Other assets	17	229,682.14	37,586.66
Total Assets		**876,553,269.50**	**810,738,014.45**
Equity and Liabilities			
Equity			
Called up share capital	23	34,000,000.00	30,000,000.00
Fair Value Reserve	24	(27,056.94)	115,954.07
Property Revaluation Reserve	25	3,444,099.68	3,444,099.68
Retained earnings		3,326,987.11	5,712,392.37
Total Equity		**40,744,029.85**	**39,272,446.12**
Liabilities			
Amount owed to banks	18	910,662.32	1,078,033.19
Amount owed to customers	19	830,046,077.37	763,351,478.87
Other liabilities	20	564,685.67	2,287,792.75
Lease Liabilities	21	1,093,384.80	1,197,878.25
Accruals and deferred income	22	666,980.49	926,311.27
Current tax liability		2,527,449.00	2,624,074.00
Total liabilities		**835,809,239.65**	**771,465,568.33**
Total equity and liabilities		**876,553,269.50**	**810,738,014.45**
Memorandum items			
Commitments	32	**24,066,181.94**	**12,633,401.10**

The accounting policies from pages 40 to 54 and the notes from pages 56 to 109 are an integral part of these financial statements. The financial statements from pages 32 to 109 were approved and authorised for issue by the Board of Directors on 9th April 2021 and signed on its behalf by:

Harald Wanke

Chairman of the Board

Paul Mifsud

Managing Director

STATEMENT OF CHANGES IN EQUITY

	Share Capital	Fair Value Reserve	Property Revaluation Reserve	Retained Earnings	Total
	EUR	EUR	EUR	EUR	EUR
At 1 January 2019	**26,000,000.00**	**210,641.56**	**-**	**1,128,971.80**	**27,339,613.36**
Impact of Changes in Accounting Policies	-	-	3,444,099.68	(35,066.41)	3,409,033.27
Transactions with owners					
Increase in Share Capital	4,000,000.00	-	-	-	4,000,000.00
Dividend distribution	-	-	-	(4,000,000.00)	(4,000,000.00)
Total comprehensive income for the year					
Profit for the year	-	-	-	3,884,111.89	3,884,111.89
Other comprehensive income, net of income tax:					
Net Fair Value change (Note 24)	-	(94,687.49)	-	-	(94,687.49)
At 31 December 2019	**30,000,000.00**	**115,954.07**	**3,444,099.68**	**978,017.28**	**34,538,071.03**
At 1 January 2020	**30,000,000.00**	**115,954.07**	**3,444,099.68**	**978,017.28**	**34,538,071.03**
Impact of Correction of Error (Note 37)	-	-	-	734,375.09	734,375.09
Restatement of Opening Balances	-	-	-	4,000,000.00	4,000,000.00
At 1 January 2020	**30,000,000.00**	**115,954.07**	**3,444,099.68**	**5,712,392.37**	**39,272,446.12**
Transactions with owners					
Issue of Bonus Shares	4,000,000.00	-	-	(4,000,000.00)	-
Dividend distribution	-	-	-	-	-
Total comprehensive income for the year					
Profit for the year	-	-	-	1,614,594.74	1,614,594.74
Other comprehensive income, net of income tax:					
Net Fair Value change *(Note 24)*	-	(143,011.01)	-	-	(143,011.01)
At 31 December 2020	**34,000,000.00**	**(27,056.94)**	**3,444,099.68**	**3,326,987.11**	**40,744,029.85**

The accounting policies from pages 40 to 54 and the notes from pages 56 to 109 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	2020 EUR	2019 EUR
Cash flows from operating activities:		
Profit on ordinary activities before tax	**3,639,764.74**	**5,843,863.53**
Adjustment for:		
Loss on disposal of securities	-	-
Gain on disposal of securities	(3,386,786.59)	(2,472,288.09)
Unrealised forex differences on securities	(553,834.35)	(509,343.52)
Interest Expense on Lease Liabilities	54,257.52	-
(Gains) / Loss on fixed assets written off	-	(2,000.00)
Increase / (Reduction) in Provision on loans and advances to customers	2,153,470.87	1,365,787.39
Prepayments and accrued income	219,222.22	(511,234.60)
Interest payable and accrued liabilities	(259,330.78)	232,161.45
Amortisation of securities	210,760.11	150,959.14
Net Fair Value Movement on Financial Assets at FVTPL	106,663.89	(200,525.62)
Depreciation	1,025,910.70	881,850.16
Ordinary profit before working capital changes	**3,210,098.33**	**4,779,229.82**
Movement in operating assets and liabilities		
Amounts owed to banks	562,025.71	(6,326,057.89)
Amounts owed to customers	66,694,598.50	84,783,854.70
Deposit held with Central Bank of Malta	(53,643,506.34)	139,655,019.88
Loans and advances to banks	(2,638,579.85)	2,879,278.76
Loans and advances to customers	(1,389,853.44)	(7,101,882.66)
Other assets	(192,095.48)	443,537.42
Other liabilities	(2,452,503.66)	3,841,726.08
	6,940,085.44	**218,175,476.29**
Cash flows from operating activities before tax	**10,150,183.77**	**222,954,706.11**
Taxation paid	(2,624,074.00)	(1,781,076.00)
Net cash generated from operating activities	**7,526,109.77**	**221,173,630.11**

STATEMENT OF CASH FLOWS *(continued)*

	2020 EUR	2019 EUR
Net cash generated from operating activities	**7,526,109.77**	**221,173,630.11**
Cash flows from investing activities:		
Disposal of securities	125,207,008.92	341,114,251.20
Disposal of tangible and intangible assets	-	2,000.00
Purchase of securities	(105,784,111.56)	(296,738,278.57)
Purchase of tangible fixed assets	(321,528.60)	(255,172.25)
Purchase of intangible assets	(746,497.62)	(557,817.03)
Proceeds from Government Grant	2,411.00	-
Net cash used in investing activities	**18,357,282.14**	**43,564,983.35**
Cash flows from financing activities:		
Lease Liability Payments	(264,162.50)	-
Issue of shares	-	4,000,000.00
Dividends paid	-	(3,000,000.00)
Net cash (used in)/generated from financing activities	**(264,162.50)**	**1,000,000.00**
Movement in cash and cash equivalents	**25,619,229.41**	**265,738,613.46**
Cash and cash equivalents at beginning of year	390,009,339.47	124,270,726.01
Cash and cash equivalents at 31 December *(Note 27)*	**415,628,568.88**	**390,009,339.47**

The accounting policies from pages 40 to 54 and the notes from pages 56 to 109 are an integral part of these financial statements.

STATUTORY INFORMATION AND BASIS OF PREPARATION

STATUTORY INFORMATION AND BASIS OF PREPARATION

1. Reporting entity

Sparkasse Bank Malta plc (the "Bank") is a public limited company incorporated and domiciled in Malta, whose shares are not publicly listed. The principal activities of the Bank are disclosed on the Directors' Report on page 8.

2. Parent and ultimate parent company

Sparkasse (Holdings) Malta Limited, a company registered in Malta (C 35408), owns 99.99% of the issued share capital of the Bank. The ultimate parent company is Anteilsverwaltungssparkasse Schwaz which owns 99.99% of Sparkasse (Holdings) Malta Limited. Sparkasse (Holdings) Malta Limited prepares consolidated financial statements.

3. Basis of preparation of financial statements

The financial statements have been prepared on the historical cost basis except for Financial Assets held at Amortised Cost while Treasury Bills and Equities are measured at Fair Value through Other Comprehensive Income and Fair Value through Profit or Loss respectively.

4. Statement of Compliance

The financial statements have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU ("the applicable framework"). All references in these financial statements to IAS, IFRS or SIC / IFRIC interpretations refer to those adopted by the EU. The financial statements have also been drawn up in accordance with the provisions of the Banking Act (Cap. 371) and the Companies Act (Cap. 386), to the extent that such provisions do not conflict with the applicable framework.

The Act specifies that in the event that any one of its provisions is in conflict or not compatible with IFRS as adopted by the EU, or its application is incompatible with the obligation for the financial statements to give a true and fair view, that provision shall be departed from in order to give a true and fair view.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Bank's accounting policies. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect are disclosed in Note 2.18.

STATEMENT OF ACCOUNTING POLICIES

STATEMENT OF ACCOUNTING POLICIES

1. Changes of Accounting Policies

a) New standards, interpretations and amendments effective from 1 January 2020

The following new standards, amendments and interpretations are effective for the first time in these financial statements, but none have had a material effect on the company:

	Issued on	Effective from
Amendments to References to the Conceptual Frameworks in IFRS Standards	29/03/2018	01/01/2020
Amendments to IAS 1 and IAS 8: Definition of Material	31/10/2018	01/01/2020
Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform	26/09/2019	01/01/2020
Amendments to IFRS 3: Business Combinations	22/10/2018	01/01/2020

The applications of these new standards and amendments has had no impact on the disclosures or amounts recognized in the company's financial statements.

b) New standards, interpretations and amendments as adopted by EU but not yet effective

The following new standards, interpretations and amendments, which have not been applied in these financial statements, will or may have an effect on the company's future financial statements:

	Issued on	Effective from
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	27/08/2020	01/01/2021
Amendments to IFRS 4: Deferral of IFRS 9	25/06/2020	01/01/2021
Amendments to IFRS 16: COVID-related Rent Concessions	28/05/2020	01/06/2020

c) New standards, interpretations and amendments issued by IASB but not yet adopted by EU

	Issued on	Effective from
IFRS 17 Insurance Contracts, including amendments	18/05/2017	01/01/2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	23/01/2020	01/01/2023
Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020	14/05/2020	01/01/2022
Amendments to IAS 1: Disclosure of Accounting Policies	12/02/2021	01/01/2023
Amendments to IAS 8: Definition of Accounting Estimates	12/02/2021	01/01/2023

STATEMENT OF ACCOUNTING POLICIES *(continued)*

The company has not early adopted all these revisions to the requirements of IFRSs and the company's management is of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

d) New standards, interpretations and amendments issued by IASB but not adopted by EU

- IFRS 14 Regulatory Deferral Accounts (issued on 30/01/2014, effective from the year beginning 01/01/2016) – European Commission has decided not to endorse the standard
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between Investor and its Associate or Joint Venture (issued on 11/09/2014, effective from the year beginning 01/01/2016) – postponed indefinitely by European Commission

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

2.1 Functional and presentational currency

The financial statements are presented in Euro, which is the Bank's functional currency. Transactions in foreign currencies are translated to the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the profit and loss account.

2.2 Property, plant and equipment

All property, plant and equipment is initially recorded at historical cost. Freehold premises are subsequently shown at fair value based on periodic valuations, carried out by independent professional valuers, less subsequent depreciation for buildings.

Valuations are carried out on a regular basis such that the carrying amount of freehold premises does not differ materially from that which would be determined using fair values at the end of the reporting period. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment is subsequently stated at cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset, previously recognised in profit or loss. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the property revaluation reserve. All other decreases are charged to profit or loss.

Depreciation is calculated on a straight-line basis, to allocate the cost or revalued amounts of the assets to their residual values over their estimated useful lives, as follows:

- Freehold Premises — 25 years (4% per annum)
- Furniture, fixtures and fittings — 10 years (10% per annum)
- Air conditioning — 5 years (20% per annum)
- Office equipment — 5 years (20% per annum)

STATEMENT OF ACCOUNTING POLICIES *(continued)*

- Computer equipment — 4 years (25% per annum)
- Motor vehicles — 5 years (20% per annum)

In the year of acquisition the charge is calculated on a monthly basis. Land is not depreciated as it is deemed to have an indefinite useful life. Assets in the course of construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. On disposal of a tangible asset, the difference between the net disposal proceeds and the carrying amount of the asset, is charged or credited to other administrative expenses in the statement of comprehensive income.

2.3 Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques (as per Note 2.18).

The significant intangibles recognised by the Bank and their useful economic lives are as follows:

- Bavaria Banken Software — 6 years (17% per annum)
- Self-developed software — 10 years (10% per annum)
- Other software — 4 years (25% per annum)

In the year of acquisition the charge is calculated on a monthly basis. On disposal of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset, is charged or credited to “other administrative expenses” in the statement of comprehensive income.

As from 2013, the Bank decided to commence a project entailing the creation of a core banking software built in-house by specially hired I.T. employees. The Board of Directors determined in accordance with IAS 38 that all assets bought by the Bank and any expenses incurred for the generation of such a Banking software are to be capitalized and added to the value of the Intangible Asset itself. This will also include the depreciation of any fixed assets acquired immediately for the sole purpose of the generation of the said software. Such a rationale was discussed in-depth with the Bank’s external auditor. Such fixed assets will not be depreciated immediately due to the fact that the Bank is not generating any income as yet from such an investment. Once such a Banking software goes live and is operating, depreciation will commence in-line with the Bank’s accounting policies described above. From then on, any expenses incurred by the Bank due to maintenance and up-keep of the software will not be capitalized but charged to the Bank’s profit and loss account.

2.4 Leases

At the inception of a contract, the Bank assesses whether a contract is or contains a lease. IFRS 16 states that a contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for

STATEMENT OF ACCOUNTING POLICIES *(continued)*

consideration. In making such an assessment, a contract is considered as conveying the right to control the use of an identified asset, if the Bank has both of the following:

- The right to obtain substantially all of the economic benefits from use of the identified asset; and
- The right to direct the use of the identified asset.

An asset is identified either by being explicitly specified in the contract or implicitly identified at the time the asset is made available for use by the Bank. Despite an asset being specified, the Bank is only considered as having the right to use an identified asset if the supplier does not have the substantive right to substitute the asset throughout the period of use. In addition, the Bank has the right to direct the use of the identified asset only if:

- It has the right to direct how and for what purpose the asset is used, or
- The relevant decisions about how and for what purpose the asset is used are predetermined and the Bank has the right to operate the asset without interference from the supplier or the Bank has designed the asset in a way that predetermines how and for what purpose the asset shall be used.

At the inception of the contract, the Bank is required to separate lease components from non-lease components and account for them separately.

<u>As a lessee</u>

At the commencement date of the lease, the Bank recognises a right-of-use asset and a lease liability. Upon initial recognition, the right-of-use asset is measured at cost, which is comprised of:

- The amount of the initial measurement of the lease liability;
- Lease payments made at or before the commencement date less any incentives received;
- Any initial direct costs incurred by the Bank as the lessee; and
- An estimate of the costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Subsequent to initial measurement, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment and adjusted for any remeasurement of the lease liability. The right-of-use asset is depreciated on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of lease payments that are not paid as at the commencement date, discounted at the interest rate implicit in the lease, or the Bank's incremental borrowing rate if the latter is not readily available.

