SPARKASSE
Bank Malta plc

2021
Annual Report

PRIVATE & CORPORATE BANKING / WEALTH MANAGEMENT / FUND CUSTODY

MISSION STATEMENT

Our vision is to grow our enterprise into a European bank recognised for investment and depositary services offering excellence and expertise in all we do.

Our mission is to be an organisation that creates value for customers through a skilled and motivated work force and scalable technology.

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

- 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
- CCR Counterparty Credit Risk
- CET1 Common Equity Tier 1
- CRD Capital Requirements Directive
- CRR Capital Requirements Regulation
- EBA European Banking Authority
- ECL Expected Credit Loss
- 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
- 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

CONTENTS

SPARKASSE
Bank Malta plc

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors of Sparkasse Bank Malta public limited company present their report and the audited annual accounts for the accounting period ended 31st December 2021. The Directors are also presenting the Bank's Pillar 3 disclosures as a separate document to this report.

PRINCIPAL ACTIVITIES

Sparkasse Bank Malta public limited company (the "Bank") is a credit institution established in Malta. The Bank has one (1) branch, established in Dublin, Ireland and has no subsidiaries.

The Bank is licensed by the Malta Financial Services Authority ("MFSA") to carry out the business of banking in terms of the Banking Act (Chapter 371 of the Laws of Malta), to provide investment services and custody and depositary services in terms of the Investment Services Act (Chapter 370 of the Laws of Malta) and is authorised to act as custodian of retirement schemes in terms of the Retirement Pensions Act (Chapter 514 of the Laws of Malta). In addition, the Bank is authorised by the Central Bank of Ireland to act as depositary to Irish authorised investment funds, through its branch established in Ireland.

The authorisation to act as custodian of retirement schemes in terms of the Retirement Pensions Act was issued in October 2021.

The Bank's principal activities comprise:

- Banking: provision of bank accounts and payment services to private and corporate customers in accordance with the Bank's customer acceptance principles.
- Investment services: provision of portfolio accounts to private and corporate customers, including regulated entities, for the purpose of transmission of orders, execution and settlement of trades on the local and international markets.
- Wealth management services: investment advisory services only (the Bank does not provide discretionary portfolio management services).
- Depositary and custody services: provision of depositary services under the AIFMD[1] and UCITS Directive[2] and custody services to various types of customers, including retirement schemes, in line with the Bank's customer acceptance principles.

There were no significant changes in the Bank's principal activities in the course of 2021.

COVID – 19

The Bank retained its remote working policy throughout 2021 without any disruptions to its operations. The prolonged period of remote working re-confirmed the Bank's ability to sustain its services in an uninterrupted manner while also meeting its regulatory obligations. This was possible thanks to the flexibility and cooperation of the Bank's employees who adapted quickly to new work routines and their ability to work effectively , independently and diligently for long periods of time.

General overview and key notes

2021 was yet another successful year for the Bank in terms of revenue and profitability.

Despite the challenges brought about by the COVID-19 pandemic and Malta's grey listing by the FATF, the Bank recorded strong revenues for the year to the tune of EUR13.5 million compared to EUR11.8 million achieved in the previous year.

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[1] Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers
[2] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)

DIRECTORS' REPORT *(continued)*

Fee income remained the main component of revenue, generating a total of EUR8.6 million from business line fees while the remaining balance was generated through net interest income of EUR3.0 million and profits from foreign exchange activity of EUR1.5 million. This revenue allocation is in line with the Bank's business model that seeks to achieve revenues from fees rather than exposures to its balance sheet.

Profit before tax for the year was EUR4.1 million, in line with the Bank's forecasts and budgets for the year. Expenses in general were in line with budgeted figures with the exception of the contributions made toward the Depositor Compensation Scheme for the year. Contributions toward the Depositor Compensation Scheme have increased significantly as a result of increased deposits, typology and allocation for payment to the Depositor Compensation Scheme.

During the year under review, the Bank continued to selectively grow its customer relationships in line with its risk appetite and headroom in terms of regulatory capital requirements. The Bank was successful in growing both its balance sheet as well as assets under custody both locally as well as in Ireland. Balance sheet as at year end increased to EUR981.0 million from EUR876.0 million and assets under custody to EUR8.0 billion from EUR5.0 billion.

To complement its suite of services, the Bank applied and was successful in obtaining authorisation from the MFSA to act as custodian to retirement schemes in Malta. The authorisation was granted towards the later part of the year in respect of its first mandate as custodian of an occupational retirement scheme.

Risk

The Bank classifies its risks into four main categories that it seeks to mitigate through design of processes, business model, internal controls and internal governance. The Bank's approach to risk is documented in its Risk Appetite Statement, the Risk Management Framework and related policies.

In essence, the Bank seeks to protect against the following risk categories: credit, liquidity, market and operational risk. With less than 2% of total assets exposure to loans and advances to customers, the Bank sees both its credit and liquidity risk as risks that are primarily mitigated as a result of its business model. The Bank is not a lender of funds to the public: credit facilities are granted to customers on an ancillary basis, to complement banking and investment services. Hence, the Bank's credit risk exposure is derived primarily from holding large cash balances in difference currencies, with the Central Bank of Malta and other large credit institutions, as well as in high quality liquid assets to the tune of Eur621.0 million and Eur286.2 million respectively. These balances are available at short notice and therefore explain the Bank's high level of liquidity.

Operational risk is an area of risk the Bank seeks to focus on and mitigate through robust internal controls, automation, training and engaging only in customer relationship that are aligned with its risk appetite.