Following initial recognition, the lease liability shall be measured at amortised cost using the effective interest rate. The lease liability shall therefore be increased to reflect the interest thereto and reduced to reflect lease payments made. The lease liability shall be remeasured to reflect any reassessment or lease modifications. In the event that the lease liability is remeasured, any adjustments shall be set off against the carrying amount of the right-of-use asset, with any excess over the carrying amount of the right-of-use asset being accounted for in profit or loss.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

The Bank has elected to apply the recognition exemptions as outlined in paragraph 5 of IFRS 16, for short-term leases with a lease term of 12 months or less. Accordingly, the Bank recognises lease payments in respect of such leases as an expense on a straight-line basis over the lease term.

During 2020, the Bank renewed one lease agreement to which it applied the recognition exemption as outlined in paragraph 5 of IFRS 16 since it is short term in nature. Hence, right-of-use assets presented in the statement of financial position relate to the accounting for lease agreements entered into before 01 January 2020.

The sections below summarise the lease agreements applicable for the year ended 31 December 2020.

Lease of property

The Bank leases various offices for its own use, both in Malta as well as in The Republic of Ireland. In Malta, the Bank leases out one office which it uses as an emergency off-site office space as part of its Business Continuity Plan ("BCP") and a car park for its staff personnel. The BCP lease agreement was renewed during 2020 for an additional lease term of three years. Similarly, the original three year lease agreement for the staff car park expired in 2020 and was extended for an additional one year term. The Bank recognises a right-of-use asset and lease liability in the statement of financial position in respect of these lease agreements, as well as depreciation and interest expense in the statement of comprehensive income.

The Bank also leases floor space in a warehouse which it uses as an archive and a four car garage. For both these assets, the lease term is for a period of 12 months, and therefore the Bank applies the recognition exemption and accounts for the lease payments on a straight-line basis over the lease term. The office located in Austria for the development of the self-developed software is also exempted from IFRS16 since the rental expense of such an office space is capitalised as part of the Intangible Asset's capitalisation.

In the Republic of Ireland, the Bank rents outs the office premises used for the Branch operations, which lease is subject to a 10-year lease term, subject to a rent review after the lapse of the first five years. The Bank accounts for such lease by recognising a right-of-use asset, which asset is depreciated over the ten year lease term. The Bank also recognises a corresponding lease liability and the related interest expense.

Finally, the Bank also rents an apartment in The Republic of Ireland which serves as accommodation for The Republic of Ireland Branch staff. Given that the lease term for this apartment spans for 12 months, the Bank has elected to apply the recognition exemption and recognise the lease payments as an expense in profit or loss.

Lease of equipment

The Bank leases photocopiers from third parties, the lease term of which varies from three to five years. The lease agreements contain a lease component, whereby the Bank leases the photocopier for a fixed consideration, as well as a non-lease component, whereby the supplier agrees to charge the Bank a fixed price for each print, as agreed in the lease agreement. The Bank has decided to separate the lease and non-lease components as per article 12 of IFRS 16 and account for these separately.

During 2020, the Bank entered into a new lease agreement for the lease of plants and pots with an original term of two years. The Bank recognises a right-of-use asset and lease liability in the statement of financial position in respect of this lease agreement, as well as depreciation and interest expense in the statement of comprehensive income

STATEMENT OF ACCOUNTING POLICIES *(continued)*

As a lessor

At the inception of the lease, the Bank as the lessor, shall classify each of its leases as either an operating lease or a finance lease. The Bank shall classify a lease as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, to the lessee. All other leases are classified as operating leases. The Bank classifies its lease as an operating lease and therefore recognises lease payments received under such lease, as income on a straight-line basis over the lease term. This rental income is included in 'Other operating income'.

Lease of property

During the current financial year ending 31 December 2019, the Bank leased out its investment property to third parties. This lease agreement was terminated on 30th April 2019, upon which the Bank took over the investment property for its own use. Accordingly the said investment property was reclassified to 'Property, Plant and Equipment' in the statement of financial position.

As explained earlier, given that the lease agreement did not provide for the transfer of substantially all of the risks and rewards incidental to the ownership of the said property, the Bank classified the lease as an operational lease, with lease payments received being accounted for in profit or loss under 'Other operating income'.

2.5 Financial Instruments

The Bank classifies its financial instruments into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Classification

a) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank purchases a financial asset and enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

During the current year ended 31 December 2020, the Bank classified its loans and advances at amortised cost upon meeting both of the following criteria:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

b) Financial Assets

Debt Instruments

During the current year ended 31 December 2020, the Bank classified its investments in debt securities either at amortised cost or at fair value through other comprehensive income, depending on the business model and cash flow characteristics tests, as

STATEMENT OF ACCOUNTING POLICIES *(continued)*

prescribed by IFRS 9. During the year, no debt securities were mandatorily classified or designated upon initial recognition, as at fair value through profit or loss.

The Bank classifies its debt securities at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

The Bank invests its excess liquidity in a portfolio of debt securities which it holds until maturity. Accordingly, these are classified at amortised cost.

On the other hand, the Bank classifies its debt securities as at fair value through other comprehensive income, if both of the following conditions are met:

- the asset is held within a business model whose objective is to collect contractual cash flows and sell financial assets; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

In line with the above, the Bank classifies its investments in Treasury bills at fair value through other comprehensive income, given that such investments are sold from time to time, in order to finance the Bank's liquidity needs in any of its currencies of operation.

Equity Instruments

The Bank classifies its equity instruments at fair value through profit or loss. The Bank invests in units in collective investment undertakings, all of which are redeemable. Accordingly, these instruments meet the definition of a puttable instrument in IAS 32, meaning that the Bank cannot avail itself of the irrevocable election allowable under IFRS 9 to measure equity instruments at fair value through other comprehensive income, upon initial recognition.

Initial Recognition

The Bank initially recognises a financial asset in its statement of financial position, when it becomes party to the contractual provisions of the instrument. Loans and advances are initially recognised on the date that they are originated. All other financial assets are initially recognised on the trade date.

Upon initial recognition, the Bank measures its financial assets which are not classified at fair value through profit or loss at their fair value less transaction costs that are directly attributable to the acquisition or issue of such financial assets.

Subsequent Measurement

- Financial assets as at amortised cost

  Financial assets classified as at amortised cost are subsequently measured at amortised cost. Interest income from these financial assets is calculated using the effective interest method, by applying the effective interest rate to the gross carrying amount of the asset.

  Any gains or losses arising from the derecognition of these financial assets are recognised directly in the profit and loss account and presented in 'Interest Income'.

- Financial assets as at fair value through other comprehensive income

  Financial assets classified as at fair value through other comprehensive income are subsequently measured at fair value, with changes in fair value being recognised in other comprehensive income. When the financial asset is derecognised,

STATEMENT OF ACCOUNTING POLICIES *(continued)*

amounts previously recognised in other comprehensive income are reclassified to the profit and loss account and recognised in 'Interest Income'.

Interest income on these financial assets is measured using the effective interest method.

- Financial assets at fair value through profit or loss

  The Bank subsequently measures equity instruments at fair value, with fair value changes being recognised directly in the profit and loss account, under 'Net Fair Value Movement on Financial Asset at FVTPL'.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all risks and rewards of ownership nor does it retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed), and any cumulative gain or loss that had been recognised in other comprehensive income, is recognised in the profit and loss account.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all of the risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Impairment of Financial Assets

As from 1 January 2018, the Bank assesses the expected credit losses ('ECL') associated with its financial assets. In respect of loans and advances to banks, loss allowances recognised during the year are limited to 12-month ECL. On the other hand, expected credit losses from loans and advances to customers are calculated on the basis of the Bank's internal grading structure used by the Bank for credit risk management purposes. Finally, given that all of the Bank's debt securities as at the end of the year, are deemed to pose a low level of credit risk, loss allowances recognised are limited to 12-month ECL. Refer to Note 37 for further detail in respect of the Bank's impairment loss methodology.

2.6 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with any bank or financial institution and highly liquid financial assets, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position and comprise:

STATEMENT OF ACCOUNTING POLICIES *(continued)*

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

2.7 Impairment Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

2.8 Share Capital and Dividends

Financial instruments issued by the Bank are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

The Bank's ordinary shares are classified as equity instruments. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

Dividend distribution to the Bank's shareholders is recognised as liability in the Bank's financial statements in the period in which the dividends are approved by the Bank's shareholders.

2.9 Fair Value Reserve

As from 1 January 2018, following the adoption of IFRS 9, the Bank has classified its debt securities classified as Hold to Collect and Sell, such as Treasury bills, at fair value through other comprehensive income. Therefore, the Bank's investments in such securities have been measured at fair value with unrealised fair value gains and losses being recognized directly in equity in 'Fair Value reserve'.

2.10 Interest Income and Expenses

Interest income and expense are recognised in the profit and loss account using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis;
- interest on financial assets at fair value through other comprehensive income; and
- interest expense on lease liabilities;

Fair value changes on derivatives held for risk management purposes, are presented in net income on other financial instruments carried at fair value in the statement of comprehensive income.

2.11 Fees and Commission Income and Expenses

Net fee and commission income

Fee and commission income and expense that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fee and commission income from contracts with customers is measured based on the consideration specified in the contract with the customer. The Bank recognizes revenue when it transfers control over a service to a customer. The following table provides information about the nature, timing of satisfaction of the performance obligations and significant payment terms of contracts with customers.

Service Line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Custody & Depositary Services	The Bank provides custody and depositary services primarily to Alternative Investment Funds, Professional Investor Funds and UCITS. When acting as custodian, the Bank holds in custody the financial instruments that can be held in custody for its customers through its custody network. When acting as depositary, the Bank will perform the prescribed depositary functions including ensuring that the fund's cash flows are properly monitored, safekeeping the assets of the Fund and the related oversight duties. Custody and depositary fees are levied on a quarterly basis based on the average monthly closing balance for the quarter.	Custody and depositary fees are recognised over time, as the services are provided.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

Service Line	Nature, timing of performance obligations and significant payment terms	Revenue recognition under IFRS 15
Payments	The Bank offers payment services to its customers including SWIFT transfers, SEPA, Target 2 and CHAPS payments, and fixed debit variable credit instructions. Fees for payment services are charged when the payment is affected, either at a flat fee or as a percentage of the payment amount.	Fees for payment services are recognized at a point in time when the transaction takes place.
Securities	The Bank offers a variety of investment services to institutional customers including receipts and transmission and execution services, settlement services, as well as transition services. The Bank also offers the services of corporate actions whereby it communicates corporate event details to the customer in respect of an entity issuing a corporate action. Transaction fees for the purchase, sale or transfer of securities are charged by the Bank when the transaction takes place and are levied either at a flat fee per transaction or as a percentage of the market value. The Bank charges safekeeping fees at a percentage of the total value of the portfolio per annum, with fees levied quarterly.	Transaction fees are recognized at a point in time, when the transaction takes place. Safekeeping fees are recognized over time as the services are provided.
Account On-Boarding	The Bank charges its customers a quarterly account administration fee payable quarterly in arrears. Fees are fixed per account depending on the type of customer (that is individuals VS corporate customers) and account type. Customers are charged a fixed fee for specific requests including statements and advices, bank references, bank reports for audit purposes and changes to due diligence procedures. Fees are charged once a request takes place.	Account administration fees are recognized over time, as the account service is provided. Fees charged for requests made by the customer are recognised at a point in time, when the request is initiated.

Paragraph 120 of IFRS 15 requires entities to disclose information about its remaining performance obligations. However, as at year end, the Bank has applied the practical expedient in paragraph 121 of the said Act, since the Bank's contracts with customers all have an original maturity of one year or less.

IFRS 15 also requires entities to recognize as an asset incremental costs of obtaining a contract with a customer, provided that the entity expects such costs to be recovered. Capitalised costs are then amortised over the contract term. Since the Bank enters into contracts having an original maturity of one year or less, the amortization period of any contract asset would be equal to one year or less. Accordingly, the Bank has availed itself of the practical expedient in paragraph 94 of the Act, and therefore recognize such costs as an expense when incurred.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

2.12 Net Trading Income

Net trading income comprises all realised and unrealised foreign exchange differences.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2.13 Dividend Income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

2.14 Income Tax Expense

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.15 Employee Benefits

The Bank contributes towards the state pension defined contribution plan in accordance with local legislation and to which it has no commitment beyond the payment of fixed contributions. Obligations for contributions to the defined contribution plan are recognised as an expense during the year in which these are incurred.

2.16 Earnings per share

The Bank presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

2.17 Regulatory Capital

Following the introduction of the CRR regime, the European Union set out standards which all banks have to comply with. Through the Malta Financial Services Authority, the EU monitors all members to make sure the standards are abided with. These regulations, in essence, are a measure of Own Funds versus Risk-Weighted Assets. Nevertheless, the risk weights are more stringent but yet a safer measure of the Bank's assets. These measures were a direct consequence of the 2007 - 2008 financial crisis. The aim of such measures was to require institutions to hold more high quality capital.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

The standard 8% Capital Adequacy thresholds can be increased through the introduction of capital buffer requirements. Nevertheless, such requirements depend of the type of the institution and the jurisdiction in which such an institution holds its Head Office.

As in previous years, the Bank adopted the Standardised Approach for calculating its Credit Risk Capital Requirement. The Bank calculates the Pillar I capital requirements for Foreign Exchange and Operational Risk using the Basic Indicator Approach. A more detailed analysis in this respect is presented in Note 37.

The CRD IV Banking Rule required institutions to divide their capital base into Tier 1 and Tier 2 Capital. As at 31 December 2020 and 2019, the Bank's Capital based was only composed of Tier 1 Capital instruments including the Bank's Share Capital and Retained Earnings. Prudential filters and deductions are also applied against the Bank's Tier 1 Capital, as prescribed in the said regulation.

The Bank's aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank also recognises that the level of capital has an impact on shareholders' return and thus seeks to maintain a balance between higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity remaining within the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the Bank's operations. Accordingly this function is entrusted to the Bank's Risk Management and Treasury function and subject to review by the Board of Directors. Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives.

The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

2.18 Judgments in applying accounting policies and key sources of estimation uncertainty

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements.

During the years 31 December 2020 and 2019, management has applied judgment and used estimates primarily in determining the impairment loss allowances on the Bank's financial assets including debt securities, loans and advances and loan commitments. In this respect, management considers reasonable and supportable information that is relevant and reliable and based on the Bank's historical experience and expert credit assessment including forward looking information.