As a result, the Bank is proud to present key ratios for the year showing strong and sustainable profits with a Capital Adequacy Ratio ("CAR") of 32.52%, a Cost to Income Ratio of 69.8%, and a Return on Equity ("ROE") of 4.44%. These positive figures further confirm the Bank's sound business model and its capability of operating within its key strategic ratios.

Own Funds	EUR44.1 million
Common Equity Tier 1 Ratio	32.52%
Total Risk Weighted Assets	EUR135.5 million
Leverage Ratio	4.39%
Liquidity Coverage Ratio	355.63%
Net Stable Funding Ratio	503.98%

Throughout the year, the Bank continued to pursue a conservative approach to new business in line with its risk appetite and customer acceptance principles, while continuing to monitor existing relationships and implement further internal controls in an effort to mitigate 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 line of defence, training and developing the Bank's organisational structure in a manner that is conducive to functionality, effectiveness and control.

DIRECTORS' REPORT *(continued)*

Environmental, Social and Governance (ESG) principles were also introduced in various policies within the Bank primarily related to credit facilities and customer on-boarding.

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

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 Bank continued to focus on strengthening its overall internal governance in 2021, through various policies and additional appointments at Board and senior management (C-suite) level. In 2021, the Bank decided to appoint an additional independent non-executive Director (INED), with effect from the date of MFSA approval granted on 5th November 2021, and the appointment of a Chief Technology Officer (CTO) as part of its C-Suite, with effect from the date of MFSA approval granted on 25th January 2022. These two appointments strengthen competence at Board and senior management level in particular on matters related to risk management and IT.

The Audit Committee continued to support the Board in its oversight function with respect to the Bank's internal control, internal audit and risk management systems and the Bank's accounting policies and external audit. The Bank constituted a Risk Committee, which is temporarily combined with the Audit Committee. It is the intention for the Risk Committee to become a standalone Board committee in 2022 and for the newly appointed INED to become its chairperson.

Senior management, vested in the Managing Director (CEO) and, from January 2022, the Chief Technology Officer, is responsible for the implementation of the strategies and policies 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 management committees and sub-committees, with the aim to ensure effective communication, coordination and continuity between senior management and the departments, units and functions within the Bank, top-down and bottom-up, as well as between the various departments, units and functions themselves.

The management committees referred to are:-

- The Management Committee in Malta and its three (3) sub-committees, namely the Credit Review Committee, the Treasury and Investment Management Committee and the Customer Account Evaluation Committee;
- The Ireland Branch Committee and its two (2) sub-committees, namely, the On-boarding Committee for the approval of new customers of the Ireland Branch, and the Depositary Committee for the internal evaluation of the Branch's depositary function.

In addition to the above, the Bank established a SREP team formed specifically to deal with matters related to the supervisory review and evaluation process (SREP) conducted by the MFSA, giving this topic the due importance, it deserved within the Bank. The members of this team are mainly key function holders of the Bank, including the Managing Director, Head of Legal, Risk Manager, Finance Manager and the Compliance Officer. The team worked efficiently and effectively on all regulatory submissions, meeting all deadlines ahead of time.

DIRECTORS' REPORT *(continued)*

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 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 responsibility for further identifying, monitoring, 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 and provides advice on compliance to the Board of Directors and staff. This function is also responsible for establishing 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 accounting period under review was as follows:

– Harald Wanke	Chairperson of the Board of Directors
– Paul Mifsud	Managing Director
– James Bonello	Independent Non-Executive Director
– Serge D'Orazio	Independent Non-Executive Director
– Andrew Manduca	Independent Non-Executive Director and Chairperson of the Audit & Risk Committee
– Mark Curmi	Independent Non-Executive Director, appointed with effect from 5th November 2021.

Mr Curmi will become the Chairperson of the Risk Committee when it becomes a standalone Board Committee.

Capital – Dividends and Reserves

In line with the Bank's dividend policy and capitalisation of profits, the Bank made a bonus share issue for Eur3.0 million and received a capital injection of Eur3.2 million from its immediate parent company, Sparkasse (Holdings) Malta Limited in 2021. This allowed the Bank to increase its issued share capital by a total of EUR6.2 million to EUR40.2 million.

This additional capital was necessary to cater for the Bank's growth and provide the necessary headroom for MREL and leverage ratio targets.

The Board of Directors does not intend to recommend the payment of dividends for the distribution of 2021 profits but proposes to carry EUR2.1million to retained earnings.

Corporate Social Responsibility

As part of the Bank's corporate social responsibility programme, the Bank continues to support the local heritage in Malta through sponsorship programs offered by "Din L-Art Helwa" for the restoration of Maltese heritage and culture, whereby it continued to support the restoration of the Saint Nicholas and Saint 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 NGOs.

DIRECTORS' REPORT *(continued)*

Projects and Going Forward

The Bank remains committed to its business in Malta and Ireland and to continuing the development and strengthening of its business model. In so doing, the Bank intends to continue investing in its staff complement and the scalability of its IT.

As part of its growth strategy, the Bank recognises that it will need to grow its capital base beyond the pace of its current strategy of organic growth through the re-investment of profits. In 2021, the Bank and its ultimate parent company, Anteilsverwaltungssparkasse Schwaz ("AVS"), embarked on a process to identify investors interested in providing such additional capital. This led to AVS entering into a share purchase agreement with Merkanti Holding plc in March 2022, contemplating the sale by AVS of 100% of its shares in Sparkasse (Holdings) Malta Limited ("SHM") to Merkanti Holding plc. Merkanti Holding plc issued a company announcement on 7th March 2022, announcing that it entered into the said share purchase agreement to acquire the shares in SHM, and its intention to merge its subsidiary Merkanti Bank Ltd with the Bank. The transfer of shares in SHM and the proposed merger of the two banks are subject to regulatory approval. The closing and regulatory approval process is expected to take a number of months.