In the opinion of the Directors, the estimates and judgments applied in preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of IAS1. In addition, the Directors

STATEMENT OF ACCOUNTING POLICIES *(continued)*

believe that the judgment applied as described above is not expected to have a significant impact on the amounts recognised in the financial statements.

2.19 Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and investment price risk), credit risk, liquidity risk and interest rate risk in the Banking Book. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance. A detailed report of the Bank's Financial risk Management and how it operates to mitigate such risks is included in Note 37 in these Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS

1) Interest Receivable and Interest Payable

	2020 EUR	2019 EUR
Interest Income		
On loans and advances to banks and financial institutions	24,833.35	364,806.73
On loans to customers	1,869,761.09	1,058,346.04
On balance held with Central Bank of Malta	713,486.87	2,512,293.71
	2,608,081.31	3,935,446.48
On debt and other fixed income instruments	4,443,146.03	3,669,450.16
Net amortisation of premiums and discounts	(210,760.11)	(155,665.44)
	4,232,385.92	3,513,784.72
Total Interest Income	6,840,467.23	7,449,231.20
Interest Expense		
On customer deposits	16,909.54	111,881.27
On bank deposits	373,921.75	102,616.99
On balance held with Central Bank of Malta	1,434,586.85	1,091,775.18
On lease liabilities	54,257.52	62,428.11
Total Interest Expense	1,879,675.66	1,368,701.55
Net Interest Income	4,960,791.57	6,080,529.65

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2) Net fee and commission income

	2020 EUR	2019 EUR
Fee and commission income		
Portfolio and management fees	4,600,237.56	4,362,751.47
Credit related fee and commissions retail banking	4,012,405.79	3,877,532.60
	8,612,643.35	8,240,284.07
Fee and commission expense		
Portfolio and management fees	(705,781.08)	(802,673.55)
Other fees paid	(482,686.79)	(531,263.91)
	(1,188,467.87)	(1,333,937.46)
Net Fee and commission income	7,424,175.48	6,906,346.61

	At a point in Time		Over Time		Total	
	2020 EUR	2019 EUR	2020 EUR	2019 EUR	2020 EUR	2019 EUR
Custody & Depositary	97,314.14	70,568.47	3,418,905.99	3,222,974.45	3,516,220.13	3,293,542.92
Securities	1,352,298.40	1,004,849.38	243,220.20	385,833.88	1,595,518.60	1,390,683.26
Payments	1,280,869.42	1,303,537.91	-	-	1,280,869.42	1,303,537.91
Account On-Boarding	93,500.00	-	2,126,535.20	2,252,519.98	2,220,035.20	2,252,519.98
Fee and Commission Income from Contracts with Customers	**2,823,981.96**	**2,378,955.76**	**5,788,661.39**	**5,861,328.31**	**8,612,643.35**	**8,240,284.07**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3) Profit before Taxation

	2020 EUR	2019 EUR
Is stated after charging for:		
Auditor's Remuneraton	70,554.67	59,931.18
I.T. Expenses	1,395,642.69	919,093.18
Other Administrative Expenses	1,406,535.56	1,582,051.34
Depreciation	1,025,910.70	881,850.16
Directors fees	624,368.33	513,857.22
Wages, salaries and allowances	3,095,109.74	2,794,124.40
Social Security Costs	226,893.95	189,200.97
Defined contribution plan	212,577.28	295,628.91
Other Staff Costs	141,539.78	121,329.95
	8,199,132.70	**7,357,067.31**

4) Staff Headcount

The weekly average number of persons employed by the Bank during the year amounted to 84 (*2019: 87*) as follows:

	2020	2019
Weekly average:		
Executive and senior managerial	1	2
Other managerial and clerical	81	84
Other	2	1
	84	**87**

The headcount, including persons employed as part-time, as at end of year is as follows:

Executive and senior managerial	1	1
Other managerial and clerical	86	87
Other	2	2
	89	**90**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5) Taxation

	2020 EUR	2019 EUR
Current tax	2,527,448.80	2,624,075.00
Prior year adjustment for current tax	(1.00)	(1.00)
Deferred tax	(502,277.80)	(664,322.36)
	2,025,170.00	**1,959,751.64**

The provision for taxation differs from the theoretical amount that would arise using the basic rate of 35% as follows:

	2020 EUR	2019 EUR
Profit on ordinary activities before tax	3,639,764.74	5,843,863.53
Tax thereon at 35%	1,273,918.00	2,045,352.00
Tax effect of:		
Temporary differences	579,286.00	245,432.64
Prior year adjustment	(1.00)	(1.00)
Income subject to 15% rate	-	(1,861.00)
Permanent differences	171,967.00	(329,171.00)
Tax charge for the year	**2,025,170.00**	**1,959,751.64**

By means of an extraordinary resolution dated 29th December 2009, the shareholders of the Bank opted with effect from 1st January 2009 to be treated as a company which was registered in Malta on or after 1st January 2007 but was not resident in Malta before that date in accordance with Article 48(4A)(b)(i)(2) of the Income Tax Management Act. This resolution was notified to the Commissioner of Inland Revenue.

6) Earnings per share

The calculation of basic earnings per share at 31st December 2020 was based on the profit attributable to ordinary shareholders of EUR 2,125,172.61 *(2019: EUR 3,884,111.89)* and the number of ordinary shares outstanding of 30,098 (2019: 29,342).

7) Dividends per share

	2020 EUR	2019 EUR
Dividend per share declared for the year covered by the Financial Statements	**-**	**133.33**

On 27th March 2020, the ECB issued the Recommendation on dividend distributions during the COVID-19 pandemic, recommending credit institutions to refrain from distributing cash dividends in order to conserve capital and support the economy in light of the increased uncertainty caused by the pandemic. Persuant to the issuance of this Recommendation, the Bank did not distribute the EUR 4million worth of dividend previously approved by the Board. Given that the ECB Recommendation is expected to remain in force at least until 30th September 2021, the Bank shall not be proposing any cash dividend for the year ended 31st December 2020.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8) Balance held with Central Bank of Malta and cash

The balance held with Central Bank of Malta includes an amount of EUR 8,209,720.76 (*2019: EUR 8,057,112.55*) for reserve deposits in terms of Article 37 of the Central Bank of Malta Act. An amount of EUR 1,454,122.45 (*2019: EUR 1,454,122.45*) has been pledged under the Depositor Compensation Scheme. A further balance at the Central Bank of Malta is deposited and left for liquidity purposes together with foreign currency denominated placements to maximise interest income. The Balances as at year end of Cash and Cash Equivalents is as follows:

	2020	**2019**
	EUR	**EUR**
Balances with Central Bank of Malta	552,318,166.85	442,214,420.73
Malta Government Treasury Bills	22,042,164.00	-
Cash	10,470.80	4,460.47
	574,370,801.65	**442,218,881.20**

As part of its Liquidity strategy, Sparkasse Bank Malta plc, invests in Treasury Bills denominated in its major currencies which bear a maturity of between one month to one year. The composition of the year end position, for Euro Treasury Bills, is as follows:

	2020	**2019**
	EUR	**EUR**
Treasury Bills at cost:		
At 1 January 2020	-	-
Additions at cost	34,600,877.93	-
Disposals at cost	(12,517,087.87)	-
	22,083,790.06	**-**
Provision for fluctuation in market value	(41,626.06)	-
Provision for fluctuation in forex rate	-	-
At 31 December 2020	**22,042,164.00**	**-**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9) Loans and Advances to Banks

	2020 EUR	2019 EUR
Repayable at call or short notice	57,135,808.81	87,982,829.51
Current term loans and advances	8,170,546.75	5,531,966.90
Impairment Provision	(51,253.28)	(48,620.89)
	65,255,102.28	**93,466,175.52**
Remaining maturity of term advances:		
More than 5 years	-	-
More than 1 to 5 years	-	-
1 year or less but over 3 months	-	-
3 months or less but not payable on demand	8,170,546.75	5,531,966.90
	8,170,546.75	**5,531,966.90**
By currency:		
Euro	23,085,816.02	31,328,752.15
United States Dollar	22,815,002.29	25,442,437.16
UK Pound	11,505,948.53	16,114,202.86
Hong Kong Dollar	218,834.76	1,663,627.81
Swiss Franc	1,044,241.13	546,261.48
Other currencies	6,585,259.55	18,370,894.06
	65,255,102.28	**93,466,175.52**
By country:		
Austria	27,722,939.17	37,544,630.61
Malta	918,384.88	609,102.19
Luxembourg	4,564,571.05	10,966,119.16
Denmark	2,735,708.25	3,176,046.31
United Kingdom	0.03	21,146,639.44
Other countries	29,313,498.90	20,023,637.81
	65,255,102.28	**93,466,175.52**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10) Loans and Advances to Customers

	2020 EUR	2019 EUR
Repayable at call and short notice	14,165,320.14	4,767,030.74
Current term loans and advances	7,534,191.94	15,542,627.90
Impairment Provision	(3,724,482.95)	(1,601,450.93)
	17,975,029.13	**18,708,207.71**
Remaining maturity of term advances:		
More than 5 years	-	-
More than 1 to 5 years	-	36,241.52
1 year or less but over 3 months	405,005.75	6,004,554.12
3 months or less but not payable on demand	7,129,186.19	9,501,832.26
	7,534,191.94	**15,542,627.90**
By currency:		
Euro	8,831,122.01	14,158,941.14
United States Dollar	8,418,197.28	4,525,133.22
UK Pound	714,259.68	14,762.75
Other currencies	11,450.16	9,370.60
	17,975,029.13	**18,708,207.71**
By country:		
Malta	17,953,369.16	18,680,778.05
United Kingdom	7,107.70	-
British Virgin Islands	6,722.94	-
Other countries	7,829.33	27,429.66
	17,975,029.13	**18,708,207.71**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets

11.1) Financial Assets at Amortised Cost

	2020 EUR	2019 EUR
Financial Assets at Amortised Cost	183,798,263.08	195,003,873.13
Additions at cost	67,188,117.17	29,625,450.00
Disposals at cost	(47,238,877.35)	(40,831,060.05)
	203,747,502.90	183,798,263.08
Effect of Amortisation for the year	(210,760.11)	150,959.14
Net Impairment Loss on Financial Assets	(34,990.35)	(9,136.58)
	203,501,752.45	183,940,085.64
Provision for fluctuation in forex rate	(255,063.44)	(211,703.02)
Cumulative Amortisation	(305,315.59)	(456,274.73)
	202,941,373.42	**183,272,107.89**
By currency:		
EU Currency	199,673,790.43	182,681,013.87
United States Dollar	3,267,582.99	-
UK Pound	-	591,094.02
	202,941,373.42	**183,272,107.89**
By country:		
Austria	10,078,824.09	10,092,583.72
Malta	649,483.25	3,127,888.28
Germany	2,000,405.36	1,001,435.73
Luxembourg	69,375,953.12	83,869,568.58
United States of America	21,177,766.42	14,811,350.12
United Kingdom	10,007,797.02	8,465,659.68
Other Countries	89,651,144.16	61,903,621.78
	202,941,373.42	**183,272,107.89**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets *(continued)*

11.1) Financial Assets at Amortised Cost *(continued)*

	2020 EUR	2019 EUR
Issued by Public Bodies:		
- Local Government	-	3,127,888.28
- Foreign Sovereigns	129,658,313.09	119,490,289.26
	129,658,313.09	122,618,177.54
Issued by Public Issuers:		
- Local Banks	649,483.25	-
- Foreign Banks	33,916,757.73	39,576,863.81
- Foreign Corporates	38,716,819.36	21,077,066.54
	73,283,060.33	60,653,930.35
Total Finance Assets held at Amortised Cost	**202,941,373.42**	**183,272,107.89**

11.2) Financial Assets at Fair Value through Other Comprehensive Income

	2020 EUR	2019 EUR
Financial Assets at FVOCI	54,639,537.91	87,076,844.23
Additions at cost	-	252,205,828.57
Disposals at cost	(54,639,537.91)	(285,376,191.15)
	-	53,906,481.65
Net Impairment Loss on Financial Assets at FVOCI	-	-
Provision for fluctuation in market value	-	178,390.88
Provision for fluctuation in forex rate	-	554,665.38
	-	**54,639,537.91**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets *(continued)*

11.2) Financial Assets at Fair Value through Other Comprehensive Income *(continued)*

	2020 EUR	2019 EUR
By currency:		
Euro	-	-
United States Dollar	-	31,138,616.58
Canadian Dollar	-	23,500,921.33
	-	**54,639,537.91**
By country:		
Republic of Malta	-	-
United States of America	-	31,138,616.58
Great Britain	-	23,500,921.33
	-	**54,639,537.91**

11.3) Financial Assets at Fair Value through Profit and Loss

	2020 EUR	2019 EUR
Financial Assets at FVTPL	3,050,350.26	3,050,350.26
Additions at cost	29,916.46	-
Disposals at cost	(3,024,286.72)	-
	55,980.00	3,050,350.26
Provision for fluctuation in market value	12,480.00	119,143.89
Provision for fluctuation in forex rate	-	-
	68,460.00	**3,169,494.15**
By currency:		
Euro	68,460.00	3,169,494.15
United States Dollar	-	-
Canadian Dollar	-	-
	68,460.00	**3,169,494.15**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets *(continued)*

11.3) Financial Assets at Fair Value through Profit and Loss *(continued)*

	2020 EUR	2019 EUR
By country:		
Austria	-	665,907.00
Luxembourg	-	2,438,907.15
Belgium	68,460.00	64,680.00
	68,460.00	**3,169,494.15**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12) Property Plant and Equipment

	Freehold Premises	Computer Hardware	Furniture & Fittings	Motor Vehicles	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
At 1 January 2019	3,517,954.06	660,335.83	644,211.76	83,000.00	4,905,501.65
Additions	-	149,693.01	64,479.24	41,000.00	255,172.25
Impact of change in accounting policy	2,775,009.89	-	-	-	2,775,009.89
Reclassification from Investment Property	2,510,536.05	-	-	-	2,510,536.05
Written off	-	-	-	(23,500.00)	(23,500.00)
At 31 December 2019	**8,803,500.00**	**810,028.84**	**708,691.00**	**100,500.00**	**10,422,719.84**
At 1 January 2020	8,803,500.00	810,028.84	708,691.00	100,500.00	10,422,719.84
Additions	-	72,472.77	249,055.83	-	321,528.60
Written off	-	-	(12,364.77)	(59,500.00)	(71,864.77)
At 31 December 2020	**8,803,500.00**	**882,501.61**	**945,382.06**	**41,000.00**	**10,672,383.67**
Depreciation					
At 1 January 2019	600,128.57	544,235.30	345,606.01	83,000.00	1,572,969.88
Charge for the year	274,988.63	69,952.41	48,124.38	1,366.67	394,432.09
Impact of change in accounting policy	(968,576.72)	-	-	-	(968,576.72)
Reclassification of Investment property	200,842.88	-	-	-	200,842.88
Charge for the year capitalised to Intangible Assets	-	4,622.69	2,186.90	-	6,809.59
Released	-	-	-	(23,500.00)	(23,500.00)
At 31 December 2019	**107,383.36**	**618,810.40**	**395,917.29**	**60,866.67**	**1,182,977.72**
At 1 January 2020	107,383.36	618,810.40	395,917.29	60,866.67	1,182,977.72
Charge for the year	352,161.93	83,178.05	61,111.36	8,200.00	504,651.34
Charge for the year capitalised to Intangible Assets	-	4,849.92	11,706.21	-	16,556.13
Released	-	-	(9,100.41)	(59,500.00)	(68,600.41)
At 31 December 2020	**459,545.29**	**706,838.37**	**459,634.45**	**9,566.67**	**1,635,584.78**
Net book value					
At 31 December 2018	**2,917,825.49**	**116,100.53**	**298,605.75**	**-**	**3,332,531.77**
At 31 December 2019	**8,696,116.64**	**191,218.44**	**312,773.71**	**39,633.33**	**9,239,742.12**
At 31 December 2020	**8,343,954.71**	**175,663.24**	**485,747.61**	**31,433.33**	**9,036,798.89**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13) Intangible Assets

	Bavaria Banken Software	Self Developed Software	Software Under Development	Other Software	Total
	EUR	EUR	EUR	EUR	EUR
Cost					
At 1 January 2019	944,573.69	766,350.97	1,144,720.44	775,373.52	3,631,018.62
Additions	27,248.00	-	-	40,035.74	67,283.74
Capitalisation	-	227,958.00	262,575.29	-	490,533.29
Written off	-	-	-	-	-
At 31 December 2019	**971,821.69**	**994,308.97**	**1,407,295.73**	**815,409.26**	**4,188,835.65**
At 1 January 2020	971,821.69	994,308.97	1,407,295.73	815,409.26	4,188,835.65
Additions	41,476.00	-	-	97,515.50	138,991.50
Capitalisation	-	145,646.00	461,860.12	-	607,506.12
Written off	-	-	-	-	-
At 31 December 2020	**1,013,297.69**	**1,139,954.97**	**1,869,155.85**	**912,924.76**	**4,935,333.27**
Depreciation					
At 1 January 2019	869,134.49	233,757.93	-	473,735.89	1,576,628.31
Charge for the year	62,805.53	91,337.64		130,969.11	285,112.28
Charge for year capitalised	-	-	-	738.23	738.23
Released	-	-	-	-	-
At 31 December 2019	**931,940.02**	**325,095.57**	**-**	**605,443.23**	**1,862,478.82**
At 1 January 2020	931,940.02	325,095.57	-	605,443.23	1,862,478.82
Charge for the year	48,964.98	131,972.09	-	134,808.20	315,745.27
Charge for year capitalised	-	-	-	972.80	972.80
Released	-	-	-	-	-
At 31 December 2020	**980,905.00**	**457,067.66**	**-**	**741,224.23**	**2,179,196.89**
Net book value					
At 31 December 2018	**75,439.20**	**532,593.04**	**1,144,720.44**	**301,637.63**	**2,054,390.31**
At 31 December 2019	**39,881.67**	**669,213.40**	**1,407,295.73**	**209,966.03**	**2,326,356.83**
At 31 December 2020	**32,392.69**	**682,887.31**	**1,869,155.85**	**171,700.53**	**2,756,136.38**

The Bank has continued to invest in its I.T. infrastructure and in line with previous years, software under development has not been depreciated in accordance with the Bank's accounting policies and in line with IAS 38 - Intangible Assets. This is due to the fact that the Board of Directors of Sparkasse Bank Malta plc firmly believes that once the software under development goes live, an economic benefit will flow to the Bank, at which point the Bank will classify this software under "Self-Developed Software" and hence depreciated accordingly.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14) Right of Use Assets

The Bank leases property, plant and equipment, which lease agreements are accounted for in line with Note 2.5. The table below illustrates a breakdown of the right-of-use assets as at 31 December 2019 and 31 December 2020, respectively.

	Property	Equipment	Total
	EUR	EUR	EUR
Right-Of-Use Asset			
At 1 January 2019	1,362,529.37	10,776.53	1,373,305.90
Additions	-	-	-
Depreciation Charge for the year	(198,159.11)	(4,146.69)	(202,305.80)
At 31 December 2019	1,164,370.26	6,629.84	1,171,000.10
At 1 January 2020	1,164,370.26	6,629.84	1,171,000.10
Adjustment for Capitalised Cost	(17,941.15)	-	(17,941.15)
Additions	91,213.51	14,198.01	105,411.52
Depreciation Charge for the year	(200,184.23)	(5,329.85)	(205,514.08)
At 31 December 2020	1,037,458.39	15,498.00	1,052,956.39

15) Prepayments and Accrued Income

	2020	2019
	EUR	EUR
Accrued income	867,957.74	1,109,928.18
Prepayments	300,186.55	277,438.33
	1,168,144.29	**1,387,366.51**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16) Deferred Tax Asset

The balance on the deferred taxation account arises as a consequence of temproary differences arising on:

	2020	2019
	EUR	EUR
Capital allowances	490,978.00	426,176.00
Fair value adjustment Financial Assets and T-Bills	(664,670.00)	(598,436.00)
Securities forex adjustment	(205,411.00)	(560,777.00)
Impairment Provisions	(3,812,890.00)	(1,759,419.00)
Leased Assets	(13,450.00)	(1,501.00)
Impairment Loss	(648,227.00)	(704,615.00)
	(4,853,670.00)	**(3,198,572.00)**
Deferred tax assets thereon @ 35%	**1,698,784.93**	**1,119,499.00**

17) Other Assets

	2020	2019
	EUR	EUR
Assets in course of delivery	223,432.99	-
Other Assets	6,249.15	37,586.66
	229,682.14	**37,586.66**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18) Amounts Owed to Banks

	2020 EUR	2019 EUR
Repayable at call or short notice	910,662.32	1,078,033.19
Current term deposits	-	-
	910,662.32	**1,078,033.19**
By currency:		
Euro	472,701.21	481,203.57
United States Dollar	12,708.33	577,724.00
Canadian Dollar	9,923.59	-
Other currencies	415,329.19	19,105.62
	910,662.32	**1,078,033.19**
By country:		
Austria	112,708.33	-
Malta	45,748.82	639.41
Belgium	451,087.97	477,231.68
Luxembourg	145,044.33	599,420.81
Other countries	156,072.87	741.29
	910,662.32	**1,078,033.19**
Related parties:		
Amounts owed to Related Parties	-	-
Amounts owed to other banks	910,662.32	1,078,033.19
	910,662.32	**1,078,033.19**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19) Amounts owed to Customers

	2020 EUR	2019 EUR
Repayble at call or short notice	828,866,914.04	759,672,434.22
Current term deposits	1,179,163.33	3,679,044.65
	830,046,077.37	**763,351,478.87**

With agreed maturity dates or periods of notice, by remaining maturity:

More than 5 years	-	-
More than 1 to 5 years	200,000.00	-
1 year or less but over 3 months	698.81	245,698.81
3 months or less but not payable on demand	978,464.52	3,433,345.84
	1,179,163.33	**3,679,044.65**

By currency:

Euro	591,725,556.54	511,090,377.01
United States Dollar	193,680,083.69	184,824,551.35
UK Pound	36,605,003.24	45,777,826.44
Hong Kong Dollar	217,163.25	1,655,208.32
Canadian Dollar	284,827.67	907,512.69
Other currencies	7,533,442.98	19,096,003.06
	830,046,077.37	**763,351,478.87**

By country:

Austria	33,918.63	19,826.39
Malta	612,198,505.17	614,135,502.87
Cayman Islands	16,304,045.57	10,391,606.73
British Virgin Islands	28,323,234.31	6,827,249.50
Great Britain	89,281,262.12	50,643,534.99
Other countries	83,905,111.57	81,333,758.39
	830,046,077.37	**763,351,478.87**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20) Other Liabilities

	2020	2019 (As Restated)
	EUR	EUR
Due to shareholders	-	-
Withholding tax	73,715.90	75,082.10
Variation Margin	480,000.00	2,210,000.00
Items in course of settlement	-	-
Net Impairment loss on Loan Commitments	2,163.34	210.65
Government Grant	1,941.15	-
VAT Payable	6,719.80	-
Other creditors	145.48	2,500.00
	564,685.67	**2,287,792.75**

As explained in Note 7, during 2020 the ECB issued a recommendation to credit institutions to refrain from distributing cash dividends. As a result, the Bank could not distribute the EUR 4million cash dividend previously approved by the Board for 2019. As a result, the Bank had to restate "Other Liabilities" by deducting EUR 4million due to shareholders.

In addition, as explain in detail in Note 36 to these Financial Statements, during 2020, the Bank set off a balance previously shown under "Other Liabilities" which was created in error in 2010 by the Bank's legacy core banking system. As a result the Bank has restated the "Items in the course of settlement" item in the above breakdown.

Government Grant

	2020	2019
	EUR	EUR
Deferred Income	1,941.15	-
Less than one year	1,338.40	-
More than five years	602.75	-
	1,941.15	**-**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21) Lease Liabilities

The new lease standard also requires the Bank to recognise lease liabilities in respect of its lease agreements. The table below illustrates the maturity breakdown of the Bank's lease liabilities as at 31 December 2020.

Maturity analysis of contractual undiscounted cash flows

By period:

	2020 EUR	2019 EUR
Less than one year	219,403.36	220,982.50
One to five years	854,491.04	841,229.98
More than five years	209,555.53	377,199.95
	1,283,449.93	**1,439,412.43**

By liability term (discounted)

Current	170,846.48	220,378.05
Non-Current	922,538.34	977,500.20
	1,093,384.82	**1,197,878.25**

22) Accruals and Deferred Income

	2020 EUR	2019 EUR
Accrued interest payable	13,355.58	4,573.17
Accrued Liabilities	653,624.91	921,738.10
	666,980.49	**926,311.27**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23) Called-Up Share Capital

	2020 EUR	2019 EUR
Authorised:		
25,000 *(2019: 15,000)* Ordinary 'A' voting shares of €1,000 each	25,000,000.00	15,000,000.00
25,000 *(2019: 15,000)* Ordinary 'B' non-voting shares of €1,000 each	25,000,000.00	15,000,000.00
	50,000,000.00	**30,000,000.00**
Issued and fully paid:		
17,000 *(2019: 15,000)* Ordinary 'A' voting shares of €1,000 each	17,000,000.00	15,000,000.00
17,000 *(2019: 15,000)* Ordinary 'B' non-voting shares of €1,000 each	17,000,000.00	15,000,000.00
	34,000,000.00	**30,000,000.00**

Following the issuance of the ECB Recommendation, as outlined in Note 7, the Bank decided to issue bonus shares, in replacement of the EUR 4million cash dividend which had been previously approved by the Board. Accordingly on 22nd December 2020, 2,000 Ordinary "Voting" A Shares and 2,000 Ordinary "Non-Voting" B Shares were allotted to Sparkasse (Holdings) Malta Limited by way of a bonus share issue after obtaining approval from the MFSA.

24) Fair Value Reserve

	2020 EUR	2019 EUR
Debt instruments at FVOCI		
Balance at 01 January 2020	115,954.07	210,641.55
Fair value movement for the year	(220,016.94)	(145,673.05)
Deferred tax	77,005.93	50,985.57
Balance as at 31 December 2020	**(27,056.94)**	**115,954.07**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25) Property Revaluation Reserve

	2020 EUR	2019 EUR
Freehold Property		
Balance at 01 January 2020 (gross of Deferred Tax)	3,743,586.61	-
Impact of Changes in Accounting Policies	-	3,743,586.61
Fair value movement for the year	-	-
Deferred tax	(299,486.93)	(299,486.93)
Balance as at 31 December 2020	**3,444,099.68**	**3,444,099.68**

In line with the IAS 16 – Property, Plant and Equipment, the value of any immovable property accounted for at Fair Value should be reviewed periodically at least every two to three years. In accordance with this, the value of the immovable property owned by the Bank will be reviewed in 2021 by an independent architect and any updates to the said value will be reflected according in the Statement of Financial Position and the Property Revaluation Reserve.

26) Operating Profit before Changes in operating assets and liabilities

	2020 EUR	2019 EUR
Profit on ordinary activities before tax	3,639,764.74	5,843,863.53
Adjustment for:		
Loss on disposal of securities	-	-
Gain on disposal of securities	(3,386,786.59)	(2,472,288.10)
Unrealised forex differences on securities	(553,834.34)	(509,343.52)
Interest Expense on Leased Assets	54,257.52	-
(Gain)/Loss on fixed assets and investments written off	-	(2,000.00)
Reduction in Provision on loans and advances to customers	2,153,470.87	1,365,787.39
Prepayments and accrued income	219,222.22	(511,234.60)
Interest payable and accrued liabilities	(259,330.78)	232,161.45
Amortisation of securities	210,760.11	150,959.14
Net Fair Value Movement on Financial Assets at FVTPL	106,663.89	(200,525.62)
Depreciation	1,025,910.70	881,850.16
	3,210,098.34	**4,779,229.83**

27) Cash and Cash Equivalents

	2020 EUR	2019 EUR
Cash in hand (Note 8)	10,470.80	4,460.47
Balances at Central Bank of Malta (Note 8)	358,482,289.27	302,022,049.49
Loans and Advances to Banks (Note 9)	57,135,808.81	87,982,829.51
	415,628,568.88	**390,009,339.47**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

28) Investor Compensation Scheme

In accordance with the provisions of the Investor Compensation Scheme Regulations issued under the Investment Services Act, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. This amounted to EUR 1,877.65 for the year under review (*2019: EUR 877.65)*

29) Investment Services Licence Related Income

Net Income derived during the current year from activities for which an Investment Services Licence has been issued to the Bank amounted to EUR 3,894,456.48 (*2019: 3,560,077.92)*

30) Related party transactions

Related party transactions include the below:

	2020 EUR	2019 EUR
Interest receivable and similar income (Note 1)	-	931.47
Interest payable on deposits (Note 1)	(3,384.19)	-
Commission payable (Note 2)	(18,175.93)	(209,682.58)

Year end balances with Related Parties are as follows:

Loans and advances to Related Parties (Note 9)	-	2,019,281.92
Amounts owed to Related Parties (Note 18)	1,884,268.09	-

Key management personnel compensation:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. Key management personnel compensation is disclosed below:

	2020 EUR	2019 EUR
Salary and Bonuses	475,384.52	319,911.82
Defined Plan Contribution and other Variable Remuneration	146,410.33	189,392.05
Social Security Contribution	2,573.48	4,553.35
	624,368.33	**513,857.22**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31) Contingent Liabilities

Sparkasse Bank Malta plc has no contingent liabilities to report as at end of 2020.