With regard to the conflict between Russia and Ukraine, the Bank has taken precautionary measures to protect and mitigate against the following imminent risks: debt, counterparty and issuer exposure to the Bank's book as well as for risks arising from its client business, including cyber-crime, sanction monitoring and in-depth review of the Bank's data base for exposures to the said regions. All these factors were taken into consideration as part of the Bank's evaluation of the current conflict. The outcome of the evaluation resulted in very minor exposure to the region for which the Bank is adequately protected in the event of further escalation.

Standard License Conditions

Under applicable Rules issued by the MFSA, the Bank is required to include a statement regarding breaches of standard licence conditions ('SLCs') or other regulatory requirements which occurred during the reporting period and which were subject to an administrative penalty or other regulatory sanction.

In this respect the Bank declares that it did not receive any notification of such breaches in 2021.

Auditors

As the maximum duration of BDO Malta's engagement as the Bank's statutory auditor is about to expire, the Board of Directors recommends that BDO Malta's appointment as statutory auditor will not be renewed and that PwC Malta will be appointed as statutory auditor for the financial year ending 2022. While the Board would like to thank BDO Malta for their service over the years, it now looks forward to entering into a new relationship with PwC Malta as incoming auditors for the financial year ending 2022, as will be proposed at the annual general meeting on 21st April 2022.

Approved by the Board of Directors on the 21 April 2022 and signed on its behalf by its Directors:

Andrew Manduca	**Paul Mifsud**
Chairman of the Audit & Risk Committee	Managing Director

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Harald Wanke

Chairman of the Board / Audit & Risk Committee Member

Was born and resides in Austria. He graduated in economics after which he joined the bank of Sparkasse Schwaz AG 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. During this time, he widened his experience in numerous other functions including manager and later Chairman of the board of various investment funds in Luxembourg, member of the Supervisory Board of S Bausparkasse and S-Insurance, President of Landesverband TuV, member of the Board of the Austrian Savings Banks Association, President of the Regional Savings Banks in Austria, Spokesman of Banks and Insurances in Tirol.

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. Mr. Mifsud is responsible for the implementation of company strategy and overall management of the Bank's business. He was instrumental in developing the Bank's business and presence in Malta, developing the investment services and wealth management division at the Bank, as well as steering the Bank to becoming a major player in fund custody in Malta. His areas of expertise are securities related, including trading, settlements, advisory, custody and Fund depositary services (AIFs and UCITs).

Andrew Manduca

Non-Executive Director / Audit & Risk Committee Chairman

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 was also the firm's International Services Coordinator and oversaw the operations of both the Corporate and Tax Compliance departments. 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 also served as a Governor of Finance Malta.

He was educated at St Edwards College and subsequently served on the Board of Governors of this school for 21 years. Mr. Manduca has over 25 years experience in international tax matters across a wide range of industry sectors. During his time at Deloitte Malta, Mr. Manduca's focus was in the field of corporate taxation and he worked primarily with clients who established a base in Malta in order to conduct their international operations.

BOARD OF DIRECTORS *(continued)*

Serge D'Orazio

Non-Executive Director / Audit & Risk Committee Member

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, working within 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 also sat on the Board of Directors of EFA (European Fund Administration), a leading service provider of central administration and transfer agent services in Luxembourg. Mr. D'Orazio was formerly a member of various working groups and committees within the Luxembourg financial centre (ALFI, ABBL) and the 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

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

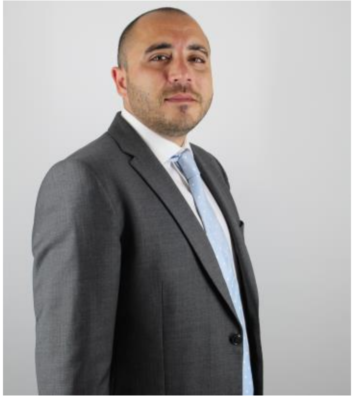
He started his banking career with Barclays Bank D.C.O. in 1965, and held various senior management positions within Mid-Med Bank Ltd, which took over the business of Barclays Bank in Malta in 1975. Between 1989 and 1993, he was seconded by the bank to the Malta International Business Authority (now 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.

Mark Curmi

Non-Executive Director/ Audit & Risk Committee Member



Mr. Curmi is an experienced banking, risk and regulatory advisory services professional, holding in excess of eighteen years of experience in the Banking, Payment Services and FinTech/PayTech sectors, locally and internationally.

Mr. Curmi is a former Director at KPMG Malta, responsible for the firm's Banking and Fintech Regulatory Advisory services arm of the Malta practice. He was one of the firm's first cross-functional financial services industry specialists responsible for commercials, business development and regulatory compliance mandates. His portfolio of clients included Significant and Less-Significant (including high-priority) credit institutions as well as the large payment services players operating in Malta.

Amongst other key roles, Mr. Curmi sat on the KPMG ECB Office Team (Frankfurt) and the KPMG Global DLT Working Group. He also co-led the firm's EmTech and FinTech regulatory teams. Prior to joining KPMG, Mr. Curmi spent nine years in the Commercial and Corporate Banking Units for the global Significant Credit Institution, HSBC Bank.

Mr. Curmi holds the post of Chief Risk Officer at an international financial technology firm and holds a number of advisory roles to Corporates and MMEs operating in Malta. Mr. Curmi is a Member of the Institute of Financial Services Practitioners, is a Board Member of the Financial Institution Malta Association, and is a Member of the Malta Chamber of Commerce and the Malta Chamber of SMEs.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 Bank 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.

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 2021, 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 26 to 94, which comprise the statement of financial position as at 31 December 2021, 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 290,700 which is approximately 7.1% of profit before tax and 0.6% 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 11,600.