32) Commitments

	2020 EUR	2019 EUR
Credit Facilities and other commitments to lend	**24,066,181.94**	**12,663,401.10**

33) Registered Office

Sparkasse Bank Malta plc is a public limited company domiciled and incorporated in Malta. Its registered office is 101, Townsquare, Qui-Si-Sana Seafront, Sliema, SLM 3112, Malta.

Sparkasse Bank Malta plc has a Branch in the Republic of Ireland situated in Fleming Court, 3rd floor, Fleming Place, Ballsbridge, Dublin 4.

34) Ultimate parent company

The parent company of the Bank is Sparkasse (Holdings) Malta Limited, bearing Company Registration number C35408, which acts as a Holding company. The ultimate parent company is Anteilsverwaltungssparkasse Schwaz, which owns 99.99% of the shares in Sparkasse (Holdings) Malta Limited. In the opinion of the Directors there is no ultimate controlling party of the Group.

36) Subsequent Events

During 2020, the Bank continued to monitor the impact brought about by the novel strain of coronavirus. Since the break-out of the COVID-19 pandemic, the Bank witnessed an initial depression in prices on certain debt and equity securities in the Bank's financial assets portfolio, which prices subsequently recuperated by the second and third quarter of 2020.

Following a material decrease in market interest rates, the Bank also experienced a decreased in net interest income. The Board of Directors will continue to monitor the situation. Any developments, for which there were no indication as at the reporting date will be considered as non-adjusting events.

37) Correction of Error

Error in 'Right-of-Use Assets' and 'Lease Liabilities'

During 2020, the Bank noted that opening balances of the 'Right-of-Use Assets' and 'Lease Liability' were overstated. The reason for this was that an amount relating to a short-term lease for which the recognition exemption as per paragraph 5 of IFRS 16 was applied, was included in error in the opening balance of the 'Right-of-Use Assets' and 'Lease Liability'. In addition, there was a minor understatement of 'Lease Liabilities' by EUR 228.11 during 2019. The tables below summarise the impact on the Bank's statement of financial position for the years ended 31 December 2019 and 2018. The correction of error does not have any impact on the Bank's statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Correction of Error *(continued)*

Amounts due to banks posted in error by the system

Pre 2010, the Bank's legacy core banking system had in error created an amount due to a bank, impacting profit or loss at the time the transaction was posted. This balance was carried forward over the years. During the current year ending 31 December 2020, it was confirmed that the balance related to a system error and was hence set-off against retained earnings. The tax implication of the said adjusted Retained Earnings has been taken to the 2020 current tax liability.

	Impact of correction of error		
	As previously reported EUR	Adjustment EUR	As restated EUR
1 January 2019			
Right-of-Use Asset	1,373,305.89	(17,941.15)	1,355,364.74
Lease Liabilities	1,401,520.41	(23,147.77)	1,378,372.64
Amounts owed to banks	7,404,091.08	(729,396.58)	6,674,694.50
Retained Earnings	1,903,905.39	734,603.20	2,638,508.59
31 December 2019			
Right-of-Use Asset	1,171,000.10	(17,941.15)	1,153,058.95
Lease Liabilities	1,220,797.91	(22,919.66)	1,197,878.25
Amounts owed to banks	1,078,033.19	(729,396.58)	348,636.61
Retained Earnings	978,017.28	734,375.09	1,712,392.37

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management

Introduction

Sparkasse Bank Malta plc ('SBM') is a Maltese bank domiciled in Malta with its parent company being Sparkasse (Holdings) Malta Limited. The ultimate parent company is AVS which owns 99.99% of the shares in Sparkasse (Holdings) Malta Limited. AVS is also a shareholder of the former ultimate parent bank of SBM, Sparkasse Schwaz AG. The Bank commenced business in Malta in 2001 as a licenced credit institution and also holds MFSA Investment Services Category 2 and 4a licences.

At Sparkasse Bank Malta plc, the risk management function falls under the responsibility of the Board of Directors, which in turn relies on recommendations and information provided inter-alia by the Management Committee, the Managing Director and the Finance Manager of the Bank.

The main categories of risk which the Bank faces, and thus are given importance in this report are the following:

- Credit Risk
- Market Risk
- Reputational Risk
- Liquidity Risk
- Operational Risk

The disclosures within this report have been prepared in line with the Banking Rule BR 07: Publication of Annual Report and Audited Financial Statements of Credit Institutions as authorised under the Banking Act 1994, issued by the Malta Financial Services Authority.

These requirements and disclosures are not subject to an external audit, unlike other parts of this Annual Report which has been prepared in accordance with the requirements of International Financial Reporting Standards ('IFRS') as adopted within the European Union.

Risk Management Framework

The organisational structure of the Bank is now enlarged to cater for the increasing number of employees, at the same time keeping a strict segregation of the back office and front office functions. The organisational structure shows clear distinct lines between all core business lines headed by their separate Head of Department. These include Private and Corporate Banking, Payments Department, Securities and Custody and Depositary. Control functions include Compliance, AML and Finance.

Risk Appetite

The risk appetite of the Bank is determined by a series of indicators which it has embedded within its policies and procedures which must not be exceeded. Such indicators are reviewed and monitored on a quarterly basis to ensure compliance with such limits. Such indicators are set to ensure that the targets set by the Bank's Board of Directors are met while the Bank's robustness in its policies, procedures and business ethic remains of the highest standard possible at all times. Furthermore, internal controls are embedded around such indicators to ensure that such risk triggers are not exceeded. Such internal controls are clearly set out in the Bank's procedure manual together with the Bank's ICAAP and ILAAP which further enhance the Bank's robustness and clear vision towards being the "Best of Breed" in the business lines that it executes business in.

Such internal controls, policies and procedures are managed and reviewed accordingly on a frequent basis in the following areas such as Finance, Risk Management, Treasury, Anti-Money Laundering and Compliance.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Bank looks at the following risk indicators to ensure that it adheres to its risk profile:

- Balance Sheet robustness
- Profitability progression
- Liquidity Risk
- Credit Risk
- Market Risk
- Operational Risk

Such indicators allow the Bank to ascertain that any decisions taken are executed with a purpose, with the sole aim of ascertaining that the Bank's reputation is safeguarded, maintaining an unchanged risk profile and ultimately protecting the interests of its employees, customers and shareholders.

Board of Directors

The Board of Directors is responsible for setting the Bank's strategy, monitoring risk and providing the required leadership to the Bank's executives while encouraging a high degree of Corporate Governance within the Bank.

As the Bank continues to grow, the governance, support and control structures within the Bank are destined to increase accordingly and proportionately. The Board is composed of members who boast a diverse range of skill sets so as to ensure that the Board collectively maintains the suitable skills required to manage the Bank competently and prudently.

Audit Committee

The Board of Directors of Sparkasse Bank Malta plc has established a stand-alone committee of the Board to be known as the Audit Committee, with the objective to advise the Board of Directors on the Bank's internal control, internal audit and risk management systems and the Bank's accounting policies and external audit. The Committee is composed of the below non-executive directors of the Bank:

- Mr. Andrew Manduca – Non Executive Director – Chairman of the Committee;
- Mr. Harald Wanke; Chairman of the Board;
- Mr. Serge D'Orazio – Non-Executive Director.

Management Committees and Sub-Committees

To increase efficiency and allow deeper focus in specific areas, the Board has established a management committee, together with four other sub-committees to it, assist in day to day operations and oversight of the Bank. The committees were created and mandated by the full Board. The said Committees include:

- The Management Committee;
- Credit Review Committee;
- Treasury and Investment Management Committee;
- Account Closing Committee; and
- Ireland Branch Committee

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Management Committee

The Board of Directors delegates specific responsibilities to the Managing Director who leverages on the support of the Management Committee for the implementation of policy and control measures. It meets regularly and focuses on substantive business decisions extending across issues of Company-wide significance in terms of parameters and resolutions of the Board of Directors.

The Management Committee is composed of senior level management charged with assisting the Managing Director in the Management of the Bank and implementing strategy across business lines and Departments. The Management Committee is accountable to the Board.

The Management Committee is responsible for:

- Managing the day-to-day business
- Monitoring of the Bank's risk
- Monitoring competitive activities
- Implementing approved strategy, budgets and policies
- Monitoring of the Bank's performance
- Making recommendations to the Board

The Committee is composed of the Managing Director, who is the Chairman of the Management Committee, Business Line and Support Managers and Heads of Departments of Control and Support Functions, namely:

- Securities, Custody and Depositary
- Private and Corporate Banking
- Operations and Payments
- Finance
- I.T. and Software Development
- Compliance
- AML
- Legal
- Account Administration and Records
- Risk

Credit Review Committee

The Board of Directors of the Bank have established a Credit Review Committee whose main responsibilities include:

- To approve proposals for credit facilities in accordance with and subject to the limits set out in the Bank's Credit Policy;
- To make recommendations for the approval of credit facility proposals by the Board of Directors, where required under the Bank's Credit Policy;
- To monitor and review credit facilities and overdrawn balances on a regular basis;
- To Review and make recommendations on the Bank's credit policy for approval by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Committee is composed of:

- Managing Director (Chairman of the Committee);
- Head of Securities, Custody and Depositary;
- Head of Compliance;
- Manager – Private and Corporate Banking;
- Manager – Finance; and
- Manager - Risk

Treasury and Investment Management Committee

The objective of the Sub-Committee is to support and assist the Managing Director in the performance of his liquidity and investment management tasks, in particular in relation to the implementation of the Bank's Liquidity Management Policy.

The Committee is composed of:

- Managing Director (Chairman of the Committee);
- Deputy Manager – Securities and Custody;
- Manager – Finance;
- Manager - Risk; and
- Senior Trader.

Account Closing Committee

Another Committee formed in 2021 was the Account Closing Committee. The objective of this Sub-Committee is to support and assist the Managing Director in taking decisions on the closure of, and other actions to be taken in respect of, customer relationships and accounts and to serve as a formal venue where the Head of AML, together with the other members of the Sub-Committee, can provide information on customer relationships that may pose an AML risk which may fall outside the Bank's risk appetite or Customer Acceptance Principles or in respect of which action may need to be taken to mitigate AML risk

The Committee is composed of:

- Managing Director;
- Head of AML (Chairman of the Committee);
- Manager – Private and Corporate Banking;
- Manager – Payments and Operations; and
- Manager – Risk

Ireland Branch Committee

The objective of this Committee is to support and assist the Managing Director and other executives and the Head of Ireland Branch, in the performance of their management tasks. The objectives of the said Committee are ensuring that the Ireland Branch is discharging its responsibilities to regulators and is operated in accordance with the Bank's policies and applicable laws in the provision of depositary services while also ensuring effective communication, coordination and cooperation between Senior Management and the Ireland Branch and between the departments, unit and functions within the Ireland Branch and decision making in respect of matters concerning the Ireland Branch.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Committee is composed of:

- Managing Director;
- Head of Ireland Branch;
- Head of Depositary Operations – Ireland Branch; and
- Head of Compliance & AML – Ireland Branch.

Key Risk Components

- **Credit Risk:** Credit Risk can be simply defined as the risk of suffering financial loss, due to the failure of the Bank's customers or counterparties being unable to meet and fulfil their obligations to the Bank. Usually these can be in form of loans and advances to customers and the investment in debt securities. As a general rule, in the course of its business, the Bank is not exposed to credit risk through the lending of funds to its customers. When granting credit to customer, the Bank does so almost invariably against full cash collateral and for short terms usually not exceeding one year.

- **Market Risk:** Market risk is the risk that the fair value, or future cash flows, of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange risk and share prices. Consequently, Market Risk is made up of the following three foundations, namely:
    - Interest Rate risk, which is brought about by changes in interest rates.
    - Exchange Rate risk, which the risk brought about by change in exchange rates vis-à-vis foreign currency holdings.
    - Investments price risk, which is the risk of incurring losses due to the changes in the prices of investments.

- **Reputational Risk:** This is the risk that the Bank may be exposed to negative publicity about its business practices leading to impairment in its liquidity or capital base. The Board of Directors, through the Management Committee, constantly reviews the Bank's activities from an ethical, trust, integrity and honesty point of view to ensure that the Bank's reputation is always safeguarded.

- **Liquidity Risk:** Liquidity Risk is the risk that an entity will encounter difficulty in meeting expected or unexpected current and future cash flows needs without affecting daily operations or the financial condition of the entity. Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Liquidity Risk can arise from two particular sub-categories, namely:
    - Market Liquidity Risk: Risk of losses being incurred due to being unable to access a product or market at any required time price.
    - Funding Liquidity Risk: The loss faced due to a timing mismatch which would eventually lead to missing settlement date or the obligation met at a premium price which would mean higher cost for the Bank.

- **Operational Risk:** Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as from external events. The Board of Directors, through the Management Committee, regularly monitors operational risk by early identification and appropriate action. Operational risks are mitigated by a system of controls, policies, procedures and random checks. In addition, risk is mitigated through adequate back up sites and systems and the continuous maintenance of the business continuity plan.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Credit Risk

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. The Bank has policies and procedures for accepting, measuring and managing credit risk. The objective of credit risk management is to achieve an appropriate balance between risk and return, and to minimise potential adverse effects of credit risk on the Bank's financial performance.

Credit risk is the primary risk category to which the Bank is exposed, namely through investment in debt securities and balances held with other institutions. Credit risk represents the Bank's largest regulatory capital requirement under Pillar 1. The Bank adopts the Standardised Approach to calculate Pillar 1 capital requirements for credit risk. Accordingly, the Bank splits its asset portfolio in different exposure classes including exposures to sovereigns, multi-lateral development banks, international organisations, institutions, corporates, retail, collective investment schemes and other items. The different exposure classes are then assigned the respective risk weights as outlined in the CRR, in order to calculate the Bank's credit risk capital requirement.