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

BDO

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, equity investments 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 18, 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)*

BDO

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)*

BDO

- 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. Due to mandatory rotation, we are not looking for re-appointment after the financial year ended 31 December 2021.

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 21 April 2022.

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.

Other matter – use of this report

Our report, including the opinions, has been prepared for and only for the Bank's shareholders as a body in accordance with Article 179 of the Maltese Companies Act (Cap. 386) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior written consent.

BDO Malta
Certified Public Accountants
Registered Audit Firm

This report has been signed
for and on behalf of
BDO MALTA
by Sam Spiridonov (Partner)

It-Torri Street
Msida MSD 1824
Malta

21 April 2022

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2021 EUR	2020 EUR
Interest receivable and similar income	1	5,474,753.95	6,840,467.23
Interest payable and similar charges	1	(2,418,263.66)	(1,879,675.66)
Net interest income		**3,056,490.29**	**4,960,791.57**
Fees and commission income	2	9,982,579.50	8,612,643.35
Fees and commission expense	2	(1,414,931.10)	(1,188,467.87)
Net fee and commission income		**8,567,648.40**	**7,424,175.48**
Impairment provision reversal		481,759.48	56,387.90
Net Fair Value Movement on Financial Assets at FVTPL		1,800.71	(106,663.89)
(Increase) of Net Impairment Loss on Financial Assets		(140,828.99)	(2,153,470.87)
Profit on foreign exchange activities		1,540,531.43	1,215,909.37
Other operating income		36,924.08	441,767.88
		1,920,186.71	(546,069.61)
Results from operating activities		**13,544,325.40**	**11,838,897.44**
Staff costs		(4,715,297.43)	(4,300,489.08)
Depreciation and amortisation	12-15	(1,087,045.16)	(1,025,910.70)
Other operating costs		(3,652,196.78)	(2,872,732.92)
		(9,454,539.37)	(8,199,132.70)
Profit before income tax	3	**4,089,786.03**	**3,639,764.74**
Income tax expense	5	(1,984,109.81)	(2,025,170.00)
Profit for the year		**2,105,676.22**	**1,614,594.74**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss			
- change in fair value		-	(220,016.94)
- income taxes		-	77,005.93
Other comprehensive income (net of income tax)		-	(143,011.01)
Items that will not be reclassified to profit or loss			
Freehold Premises			
- surplus arising on revaluation		1,504,900.00	-
- income taxes		(120,392.00)	-
Other comprehensive income (net of income tax)		1,384,508.00	-
Total comprehensive income for the year		**3,490,184.22**	**1,471,583.73**
Earnings per share	6	**58.82**	**53.64**

STATEMENT OF FINANCIAL POSITION

	Note	2021 EUR	2020 EUR
Assets			
Cash and Balances held with Central Bank of Malta	8	620,939,597.25	574,370,801.65
Loans and advances to banks	9	46,117,911.39	65,255,102.28
Loans and advances to customers	10	10,234,303.04	17,975,029.13
Financial assets at Amortised Cost	11.1	283,800,802.75	202,941,373.42
Financial assets at Fair Value through other Comprehensive Income	11.2	-	-
Financial assets mandatorily measured at Fair Value through Profit or Loss	11.3	2,447,618.77	68,460.00
Property, plant and equipment	12	10,188,986.37	9,036,798.89
Intangible assets	13	3,397,071.62	2,756,136.38
Right-of-Use Assets	14	853,705.66	1,052,956.39
Prepayments and accrued income	15	1,729,258.43	1,168,144.29
Deferred tax Asset	16	1,528,379.00	1,698,784.93
Other assets	17	4,903.65	229,682.14
Total Assets		**981,242,537.93**	**876,553,269.50**
Equity and Liabilities			
Equity			
Called up share capital	23	40,200,000.00	34,000,000.00
Fair Value Reserve	24	-	(27,056.94)
Property Revaluation Reserve	25	4,828,607.68	3,444,099.68
Retained earnings		2,432,663.33	3,326,987.11
Total Equity		**47,461,271.01**	**40,744,029.85**
Liabilities			
Amount owed to banks	18	2,400,110.19	910,662.32
Amount owed to customers	19	925,739,824.79	830,046,077.37
Other liabilities	20	2,076,977.85	564,685.67
Lease Liabilities	21	922,538.30	1,093,384.80
Accruals and deferred income	22	694,350.79	666,980.49
Current tax liability		1,947,465.00	2,527,449.00
Total liabilities		**933,781,266.92**	**835,809,239.65**
Total equity and liabilities		**981,242,537.93**	**876,553,269.50**
Memorandum items			
Commitments	32	**24,509,771.69**	**24,064,018.60**

The accounting policies from pages 34 to 49 and the notes from pages 52 to 94 are an integral part of these financial statements. The financial statements from pages 26 to 100 were approved and authorised for issue by the Board of Directors on 21st April 2022 and signed on its behalf by:

Andrew Manduca
Chairman of the Audit & Risk Committee

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 2020	30,000,000.00	115,954.07	3,444,099.68	978,017.28	34,538,071.03
Impact of Correction of Error	-	-	-	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
At 1 January 2021	34,000,000.00	(27,056.94)	3,444,099.68	3,326,987.11	40,744,029.85
Transactions with owners					
Issue of Bonus Shares	3,000,000.00	-	-	(3,000,000.00)	-
Increase in Share Capital	3,200,000.00	-	-	-	3,200,000.00
Dividend distribution	-	-	-	-	-
Total comprehensive income for the year					
Profit for the year	-	-	-	2,105,676.22	2,105,676.22
Other comprehensive income, net of income tax:					
Net Fair Value change *(Note 24)*	-	27,056.94	1,384,508.00	-	1,411,564.94
At 31 December 2021	40,200,000.00	-	4,828,607.68	2,432,663.33	47,461,271.01