Apart from Credit Issuer and Default Risk, the Bank is also exposed to other forms of credit risk including credit concentration risk and counterparty credit risk and settlement risk.

- Credit Concentration Risk: The risk of incurring significant credit losses stemming from a concentration of exposures to a small group of borrowers or issuers or to a set of borrowers or issuers with similar credit risk characteristics.
- Counterparty Credit Risk and Settlement Risk: The risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Such risks are captured in the Bank's Pillar II assessment which the Bank performs on an annual basis as part of its ICAAP. To date, the Bank has not deemed it necessary to introduce a Pillar II add-on to cover the aforementioned risk exposures. This is because the Bank mitigates its exposure to such risks through various internal controls, which are embedded in the day-to-day processes and which help align the Bank's residual risk exposure to its risk appetite. In the event that the Bank's internal controls are not sufficient to decrease the residual risk to an acceptable level, the Bank will implement a Pillar II add-on.

The Bank's Risk Appetite Framework and Investment policy determine the level of risk which the Bank determines appropriate to take on. This is expressed in terms of various factors including the sector of the issuer or borrower, the country of risk, the term to maturity and the credit rating of the issuer or borrower, amongst others. In terms of the latter, the Bank makes reference to major credit rating agencies including Fitch, Moody's and Standard and Poor's.

The Board of Directors with the assistance of the Management Committee and its sub-committees, are responsible for the management of credit risk, including ongoing review of the Bank's risk exposures which is considered as pivotal and vital for the optimum management of the Bank. Apart from the quarterly regulatory reporting to the MFSA, the Bank's Finance Department prepares quarterly dashboards which it presents to the Board of Directors. Such dashboards help is assessing the Bank's risk exposures with its risk appetite levels.

The Bank's credit risk exposures relating to on-balance sheet assets and off-balance sheet instruments, reflecting the amounts reported to the Malta Financial Services Authority in the Bank's COREP regulatory submissions as at 31 December 2020 are displayed overleaf:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

	2020 EUR €'000	2019 EUR €'000
Credit Risk Exposures - On Balance Sheet Exposures		
Balances with Central Bank of Malta	552,318	442,214
Loans and Advances to Banks	65,255	93,466
Loans and Advances to Customers	17,975	18,708
Financial Assets	225,053	241,081
of which: Sovereigns	73,662	110,022
Multi-lateral Development Banks	43,051	52,405
International Organisations	38,957	33,874
Institutions	40,565	20,534
Corporates	28,749	21,077
Collective Investment Schemes	68	3,169
Other Assets	15,953	15,287
Total Credit Risk Exposures - On Balance Sheet Exposures	**876,553**	**810,756**
Credit Risk Exposures - Off Balance Sheet Exposures		
Contingent Liabilties	-	-
Commitments	24,064	12,633
Total Credit Risk Exposures - Off Balance Sheet Exposures	**24,064**	**12,633**
Total Credit Risk Exposures	**900,617**	**823,389**

As part of its credit risk monitoring, the Bank also closely monitors the country of risk as illustrated in the tables overleaf:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

2020	Carrying Amount EUR €'000	Malta EUR €'000	Austria EUR €'000	Other EUR €'000
Central Government or Central Banks	707,989	574,360	10,079	123,550
Institutions	105,821	1,568	27,723	76,530
Corporates	46,722	17,953	-	28,769
Collective Investment Scheme	68	-	-	68
Other Items	15,953	15,953	-	-
	876,553	**609,835**	**37,802**	**228,917**

2019	Carrying Amount EUR €'000	Malta EUR €'000	Austria EUR €'000	Other EUR €'000
Central Government or Central Banks	638,515	445,342	10,093	183,080
Institutions	114,000	609	37,545	75,846
Corporates	39,785	18,681	-	21,104
Collective Investment Scheme	3,169	-	666	2,503
Other Items	15,287	15,287	-	-
	810,756	**479,919**	**48,303**	**282,533**

Such credit risk is also analysed below in terms of residual maturity:

2020	Carrying Amount EUR €'000	Up to 1 Year EUR €'000	Over 1 to 5 Years EUR €'000	Over 5 Years EUR €'000
Central Government or Central Banks	707,989	577,369	29,056	101,564
Institutions	105,821	66,756	22,438	16,627
Corporates	46,722	18,095	12,171	16,456
Collective Investment Scheme	68	-	-	68
Other Items	15,953	540	868	14,545
	876,553	**662,760**	**64,533**	**149,260**

2019	Carrying Amount EUR €'000	Up to 1 Year EUR €'000	Over 1 to 5 Years EUR €'000	Over 5 Years EUR €'000
Central Government or Central Banks	638,515	499,982	18,015	120,518
Institutions	114,000	93,466	14,520	6,014
Corporates	39,785	20,707	3,105	15,973
Collective Investment Scheme	3,169	-	-	3,169
Other Items	15,287	2,549	12,738	-
	810,756	**616,704**	**48,378**	**145,674**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Bank keeps a constant look out for the credit quality of its financial assets. Apart from the cash held at the Central Bank of Malta for Reserve requirements, the Bank places its cash with financial institutions of good repute and credit standing. In fact, all of the Bank's loans and advances to banks as at 31 December 2020 were classified as regular. The Bank has adopted an expected credit loss model, which involves the continuous assessment of the credit quality of the Bank's exposures in line with its internal grading structure. This model is outlined in more detail in the next section of this note.

2020	Total €'000	Treasury Bills €'000	Other Securities €'000
AAA to A-	218,994	22,042	196,952
Lower to A-	5,990	-	5,990
Unrated	68	-	68
	225,052	**22,042**	**203,010**

2019	Total €'000	Treasury Bills €'000	Other Securities €'000
AAA to A-	236,662	54,640	182,022
Lower to A-	1,250	-	1,250
Unrated	3,169	-	3,169
	241,081	**54,640**	**186,442**

The following table also provides an analysis of the fair value hierarchy of the Bank's financial assets. The Bank holds Level 1 and Level 2 financial assets, with Level 2 denoting Unrated and Unlisted bonds held as at end of year. The figure within the "Unrated" category is the cumulative position the Bank holds in equity positions.

The fair value of Financial Assets are determined using valuation techniques and inputs which are considered as acceptable methodologies for pricing.

2020	Total €'000	Level 1 €'000	Level 2 €'000
AAA to A-	218,994	218,994	-
Lower to A-	5,990	5,990	-
Unrated	68	-	68
	225,052	**224,984**	**68**

2019	Total €'000	Level 1 €'000	Level 2 €'000
AAA to A-	236,662	236,662	-
Lower to A-	1,250	1,250	-
Unrated	3,169	-	3,169
	241,081	**237,912**	**3,169**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Credit Risk – Impairment of Financial Assets

Balances held with Central Bank of Malta and Loans and advances to banks

The loss allowances recognised by the Bank during the current year on balances held with the Central Bank of Malta and balances held with other correspondent banks, were limited to the 12-month expected credit losses ('ECL'). This is because the major part of the correspondent banks with whom the Bank held balances as at 31 December 2020 were assigned an investment grade credit rating and therefore were assessed as posing a low credit risk. On the other hand, the Bank's ECL in respect of exposures with those counterparties which were not investment-graded as at year end, were also limited to 12-month ECL since these exposures are withdrawable on demand meaning that the 12-month ECL would be equal to the lifetime ECL.

The 12-month ECL for loans and advances to banks were calculated following an assessment of each counterparty's probability of default ('PD') and exposure at default ('EAD'). The PD was determined using the average default rates issued by the major credit rating agencies, on the basis of the credit rating assigned to the respective counterparty as at year end. The EAD, on the other hand, was determined by reference to the balance held by the Bank with the respective counterparty as at 31 December 2020.

The tables below summarise the loss allowance calculation on balances held with the Central Bank of Malta and loans and advances to banks for the year ended 31 December 2020 and 31 December 2019.

31.12.2020			
Rating	**PD**	**Gross carrying amount**	**Loss Allowance**
		EUR	**EUR**
AAA-AA+	0.05%	3,021,478.77	1,642.41
AA-AA-	0.03%	15,265,796.05	4,899.69
A+ -A-	0.00%	588,417,749.35	19,085.65
BBB+	0.10%	216,663.95	205.83
BBB	0.11%	3,733,836.76	4,107.22
BBB- and lower	0.31%	6,968,997.53	21,312.48
		617,624,522.41	**51,253.28**

01.01.2020			
Rating	**PD**	**Gross carrying amount**	**Loss Allowance**
AAA-AA+	0.00%	320,345,499.24	432.11
AA-AA-	0.02%	981,886.44	212.54
A+ -A-	0.01%	201,077,785.01	26,504.83
BBB+	0.09%	10,125,961.23	9,450.90
BBB	0.00%	352,590.86	399.60
BBB- and lower	0.00%	2,845,494.36	11,620.92
		535,729,217.14	**48,620.89**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The table below presents the movement in expected credit loss on loans and advances to Banks during the year.

	EUR
Opening loss allowavce as at 01 January 2020	**48,620.89**
Increase in impairment loss allowance	2,632.39
Closing balance as at 31 December 2020	**51,253.28**

Loans and advances to customers and Off-balance sheet exposures

In assessing its exposure to credit risk from loans and advances to customers and off-balance sheet exposures, the Bank uses an internal grading structure whereby a credit risk grade is assigned to each counterparty in line with the days past due, as per the buckets below.

Grade	Days Past Due
Regular	1dpd – 30dpd
Watch	31dpd – 90dpd
Default	More than 90dpd

The Bank considers a financial asset to be in default when it is determined that the borrower is unlikely to pay its credit obligations in full. As outlined above, the Bank sets out a general rule whereby financial assets which are more than 90 days past due, are considered to be in default.

The Bank uses this internal grading structure to assess whether a 12-month expected credit loss ('ECL') or lifetime ECL should be calculated. For those loans which are in default, the Bank calculates lifetime ECL, with interest revenue being calculated on the net carrying amount of the loan while also taking into consideration the notion of the Loss Given Default. On the other hand, for loans which are not in default, the Bank assesses whether there has been a significant increase in credit risk. In making this assessment, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information, based on the Bank's historical experience and expert credit assessment, including forward-looking information. In this respect, the Bank assumes that loans which are more than 30 days past due (and hence are assigned an internal credit risk grading of 'Watch') represent a significant increase in credit risk since initial recognition. Loans with a significant increase in credit risk are subject to lifetime ECL, with interest revenue being calculated on the gross carrying amount of the loan. Finally, loans which are less than 30 days past due and which do not represent a significant increase in credit risk (that is loans which are assigned an internal credit risk grading of 'Regular' and are expected to remain in this category in the foreseeable future) are subject to 12-month ECL.

On the basis of the assigned credit risk grading, the Bank calculates the expected credit loss for each loan. The expected credit loss is measured on the basis of three key inputs:

i. Probability of default ('PD') – this refers to the expected probability of a borrower defaulting. The Bank assigns a 100% PD to defaulted loans, while for other loans the PD is estimated by reference to the default rates issued by the major credit rating agencies. For loans subject to a 12-month ECL, one-year default rates are considered while for loans subject to lifetime ECL, the timeframe of the assigned PD is dependent on the remaining term to maturity of the loan. Finally, in determining the applicable PD, the Bank also takes into consideration the industry of the borrower.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

ii. Loss Given Default ('LGD') – this refers to the magnitude of loss in the event of default. The LGD is dependent on the presence of collateral, if any, which reduces the Bank's exposure in the event of default. In the case of term loans to customers, the Bank requires a full collateral to be provided, either in the form of securities or cash. A haircut is then applied to the market value of securities held as collateral, in order to provide for fluctuations in market prices. In this respect, the Bank performs a monthly assessment of collaterals held, including market prices and value of securities following the application of haircuts, to ensure that the total collateral value remains above the carrying amount of the loan.

iii. Exposure at default ('EAD') – this represents the Bank's total exposure in the event of default, which is equal to the carrying amount of the loan as at the end of the year.

The tables below present the Bank's loans to customers by credit risk grading, as at 31 December 2020 and 1 January 2020.

31.12.2020				
	Regular 0 - 30dpd	Watch 31dpd - 90dpd	Default More than 90dpd	Total
	EUR	EUR	EUR	EUR
Gross Carrying Amount	17,880,113.77	95,718.15	3,723,680.16	21,699,512.08
Average PD	0.00%	0.56%	100.00%	
Loss allowance	265.17	537.62	3,723,680.16	3,724,482.96

01.01.2020				
	Regular 0 - 30dpd	Watch 31dpd - 90dpd	Default More than 90dpd*	Total
	EUR	EUR	EUR	EUR
Gross Carrying Amount	14,604,658.46	2,020,131.19	3,684,868.99	20,309,658.64
Average PD	0.01%	0.01%	43.42%	
Loss allowance	1,362.41	256.19	1,599,832.32	1,601,450.92

*Note that the average PD for defaulted loans to customers is not equal to 100% due to the decreased LGD in the presence of collateral held by the Bank.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The table below represents the movement in expected credit loss on loans to customers during the past twelve months.

	EUR
Opening loss allowavce as at 01 January 2020	**1,601,450.92**
Increase in impairment loss allowance	2,123,032.03
Closing balance as at 31 December 2020	**3,724,482.95**

Similarly to loans to customers, the Bank calculates the expected credit loss on off-balance sheet exposures on the basis of the PD, LGD and EAD. The PD is determined by reference to the default rates issue by major credit rating agencies, having regard to both the internal grading of the counterparty and the industry in which it operates. In line with the calculation for loans and advances to customers, the LGD is dependent on the value of the collateral in place, following the application of haircut. Finally, the EAD would be equivalent to the amount of the undrawn amount, if any, which exceed the collateral amount. The table below summarises, the ECL calculation for off-balance sheet exposures:

	31.12.2020			
	Regular 0 - 30dpd	**Watch 31dpd - 90dpd**	**Default More than 90dpd**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Off-balance sheet exposure	18,734,838.17	5,331,343.77	-	24,066,181.94
Exposure at Default	28,604.96	481,417.38	-	510,022.34
Average PD	0.00%	0.04%	0.00%	
Loss allowance	141.39	2,021.95	-	2,163.34

	01.01.2020			
	Regular 0 - 30dpd	**Watch 31dpd - 90dpd**	**Default More than 90dpd**	**Total**
	EUR	**EUR**	**EUR**	**EUR**
Off-balance sheet exposure	8,600,006.05	4,033,395.05	-	12,633,401.10
Exposure at Default	27,535.35	-	-	27,535.35
Average PD	0.00%	0.00%	0.00%	
Loss allowance	210.65	-	-	210.65

The table below presents the movement in the ECL allowance on off-balance sheet exposures for 2020:

	EUR
Opening loss allowavce as at 01 January 2020	**210.65**
Increase in impairment loss allowance	1,952.70
Closing balance as at 31 December 2020	**2,163.34**

Financial assets at FVOCI and Financial assets at amortised cost

All of the entity's debt securities, including both those classified as at fair value through other comprehensive income ('FVOCI') and those classified as at amortised cost, are considered by Management as posing lower credit risk and hence loss allowances recognised during the

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

period are limited to the 12-month ECL. Management considers debt securities with low credit risk as those which are assigned an investment grade credit rating by at least one major credit rating agency.