The accounting policies from pages 34 to 49 and the notes from pages 52 to 94 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	2021	2020
	EUR	EUR
Cash flows from operating activities:		
Profit on ordinary activities before tax	4,089,786.03	3,639,764.74
Adjustment for:		
Government Grant	(602.75)	-
Loss on disposal of securities	-	-
Gain on disposal of securities	(1,279,003.08)	(3,386,786.59)
Unrealised forex differences on securities	(2,125,562.78)	(553,834.35)
Interest Expense on Lease Liabilities	48,556.88	54,257.52
(Gains) / Loss on fixed assets written off	-	-
Increase / (Reduction) in Provision on loans and advances to customers	140,828.99	2,153,470.87
Prepayments and accrued income	(561,114.14)	219,222.22
Interest payable and accrued liabilities	27,370.30	(259,330.78)
Amortisation of securities	96,995.41	210,760.11
Net Fair Value Movement on Financial Assets at FVTPL	(1,800.71)	106,663.89
Depreciation	1,087,045.16	1,025,910.70
Ordinary profit before working capital changes	1,522,499.30	3,210,098.33
Movement in operating assets and liabilities		
Amounts owed to banks	1,489,447.87	562,025.71
Amounts owed to customers	95,693,747.42	66,694,598.50
Deposit held with Central Bank of Malta	100,523,717.59	(53,643,506.34)
Loans and advances to banks	8,148,046.75	(2,638,579.85)
Loans and advances to customers	7,636,389.80	(1,389,853.44)
Other assets	224,778.49	(192,095.48)
Other liabilities	1,512,292.18	(2,452,503.66)
	215,228,420.10	6,940,085.44
Cash flows from operating activities before tax	216,750,919.41	10,150,183.77
Taxation paid	(2,528,649.00)	(2,624,074.00)
Net cash generated from operating activities	214,222,270.41	7,526,109.77

STATEMENT OF CASH FLOWS *(continued)*

	2021	2020
	EUR	EUR
Net cash generated from operating activities	**214,222,270.41**	**7,526,109.77**
Cash flows from investing activities:		
Disposal of securities	92,237,774.48	125,207,008.92
Disposal of tangible and intangible assets	-	-
Purchase of securities	(149,469,639.46)	(105,784,111.56)
Recovery of written-off security	(623,494.05)	-
Purchase of tangible fixed assets	(211,135.65)	(321,528.60)
Purchase of intangible assets	(972,382.75)	(746,497.62)
Proceeds from Government Grant	-	2,411.00
Net cash used in investing activities	**(59,038,877.43)**	**18,357,282.14**
Cash flows from financing activities:		
Lease Liability Payments	(219,403.36)	(264,162.50)
Issue of shares	3,200,000.00	-
Dividends paid	-	-
Net cash (used in)/generated from financing activities	**2,980,596.64**	**(264,162.50)**
Movement in cash and cash equivalents	**158,163,989.62**	**25,619,229.41**
Cash and cash equivalents at beginning of year	415,628,568.88	390,009,339.47
Cash and cash equivalents at 31 December *(Note 27)*	**573,792,558.50**	**415,628,568.88**

The accounting policies from pages 34 to 49 and the notes from pages 52 to 94 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 2021

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 Bank:

	Issued on	Effective from financial years beginning on or after
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

The applications of these new standards and amendments have had no impact on the disclosures or amounts recognised in the Bank'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 Bank's future financial statements:

	Issued on	Effective from financial years beginning on or after
Amendments to IFRS 16: COVID-19-Related Rent Concessions beyond 30/06/2021	31/03/2021	01/04/2021
Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020	14/05/2020	01/01/2022
IFRS 17 Insurance Contracts, including amendments	18/05/2017	01/01/2023

STATEMENT OF ACCOUNTING POLICIES *(continued)*

1. Changes of Accounting Policies *(continued)*

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

	Issued on	Effective from financial years beginning on or after
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	23/01/2020	01/01/2023
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
Amendments to IAS 12: Assets and Liabilities Arising from Single Transaction	07/05/2021	01/01/2023

The Bank has not early adopted all these revisions to the requirements of IFRSs and the Bank's management is of the opinion that there are no requirements that will have a possible significant impact on the Bank'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 are 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.2 Property, plant and equipment *(continued)*

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)
• 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	2 years (17% per annum) – the remaining life
• 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.3 Intangible Assets *(continued)*

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 intangible assets will not be amortised 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, amortisation 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 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.4 Leases (continued)

As a lessee

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.

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 2021.

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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.4 Leases (continued)

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

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.

Lease of property

During the current and previous financial years, the Bank did not lease out any property.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

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.

During the current year ended 31 December 2021, 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 2021, the Bank classified its investments in debt securities either at amortised cost or at fair value through other comprehensive income or at fair value through profit or loss, depending on the business model and cash flow characteristics tests, as 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.5 Financial Instruments *(continued)*

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. As at the end of the current financial year, the Bank did not hold any financial assets for liquidity management and therefore no debt securities were classified at fair value through other comprehensive income.

<u>Equity Instruments</u>

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.

<u>Held for Trading</u>

During the current financial year, the Bank purchased one debt security with the intention to sell in the short-term to reap profits from movements in the prices of such security. In light of this, this debt security was classified as held for trading and accounted for at fair value through profit or loss. In spite of this classification, the Bank did not sell the asset during 2021.

<u>Initial Recognition</u>

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.