The 12-month ECL is calculated as the product of the issuer's PD and the EAD as at year end. The PD is determined by reference to the average of the one-year default rates issued by the major credit rating agencies, with the respective default rate being aligned to the issuer type and the credit rating as at the date of assessment. The EAD, on the other hand, is equal to the sum of the interest receivable as from year end until the maturity date and the nominal amount receivable upon maturity.

The table below summarises the loss allowance calculation on the Bank's debt securities classified as at amortised cost, as at 31 December 2020.

31.12.2020

Rating	PD	Exposure at default	Loss Allowance
AAA to AAA-	0.01%	66,071,875.00	3,816.00
AA+ to AA-	0.01%	94,257,620.26	6,729.01
A+ to A-	0.02%	65,520,350.00	15,809.21
BBB+ to BBB-	0.13%	6,453,750.00	8,636.13
		232,303,595.26	**34,990.35**

01.01.2020

Rating	PD	Exposure at default	Loss Allowance
AAA to AAA-	0.00%	144,885,635.82	-
AA+ to AA-	0.00%	79,151,059.46	2,799.97
A+ to A-	0.02%	26,652,563.89	5,047.32
BBB+ to BBB-	0.10%	1,273,437.50	1,289.29
		251,962,696.67	**9,136.58**

The closing loss allowance for debt securities as at 31 December 2020 under the expected loss model, reconciles to the opening loss allowance under the incurred loss model, as follows:

	EUR
Opening loss allowavce as at 01 January 2020	**9,136.58**
Increase in impairment loss allowance	25,853.77
Closing balance as at 31 December 2020	**34,990.35**

Concentration and Counterparty Risk

The Bank's Credit concentration risk stems from the probability that one of the Bank's counterparties to whom the Bank is exposed on a number of exposures, defaults. A prime example of this could be a sovereign exposure that the Bank has acquired multiple bonds of for its Balance Sheet such as a Government issued security.

The Bank holds limits in place within its ICAAP which indicate how much concentration towards one particular counterparty the Bank can expose itself to. This may be based upon credit rating, jurisdiction and sector amongst other factors.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

On the other hand, Counterparty Risk is mainly derived from the probability that a transaction will not settle due to a default of one of the Bank's counterparties. This can be in the form of an acquisition of a bond for the Bank's Balance Sheet or also when the Bank executes Foreign Exchange deals for and on behalf of its customers. Such Forex transactions are done on a T+2 basis and therefore this kind of risk is always present in some form or another.

The Bank considers its exposure to such risk as very low since the Bank executes deals with and acquires financial assets of high quality.

At end of December 2020, the Bank did not deem to have risks at very high levels and thus does not deem it necessary to hold a Pillar II Risk add-on to counterbalance such risks.

Market Risk

Market risk is the risk that the fair value, or future cash flows, of financial instruments will fluctuate due to changes in market variables such as interest rates, exchange rates and share prices. Consequently, Market Risk is made up of the following three foundations:

- Interest Rate risk, which is brought about by changes in interest rates;
- Exchange Rate risk, which is the risk brought about by change in exchange rates vis-à-vis foreign currency holdings; and
- Investments price risk, which is the risk of incurring losses due to the changes in the prices of investments.

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance.

Market risk is derived from two main sources namely:

i) Position Risk: The risk of the negative effect on the value of a particular position in the Banking Book of the Bank due to the general movements within the market environment mainly due to the interest rate environment.
ii) Foreign Exchange Risk: The risk incurred or faced due to the crystallisation of a loss due to a transaction being denominated in a currency other than that of the Bank.
iii) Equity Price Risk: The risk of loss because of changes in investment prices

The drivers towards Position Risk are mainly derived from Investments that the Bank holds on its portfolio. Such a portfolio, as at end of December 2020, was made up of assets either classified as Hold-to-Collect which are, in their normality, held till their maturity or as Hold to Collect and Sell which are either held till maturity or sold for liquidity management purposes. Such a portfolio could be made up of either short term very liquid treasuries or longer term zero coupon or discount priced bonds predominantly denominated in Euro, United States Dollar and British Pound. Longer term bonds with higher coupon rates and pricing structure denominated in the same currencies are acquired as a means of store of value and to earn interest income. On the other hand, the drivers that instigate Foreign Exchange Risk relate mainly to transactions executed by the Bank which are not denominated in the Bank's functional currency.

The Bank accepts deposits in a number of currencies and hence when forexes are executed these would create mismatches exposing the Bank to movement in exchange rates.

The main exposures arise from four major currencies which are the USD, GBP, HKD and CZK (*2018: USD, GBP, HKD and CHF).* Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

2020	USD to EUR €'000	GBP to EUR €'000	CZK to EUR €'000	HKD to EUR €'000
Assets denominated in foreign currencies				
Central Bank Balances	159,707	24,465	-	-
Loans and advances to Banks	22,815	11,506	1,117	219
Loans and advances to customers	8,418	714	1	-
Financial Assets	3,268	-	-	-
	194,208	**36,685**	**1,118**	**219**
Liabilities denominated in foreign currencies				
Amounts owed to Banks	13	30	-	-
Amounts owed to customers	193,680	36,605	1,109	217
	193,693	**36,636**	**1,109**	**217**
Net Exposure	**515**	**49**	**9**	**2**

2019	USD to EUR €'000	GBP to EUR €'000	CHF to EUR €'000	HKD to EUR €'000
Assets denominated in foreign currencies				
Central Bank Balances	124,802	5,880	-	-
Loans and advances to Banks	25,442	16,114	8,250	1,664
Loans and advances to customers	4,525	15	1	-
Financial Assets	31,139	24,092	-	-
	185,908	**46,101**	**8,251**	**1,664**
Liabilities denominated in foreign currencies				
Amounts owed to Banks	578	18	-	-
Amounts owed to customers	184,825	45,778	8,192	1,655
	185,403	**45,796**	**8,192**	**1,655**
Net Exposure	**505**	**305**	**59**	**9**

The exchange rates used as at end of year are as follows:

	2020 EUR	2019 EUR
USD to EUR	1.2273	1.1218
GBP to EUR	0.8993	0.8504
CHF to EUR	1.0811	1.0847
HKD to EUR	9.5147	8.7349
CZK to EUR	26.2341	25.4108

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Bank monitors frequently the effect of such a risk through the Asset and Liability Management Report the Finance Department compiles for the Board of Directors. Through this tool, the Bank is kept updated with its net exposures to foreign currencies.

Investment Price Risk

The Bank is exposed to investment price risk by virtue of the investments held by the Bank and classified on the balance sheet at fair value through profit or loss account. The Board of Directors together with the Management Committee and its Sub-committees frequently monitor the Bank's Financial Assets portfolio and comes up with solutions and decisions where deemed fit should the Board decide on acquiring or disposing any investment. Nevertheless, the Bank maintains its stance on investing in high quality financial assets with a healthy credit rating. It is important to note also that the Bank is not exposed to commodity price risk.

Operational Risk

Operational Risk is the non-financial risk of loss arising from failed internal processes or systems as well as 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, Systems ICT Risk, Business Process Risk, Reputational Risk and also Key Staff Dependency Risk. Such risks can be driven by various risk drivers which are all a threat to the Bank's operations.

The Board of Directors, through the Management Committee and its sub-committees, regularly monitors operational risk by early identification and appropriate action. Operational risks are mitigated by a system of controls, policies, procedures and random checks. In addition, this risk is mitigated through adequate back up sites, systems and the continuous maintenance of the business continuity plan. Such a risk is given high importance by the Bank given that none of the sub-categories are captured by Pillar I Risk. If at any point in time in the future the Board of Directors deems it necessary to introduce a Pillar II add-on with respect to Operational Risk, it will do so without hesitation.

The Bank calculates Pillar I capital requirement for Operational Risk using the Basic Indicator Approach under Capital Regulatory Regulations (CRR), which requires the Bank to allocate a capital requirement equal to 15% of the average over three years of the relevant indicator. The Bank's operational risk capital requirement for 2020 and 2019 is illustrated in the table overleaf:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

	2020 EUR €'000	2019 EUR €'000
Net Interest Income	4,961	6,081
of which Realised Gains and Losses on Investments	(3,201)	(1,008)
	1,760	5,073
Profit on foreign exchange activity	1,216	1,620
Net fee and Commission Income	7,424	6,585
Other Operating Income	42	47
Operating Profit	**10,441**	**13,325**
3 Year Profit Average *(2018: 11,563; 2019: 13,325)*	11,776	11,040
15% Haircut Application (for 2020 / for 2019)	**1,766**	**1,656**

Liquidity Risk

Liquidity Risk is the risk that an entity will encounter difficulty in meeting expected or unexpected current and future cash flow needs without affecting daily operations or the financial condition of the Bank. Liquidity risk may also result from the inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Furthermore, the new LCR and NSFR ratios, introduced by way of the new CRD IV, where constantly monitored throughout the year. With the LCR threshold now at a fixed minimum requirement of 100%, the Bank is satisfied with the current position it is in, with LCR figure standing at 397%. Nevertheless, the Bank will continue to monitor such figures on a monthly basis. On the other hand the Net Stable Funding Ratio of the Bank stood at 441% as at year end.

The Board of Directors and Management Committee, constantly monitor such ratios and figures and discuss ways of how to mitigate liquidity risk through the introduction of new controls. The Bank's liquidity profile is generally made up of cash deposits and a sizeable portfolio of Financial Assets which are eligible as collateral against borrowing from the European Central Bank. Such Financial Assets are mainly government bonds of highly rated countries including Malta, Netherlands and Austria amongst others.

The following table analyses the Bank's principal assets and liabilities when grouped into maturity classes based on their remaining lifetime period as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

2020	Total	Less than 3 Months	Between 3 Months and 1 Year	Between 1 Year and 5 Years	Over 5 Years
	€'000	€'000	€'000	€'000	€'000
Assets					
Balances with Central Bank of Malta	552,318	552,318	-	-	-
Loans and advances to Banks	65,255	65,255	-	-	-
Loans and Advances to Customers	17,975	7,772	9,824	379	-
Financial Assets	225,053	3,001	24,050	63,286	134,715
	860,601	**628,346**	**33,874**	**63,665**	**134,715**
Liabilities					
Amounts owed to Banks	911	911	-	-	-
Amounts owed to Customers	830,046	829,845	1	200	-
	830,957	**830,756**	**1**	**200**	**-**
Maturity Gap		**(202,410)**	**33,873**	**63,465**	**134,715**
Cumulative Gap		**(202,410)**	**(168,537)**	**(105,073)**	**29,643**

2019	Total	Less than 3 Months	Between 3 Months and 1 Year	Between 1 Year and 5 Years	Over 5 Years
	€'000	€'000	€'000	€'000	€'000
Assets					
Balances with Central Bank of Malta	442,214	442,214	-	-	-
Loans and advances to Banks	93,466	93,466	-	-	-
Loans and Advances to Customers	18,708	9,691	8,925	92	-
Financial Assets	241,081	55,640	4,218	35,548	145,675
	795,469	**601,011**	**13,143**	**35,640**	**145,675**
Liabilities					
Amounts owed to Banks	1,078	1,078	-	-	-
Amounts owed to Customers	763,352	763,106	1	245	-
	764,430	**764,184**	**1**	**245**	**-**
Maturity Gap		**(163,173)**	**13,142**	**35,395**	**145,675**
Cumulative Gap		**(163,173)**	**(150,031)**	**(114,636)**	**31,039**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Own Funds

While the Bank's capital management is based on the regulatory requirements established by the regulations modelled on the European Union Directive of Capital Requirements, the Standardised Approach is used to calculate the Capital Requirement for the Bank.

Own Funds gives an indication of the Bank's available capital and reserves while underlining the strength of the Bank and keeping in line with the regulations stipulated within the above mentioned rule. During the year ended 31 December 2020, the Bank always kept in line with the limits set by the Banking Rules. The Bank's capital base is only made up of Common Equity Tier 1 (CET1) capital, with no Tier 2 capital being present in the calculation. It is made up of the following items:

- Share Capital - The Bank's Share Capital as at 31 December 2020 is analysed and split up in Note 23;
- Retained Earnings – The Bank's retained earnings included in this calculation is composed of opening Retained Earnings, the current year profit after tax less the dividend pay-out to the shareholder, if any;
- Other regulatory adjustments including deductions for intangible assets and prudential filters for financial assets in accordance with CRD IV, including Fair Value and Property Revaluation Reserves;
- Tier II Capital – although at this moment in time, the Bank does not have any Tier II as part of its Own Funds calculation this can be made up of various other capital instruments.

Below is a breakdown of how the Bank's Capital Base is categorised under the Banking Act.

	2020 €'000	2019 €'000
Own Funds		
Common Equity Tier 1 (CET1)		
Paid up Share Capital	34,000	30,000
Retained Earnings	3,327	978
Fair Value Reserve	(27)	116
Property Revaluation Reserve	3,444	3,444
CET 1 Capital before regulatory adjustments	**40,744**	**34,538**
Deductions and Adjustments		
Adjustment to CET 1 due to prudential filters	(22)	(55)
Intangible Assets	(2,756)	(2,326)
Total Deductions and Adjustments	(2,778)	(2,381)
Total Tier 1 After Prudential Filters and Deductions	**37,966**	**32,157**
Tier 2 Capital		
Capital Instruments and subordinated loans		
Total Tier 2 Capital	-	-
Total Own Funds	**37,966**	**32,157**
Total Risk Weighted Assets	**141,505**	**121,393**
CET1 Capital Ratio	**26.83%**	**26.49%**
Tier 1 Capital Ratio	**26.83%**	**26.49%**
Total Capital Ratio	**26.83%**	**26.49%**

During both of the years presented, the Bank did not apply any transitional provisions for mitigating the impact of the introduction of IFRS 9 on own funds, in line with the transitional arrangements laid down in the EBA Guidelines EBA/GL/2018/01 and the amending EBA Guidelines EBA/GL/2020/12.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Capital Requirements

Article 73 of Directive 2013/36/EU ("CRDIV") (transposed into Maltese law by Article 17C of the Banking Act (Chapter 371 of the Laws of Malta) requires Sparkasse Bank Malta plc to have in place sound and effective strategies to assess and mitigate the risk that the Bank is exposed to. The Bank has developed these strategies to minimize the risk faced during its course of business and which in turn are clearly documented in the Bank's ICAAP and ILAAP documents. This will assist the Bank in ascertaining whether it meets the stipulated regulatory minimum thresholds, at all times.