<u>Subsequent Measurement</u>

- 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, 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.5 Financial Instruments *(continued)*

- 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'.

<u>Derecognition</u>

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 the 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.

<u>Impairment of Financial Assets</u>

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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

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:

- 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'.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

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.

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 table overleaf provides information about the nature, timing of satisfaction of the performance obligations and significant payment terms of contracts with customers.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.11 Fees and Commission Income and Expenses *(continued)*

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.
Payments	The Bank offers payment services to its customers including SWIFT transfers, SEPA and Target 2 payments. 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 individual and institutional customers including receipts and transmission and execution services, settlement services (only to institutional customers), 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 customer typology. Customers are charged a fixed fee for specific requests including statements and advices, bank references, bank reports for audit purposes and changes requiring updates for due diligence purposes. 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.11 Fees and Commission Income and Expenses *(continued)*

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.

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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

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.

The standard 8% Capital Adequacy thresholds can be increased through the introduction of capital buffer requirements. Nevertheless, such requirements depend on 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 2021 and 2020, 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 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 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.

STATEMENT OF ACCOUNTING POLICIES *(continued)*

2. Principal accounting policies *(continued)*

2.17 Regulatory Capital *(continued)*

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 2021 and 2020, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1) Interest Receivable and Interest Payable

	2021	2020
	EUR	EUR
Interest Income		
On loans and advances to banks and financial institutions	-	24,833.35
On loans to customers	3,182,047.64	1,869,761.09
On balance held with Central Bank of Malta	295,373.90	713,486.87
	3,477,421.54	**2,608,081.31**
On debt and other fixed income instruments	2,094,327.82	4,443,146.03
Net amortisation of premiums and discounts	(96,995.41)	(210,760.11)
	1,997,332.41	**4,232,385.92**
Total Interest Income	**5,474,753.95**	**6,840,467.23**
Interest Expense		
On customer deposits	11,686.69	16,909.54
On bank deposits	251,670.37	373,921.75
On balance held with Central Bank of Malta	2,106,349.72	1,434,586.85
On lease liabilities	48,556.88	54,257.52
Total Interest Expense	**2,418,263.66**	**1,879,675.66**
Net Interest Income	**3,056,490.29**	**4,960,791.57**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2) Net fee and commission income

	2021	2020
	EUR	EUR
Fee and commission income		
Portfolio and management fees	5,882,558.71	4,600,237.56
Credit related fee and commissions retail banking	4,100,020.79	4,012,405.79
	9,982,579.50	8,612,643.35
Fee and commission expense		
Portfolio and management fees	(914,112.96)	(705,781.08)
Other fees paid	(500,818.14)	(482,686.79)
	(1,414,931.10)	(1,188,467.87)
Net Fee and commission income	8,567,648.40	7,424,175.48

	At a point in Time		Over Time		Total	
	2021	2020	2021	2020	2021	2020
	EUR	EUR	EUR	EUR	EUR	EUR
Custody & Depositary	111,835.99	97,314.14	4,607,693.19	3,418,905.99	4,719,529.18	3,516,220.13
Securities	1,366,114.60	1,352,298.40	294,782.95	243,220.20	1,660,897.55	1,595,518.60
Payments	1,320,557.96	1,280,869.42	-	-	1,320,557.96	1,280,869.42
Account On-Boarding	133,112.79	93,500.00	2,148,482.02	2,126,535.20	2,281,594.81	2,220,035.20
Fee and Commission Income from Contracts with Customers	**2,931,621.34**	**2,823,981.96**	**7,050,958.16**	**5,788,661.39**	**9,982,579.50**	**8,612,643.35**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3) Profit before Taxation

	2021	2020
	EUR	EUR
Is stated after charging for:		
Auditor's Remuneraton	55,885.00	70,554.67
I.T. Expenses	1,533,866.03	1,395,642.69
Other Administrative Expenses	2,062,445.75	1,406,535.56
Depreciation	1,087,045.16	1,025,910.70
Directors fees	592,849.37	624,368.33
Wages, salaries and allowances	3,337,640.28	3,095,109.74
Social Security Costs	242,151.37	226,893.95
Other staff emoluments	396,498.05	212,577.28
Other Staff Costs	146,158.36	141,539.78
	9,454,539.37	**8,199,132.70**

The auditor's remuneration includes audit fee in the amount of 55,000 EUR.

4) Staff Headcount

The weekly average number of persons employed by the Bank during the year amounted to 94 (*2020: 84*) as follows:

	2021	2020
Weekly average:		
Executive and senior managerial	1	1
Other managerial and clerical	91	81
Other	2	2
	94	**84**

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	91	86
Other	4	2
	96	**89**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5) Taxation

	2021 EUR	2020 EUR
Current tax	1,947,465.00	2,527,448.80
Prior year adjustment for current tax	1,200.00	(1.00)
Deferred tax	35,444.81	(502,277.80)
	1,984,109.81	**2,025,170.00**

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

	2021 EUR	2020 EUR
Profit on ordinary activities before tax	4,089,786.03	3,639,764.74
Tax thereon at 35%	1,431,425.00	1,273,918.00
Tax effect of:		
Temporary differences	(170,406.00)	579,286.00
Prior year adjustment	1,200.00	(1.00)
Income subject to 15% rate	-	-
Permanent differences	721,890.81	171,967.00
Tax charge for the year	**1,984,109.81**	**2,025,170.00**

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 2021 was based on the profit attributable to ordinary shareholders of EUR 2,105,676.22 *(2020: EUR 1,614,594.74)* and the weighted average number of ordinary shares outstanding of 35,796 (2020: 30,098).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7) Dividends per share

	2021	2020
	EUR	EUR
Dividend per share declared for the year covered by the Financial Statements	-	-

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, in 2020, the Bank did not distribute the EUR 4million worth of dividend previously approved by the Board. The ECB recommendation remained in force until 30 September 2021, following which it was decided not to extend such a limitation on dividend distributions.

Having said this, following the bonus share issue of €3million by the Bank which became effective as from 06 July 2021, it was decided by the Board not to declare a final dividend for 2021.

8) Balance held with Central Bank of Malta and cash

The balance held with Central Bank of Malta includes an amount of EUR 9,902,234.60 (*2020: EUR 8,209,720.76*) for reserve deposits in terms of Article 37 of the Central Bank of Malta Act. An amount of EUR 1,531,945.92 (*2020: 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 balances held with the Central Bank of Malta is as follows:

	2021	2020
	EUR	EUR
Balances with Central Bank of Malta	620,936,983.14	552,318,166.85
Malta Government Treasury Bills	-	22,042,164.00
Cash	2,614.11	10,470.80
	620,939,597.25	**574,370,801.65**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8) Balance held with Central Bank of Malta and cash *(continued)*

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:

	2021 EUR	2020 EUR
Treasury Bills at cost:		
At 1 January 2021	**22,042,164.00**	**-**
Additions at cost	-	34,600,877.93
Disposals at cost	(22,042,164.00)	(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 2021	**-**	**22,042,164.00**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9) Loans and Advances to Banks

	2021 EUR	2020 EUR
Repayable at call or short notice	46,165,121.24	57,135,808.81
Current term loans and advances	22,500.00	8,170,546.75
Impairment Provision	(69,709.85)	(51,253.28)
	46,117,911.39	**65,255,102.28**

Remaining maturity of term advances:

	2021 EUR	2020 EUR
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	22,500.00	8,170,546.75
	22,500.00	**8,170,546.75**

By currency:

	2021 EUR	2020 EUR
Euro	11,102,321.85	23,085,816.02
United States Dollar	13,228,899.11	22,815,002.29
UK Pound	11,197,175.31	11,505,948.53
Hong Kong Dollar	208,065.85	218,834.76
Swiss Franc	654,362.40	1,044,241.13
Swedish Krona	3,857,595.12	2,554,351.28
Czech Koruny	2,249,130.34	1,117,352.25
Other currencies	3,620,361.41	2,913,556.02
	46,117,911.39	**65,255,102.28**

By country:

	2021 EUR	2020 EUR
Austria	16,425,446.08	27,722,939.17
Malta	1,389,273.90	918,384.88
Guernsey	13,829,964.35	2,075,504.91
Luxembourg	102,312.37	4,564,571.05
Denmark	2,477,473.23	2,735,708.25
Switzerland	4,606,574.38	5,588,220.15
Belgium	5,384,940.00	7,065,151.09
France	-	7,367,274.42
Other countries	1,901,927.08	7,217,348.36
	46,117,911.39	**65,255,102.28**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10) Loans and Advances to Customers

	2021	2020
	EUR	EUR
Repayable at call and short notice	8,073,223.89	14,165,320.14
Current term loans and advances	5,989,898.39	7,534,191.94
Impairment Provision	(3,828,819.24)	(3,724,482.95)
	10,234,303.04	**17,975,029.13**
Remaining maturity of term advances:		
More than 5 years	-	-
More than 1 to 5 years	1,391,655.34	-
1 year or less but over 3 months	4,598,243.05	405,005.75
3 months or less but not payable on demand	-	7,129,186.19
	5,989,898.39	**7,534,191.94**
By currency:		
Euro	3,934,846.25	8,831,122.01
United States Dollar	5,973,520.11	8,418,197.28
UK Pound	28,864.64	714,259.68
Other currencies	297,072.04	11,450.16
	10,234,303.04	**17,975,029.13**
By country:		
Malta	10,217,628.64	17,953,369.16
United Kingdom	6,854.85	7,107.70
British Virgin Islands	3,402.33	6,722.94
Other countries	6,417.22	7,829.33
	10,234,303.04	**17,975,029.13**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets

11.1) Financial Assets at Amortised Cost

	2021 EUR	2020 EUR
Financial Assets at Amortised Cost	203,747,502.90	183,798,263.08
Additions at cost	129,287,876.99	67,188,117.17
Disposals at cost	(50,496,760.00)	(47,238,877.35)
	282,538,619.89	203,747,502.90
Effect of Amortisation for the year	(96,995.41)	(210,760.11)
Net Impairment Loss on Financial Assets	(55,059.97)	(34,990.35)
	282,386,564.52	203,501,752.45
Provision for fluctuation in forex rate	1,930,313.93	(255,063.44)
Cumulative Amortisation	(516,075.70)	(305,315.59)
	283,800,802.75	**202,941,373.42**

By currency:

	2021 EUR	2020 EUR
EU Currency	252,344,370.24	199,673,790.43
United States Dollar	31,456,432.51	3,267,582.99
UK Pound	-	-
	283,800,802.75	**202,941,373.42**

By country:

	2021 EUR	2020 EUR
Austria	10,065,043.05	10,078,824.09
Malta	649,493.31	649,483.25
Germany	1,000,278.72	2,000,405.36
Luxembourg	86,001,122.46	69,375,953.12
United States of America	67,352,222.36	21,177,766.42
United Kingdom	7,000,636.09	10,007,797.02
France	32,047,162.68	30,134,355.71
Netherlands	32,462,850.63	19,062,141.84
Finland	13,323,401.73	13,351,763.40
Norway	9,940,389.58	-
Sweden	5,993,844.41	5,991,878.25
Other Countries	17,964,357.73	21,111,004.96
	283,800,802.75	**202,941,373.42**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets *(continued)*