The Pillar I minimum capital requirements are calculated for all Pillar I risks the Bank faces, that is, credit risk, market risk and operational risk as mandatory by all Banks. The Bank applies the Standardised Approach for credit risk, the Basic Indicator Approach for market risk and the Basic Indicator Approach for Operational Risk in order to calculate Pillar I capital requirements.

As outlined earlier, in order to calculate its credit risk capital requirement, the Bank risk weights its on-balance sheet and off-balance sheet exposures in line with the asset quality, asset type, and credit rating obtained from nominated external credit rating agencies, namely Moody's, Standard and Poor's and Fitch. In the case of unrated exposures, criteria within CRR are applied. The total risk weighted amount is then multiplied by 8% to reveal the amount of capital requirements for credit risk.

The Bank uses the Basic Indicator Approach to calculate its capital requirement on Foreign Exchange Risk, which requires the Bank to allocate an amount equivalent to 8% of its net currency exposure. Finally the Bank calculates its operational risk capital requirement using the Basic Indicator Approach, as explained earlier.

	Exposure Value	Risk Weighted Assets	Capital Requirement
2020	**€'000**	**€'000**	**€'000**
Pillar I			
Credit Risk			
Central Governments or Central banks	625,980	38,748	3,100
Multi-lateral Development Banks	43,051	-	-
International Organisations	38,957	-	-
Institutions	105,820	29,939	2,395
Corporates	51,380	33,978	2,718
Retail	156	117	9
Claims in the form of Collective Investment Schemes	68	68	5
Other Items	15,953	15,734	1,259
Total Credit Risk	**881,366**	**118,583**	**9,487**
Foreign Exchange Risk		841	**67**
Operational Risk		22,081	**1,766**
Total Pillar I Risk		**141,505**	**11,320**
Pillar II Risk		-	**-**
Total Capital Requirement		**141,505**	**11,320**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Bank calculates the Total Capital Ratio as defined within the CRR, by dividing regulatory capital versus risk weighted assets. The Total Capital ratio shall stand at a minimum of 8%, as per the minimum regulatory requirement.

Further to the CRR, the CRD requires the Bank to hold additional buffers, namely a capital conversation buffer of 2.5% of total risk exposure amount, as well as a countercyclical capital buffer which shall be equal to the Bank's exposure with the respective jurisdiction multiplied by the weighted average of the countercyclical buffer rates applicable in that jurisdiction.

CET1 Capital

CET1 Capital	37,966
Tier 2	-
Total Own Funds	**37,966**
Total Capital Ratio	**26.83%**

	Capital Requirement €'000	**Capital Requirement %**
Total Pillar I Risk	11,320	8.00%
Total Pillar II Risk	-	0.00%
Total SREP Capital Requirement	**11,320**	**8.00%**
Capital Conservation Buffer	3,538	2.50%
Countercyclical Capital Buffer	16	0.01%
Overall Capital Requirement (OCR)	**14,874**	**10.51%**
Head room over OCR	**23,092**	

Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)

Under Pillar II of the CRD, the Bank is required to enact an ICAAP and ILAAP. The ICAAP and ILAAP are performed annually and is required under the MFSA Banking Rule BR / 12. The Board via the Executive Committee has the overall responsibility for the design and details of these documents. Apart from the responsibility of the design, the Board discusses, approves, endorses and delivers the yearly ICAAP and ILAAP submissions.

The results of the ICAAP and ILAAP show that the Bank continues to maintain a very comfortable level of excess capital and substantial liquidity that ensures the flexibility and resources needed to achieve its long term strategic objectives even under market stress situations.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

The Bank has decided to adopt the standardised approach in respect of Pillar I and welcomed the Internal Capital Adequacy Assessment Process (ICAAP) embedded in Pillar II. This will ensure a proper measurement of material risks and capital thus allowing for better capital management and an improvement in risk management. The Risk Function formally measures material risks and capital and reports to the Board at quarterly intervals. The ICAAP report is formally approved by the Board annually.

Leverage

The leverage ratio is a non-risk-based ratio and supervisory tool proposed to provide transparency in terms of an institution's exposures. It is calculated as the ratio of the Bank's Tier I Capital to the Bank's total exposures composed of, both on-balance and off-balance sheet exposures. On the other hand, Tier I Capital, is calculated in line with Article 25 of the CRR.

Sparkasse Bank Malta plc's leverage ratio has always averaged above the 3% minimum regulatory requirement under Basel III. In addition, in the next financial year, the Bank's leverage ratio is expected to strengthen further through the anticipated increase in share capital.

2020	**€'000**
Exposure Values	
On-Balance Sheet Expsoures (excluding derivatives and SFTs)	876,553
Off-Balance Sheet Exposures at gross notional amount	4,813
Leverage ratio total exposure measure	**881,366**
Tier 1 Capital	38,221
Total Tier 1 Capital	**38,221**
Leverage Ratio	**4.34%**

Other Directorships

In accordance with Article 91 of Directive 2013/36/EU (CRD IV) the number of directorships at significant institutions which may be held by any of the Bank's directors at the same time shall take into account individual circumstances and the nature, scale and complexity of the institutions activities. A director shall not hold more than one of the following combinations of directorships at the same time:

- One executive directorship with two non-executive directorships;
- Four non-executive directorships.

In accordance with the 'Guide to banking supervision' issued by the ECB in November 2014, an institution is deemed to be significant if one of the following criteria is met:

- The total value of its assets exceeds €30billion or, unless the total value of its assets is below €5billion, exceeds 20% of national GDP;
- It is one of the three most significant credit institutions established in a Member State;
- It is a recipient of direct assistance from the European Stability Mechanism;
- The total value of its assets exceeds €5billion and the ratio of its cross-border assets/liabilities in more than one other participating Member State to its total assets/liabilities is above 20%.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

38) Financial Risk Management *(continued)*

Sparkasse Bank Malta plc does not meet any of the above criteria and thus is not considered as a significant credit institution by the banking supervisors, and thus is exempt of the said article. On the basis of materiality, the number of directorships does not require disclosure in line with Article 432 in CRR.

Recruitment and Diversity policy

The Bank has adopted a strong approach to recruitment in all areas of the Bank. This is especially with regards to positions in key areas such as members of the Board of Directors and members of Bank committees.

The Bank's overall objectives are held in high regard and thus when recruiting new staff members or appointing members to committees, the person's skills, expertise, attributes and merit are commensurate to the position being proposed. New staff personnel are selected following deliberation between the Managing Director and the Head of Department of that particular area which requires recruiting, whereby the skills, knowledge and expertise of the short-listed few are discussed and the best candidate is selected for employment.

As regards any positions that might be available for positions within the Board, the Board of Directors themselves make sure that all members of the Board come from different backgrounds and have different areas of expertise to make sure that any risks which the Bank faces in its course of business are mitigated by such expertise on Board.

DETAILED INCOME STATEMENT

DETAILED INCOME STATEMENT

	2020 EUR	2019 EUR
Interest receivable and similar income		
Loans and advances and Balances held at Central Bank of Malta	2,608,081.31	3,935,446.48
On debt and other fixed income instruments	4,232,385.92	3,513,784.72
Interest Expense	(1,879,675.66)	(1,368,701.55)
Net Interest Income	**4,960,791.57**	**6,080,529.65**
Fees and Commission Receivable	8,612,643.35	8,240,284.07
Fees and Commission Expense	(1,188,467.87)	(1,333,937.46)
Net Fee and Commission income	**7,424,175.48**	**6,906,346.61**
Trading profits		
Impairment provision reversal	56,387.90	33,425.70
Net Fair Value Movement on Financial Assets at FVTPL	(106,663.89)	200,525.62
Increase in Net Impairment Loss on Financial Assets	(2,153,470.87)	(1,365,787.39)
Profit on foreign exchange activities	1,215,909.37	1,298,640.40
Other income	441,767.88	47,250.25
Operating Profit	**11,838,897.44**	**13,200,930.84**
Staff Costs	(4,300,489.08)	(3,914,141.45)
Other Administrative expenses	(2,872,732.92)	(2,561,075.70)
Depreciation and Amortisation	(1,025,910.70)	(881,850.16)
	(8,199,132.70)	**(7,357,067.31)**
Profit before income tax	**3,639,764.74**	**5,843,863.53**
Income Tax Expense	(2,025,170.00)	(1,959,751.64)
Profit after income tax	**1,614,594.74**	**3,884,111.89**

5 YEAR SUMMARIES

INCOME STATEMENT - 5 YEAR SUMMARY

	2020 €'000	2019 €'000	2018 €'000	2017 €'000	2016 €'000
Interest receivable and similar income	6,840	7,449	3,434	1,793	1,531
Interest Expense	(1,880)	(1,369)	(1,069)	(873)	(410)
Net interest income	**4,960**	**6,081**	**2,365**	**920**	**1,121**
Reversal of Impairment on securities	56	33	42	220	-
(Increase) / Reversal of Net Impairment Loss on Financial Assets	(2,153)	(1,366)	79	-	-
Net Fair Value Movemnet on Financial Assets at FVTPL	(107)	201	(150)	-	-
Profit on foreign exchange activities	1,216	1,299	2,607	1,334	1,767
Commissions (net)	7,424	6,906	6,379	5,997	5,115
Other income	442	47	126	90	-
Total Operating Profit	**11,839**	**13,201**	**11,448**	**8,561**	**8,003**
Operating expenses					
Administrative expenses	(8,199)	(7,357)	(5,737)	(3,985)	(3,887)
Profit on ordinary activities before taxation	**3,640**	**5,844**	**5,711**	**4,576**	**4,116**
Tax on ordinary activities	(2,025)	(1,960)	(2,132)	(1,699)	(1,441)
Profit on ordinary activities after taxation	**1,615**	**3,884**	**3,579**	**2,877**	**2,675**
Earnings per 1000 shares	**71**	**199**	**140**	**122**	**122**

STATEMENT OF FINANCIAL POSITION - 5 YEAR SUMMARY

	2020	2019	2018	2017	2016
	€'000	€'000	€'000	€'000	€'000
		(As Restated)			
Assets					
Cash and Balances held with Central Bank of Malta	574,371	442,219	279,856	122,850	154,061
Loans and advances to banks	65,255	93,466	132,639	209,333	170,309
Loans and advances to customers	17,975	18,708	12,963	10,213	8,241
Financial assets at Amortised Cost	202,941	183,272	193,900	-	-
Financial assets at Fair Value through other Comprehensive Income	-	54,640	86,972	-	-
Financial assets mandatorily measured as at Fair Value through Profit or Loss	68	3,169	2,969	-	-
Available for Sale Financial Assets	-	-	-	168,447	149,140
Investment Property	-	-	2,310	2,410	-
Property, plant and equipment	9,037	9,240	3,333	3,414	1,098
Intangible Assets	2,756	2,326	2,054	1,777	1,124
Right-Of-Use Assets	1,053	1,153	-	-	-
Prepayments and accrued income	1,168	1,387	876	573	312
Deferred tax	1,699	1,119	704	977	-
Other assets	230	38	481	3	523
Total assets	**876,553**	**810,738**	**719,057**	**519,997**	**484,808**
Equity					
Called up share capital	34,000	30,000	26,000	24,000	22,000
Revaluation reserve	-	-	-	(62)	120
Fair Value reserve	(27)	116	211	-	-
Property Revaluation Reserve	3,444	3,444	-	-	-
Retained Earnings	3,327	5,712	1,129	1,160	791
Total Equity	**40,744**	**39,272**	**27,340**	**25,098**	**22,912**
Liabilities					
Amount owed to banks	911	1,078	7,404	6,399	2,547
Amount owed to customers	830,046	763,351	678,568	482,035	454,238
Other liabilities	565	2,288	3,175	3,072	3,526
Lease Liabilities	1,093	1,198	-	-	-
Accruals and deferred income	667	926	789	182	104
Deferred Tax Liability	-	-	-	-	633
Current tax	2,527	2,624	1,781	3,210	848
Total liabilities	**835,809**	**771,466**	**691,717**	**494,899**	**461,896**
Total Equity and Liabilities	**876,553**	**810,738**	**719,057**	**519,997**	**484,808**

STATEMENT OF CASH FLOWS - 5 YEAR SUMMARY

	2020	2019	2018	2017	2016
	€'000	€'000	€'000	€'000	€'000
Net Cash from operating activities	**7,526**	**221,174**	**30,974**	**25,873**	**24,359**
Cash Flows from investing activities					
Disposal of securities	125,207	341,114	286,314	260,196	322,468
Disposal of tangible assets	-	2	-	-	-
Purchase of securities	(105,784)	(296,738)	(387,749)	(285,361)	(349,998)
Purchase of tangible assets	(322)	(255)	(217)	(5,144)	(45)
Purchase of intangible assets	(746)	(558)	(554)	(865)	(450)
Proceeds from Government Grant	2	-	-	-	-
Net Cash used in investing activities	**18,357**	**43,565**	**(102,206)**	**(31,174)**	**(28,025)**
Cash Flows from financing activities					
Lease Liability Payments	(264)	-	-	-	-
Issue of shares	-	4,000	2,000	2,000	-
Dividends paid	-	(3,000)	(3,000)	(2,508)	(3,014)
Net Cash from used in financing activities	**(264)**	**1,000**	**(1,000)**	**(508)**	**(3,014)**
Movements in cash and cash equivalents	**25,619**	**265,739**	**(72,232)**	**(5,809)**	**(6,680)**
Cash and Cash Equivalents at beginning of the year	**390,010**	**124,271**	**196,503**	**202,312**	**208,993**
Cash and Cash Equivalents at close of the year	**415,629**	**390,010**	**124,271**	**196,503**	**202,312**

SPARKASSE
Bank Malta plc

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