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

	2021 EUR	2020 EUR
Issued by Public Bodies:		
- Local Government	-	-
- Foreign Sovereigns	79,119,696.86	51,619,855.19
- Supranational Organisations	98,602,061.02	82,008,472.33
	177,721,757.88	133,628,327.52
Issued by Public Issuers:		
- Local Banks	649,493.31	649,483.25
- Foreign Banks	70,052,233.70	39,915,753.79
- Foreign Corporates	35,377,317.86	28,747,808.86
	106,079,044.87	69,313,045.90
Total Finance Assets held at Amortised Cost	**283,800,802.75**	**202,941,373.42**

11.2) Financial Assets at Fair Value through Other Comprehensive Income

	2021 EUR	2020 EUR
Financial Assets at FVOCI	-	54,639,537.91
Additions at cost	-	-
Disposals at cost	-	(54,639,537.91)
	-	-
Net Impairment Loss on Financial Assets at FVOCI	-	-
Provision for fluctuation in market value	-	-
Provision for fluctuation in forex rate	-	-
	-	**-**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11) Financial Assets *(continued)*

11.3) Financial Assets at Fair Value through Profit and Loss

	2021 EUR	2020 EUR
Financial Assets at FVTPL	55,980.00	3,050,350.26
Additions at cost	4,796,458.88	29,916.46
Disposals at cost	(2,311,973.97)	(3,024,286.72)
	2,540,464.91	55,980.00
Provision for fluctuation in market value	(147,004.44)	12,480.00
Provision for fluctuation in forex rate	54,158.30	-
	2,447,618.77	**68,460.00**

By currency:

Euro	1,779,343.00	68,460.00
United States Dollar	668,275.77	-
Canadian Dollar	-	-
	2,447,618.77	**68,460.00**

By currency:

Euro	1,779,343.00	68,460.00
United States Dollar	668,275.77	-
Canadian Dollar	-	-
	2,447,618.77	**68,460.00**

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 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**
At 1 January 2021	8,803,500.00	882,501.61	945,382.06	41,000.00	10,672,383.67
Additions	10,598.76	168,465.22	42,670.43	-	221,734.41
Revaluation	1,504,900.00	-	-	-	1,504,900.00
At 31 December 2021	**10,318,998.76**	**1,050,966.83**	**988,052.49**	**41,000.00**	**12,399,018.08**
Depreciation					
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**
At 1 January 2021	459,545.29	706,838.37	459,634.45	9,566.67	1,635,584.78
Charge for the year	382,683.88	97,789.37	69,025.61	8,200.00	557,698.86
Charge for the year capitalised to Intangible Assets	-	4,928.74	11,819.33	-	16,748.07
At 31 December 2021	**842,229.17**	**809,556.48**	**540,479.39**	**17,766.67**	**2,210,031.71**
Net book value					
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**
At 31 December 2021	**9,476,769.59**	**241,410.35**	**447,573.10**	**23,233.33**	**10,188,986.37**

During the current year, the Bank engaged an independent external expert to perform a revaluation exercise for its freehold premises. This exercise revealed an increase in the value of the Bank's premises of EUR1,504,900. Given that the Bank accounts for freehold premises using the revaluation model, this increase was reflected as an increase in the book value of freehold premises as illustrated in the table above.

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 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
At 31 December 2020	**1,013,297.69**	**1,139,954.97**	**1,869,155.85**	**912,924.76**	**4,935,333.27**
At 1 January 2021	1,013,297.69	1,139,954.97	1,869,155.85	912,924.76	4,935,333.27
Additions	-	-	-	247,664.55	247,664.55
Capitalisation	-	42,167.00	682,551.20	-	724,718.20
At 31 December 2021	**1,013,297.69**	**1,182,121.97**	**2,551,707.05**	**1,160,589.31**	**5,907,716.02**
Amortisation					
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
At 31 December 2020	**980,905.00**	**457,067.66**	**-**	**741,224.23**	**2,179,196.89**
At 1 January 2021	980,905.00	457,067.66	-	741,224.23	2,179,196.89
Charge for the year	27,107.62	156,085.17	-	146,902.78	330,095.57
Charge for year capitalised	-	-	-	1,351.94	1,351.94
At 31 December 2021	**1,008,012.62**	**613,152.83**	**-**	**889,478.95**	**2,510,644.40**
Net book value					
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**
At 31 December 2021	**5,285.07**	**568,969.14**	**2,551,707.05**	**271,110.36**	**3,397,071.62**

The Bank has continued to invest in its I.T. infrastructure and in line with previous years, software under development has not been amortised 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 amortise it 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 2.4. The table below illustrates a breakdown of the right-of-use assets as at 31 December 2020 and 31 December 2021, respectively.

	Property	Equipment	Total
	EUR	EUR	EUR
Right-Of-Use Asset			
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**
At 1 January 2021	1,037,458.39	15,498.00	1,052,956.39
Adjustment for Capitalised Cost	-	-	-
Additions	-	-	-
Depreciation Charge for the year	(190,204.42)	(9,046.31)	(199,250.73)
At 31 December 2021	**847,253.97**	**6,451.69**	**853,705.66**

15) Prepayments and Accrued Income

	2021	2020
	EUR	EUR
Accrued income	1,427,386.51	867,957.74
Prepayments	301,871.92	300,186.55
	1,729,258.43	**1,168,144.29**
Related Parties		
Accrued income and prepayments from Related Parties	-	-
Other accrued income and prepayments	1,729,258.43	1,168,144.29
	1,729,258.43	**1,168,144.29**

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:

	2021	2020
	EUR	**EUR**
Capital allowances	457,331.00	490,978.00
Fair value adjustment Financial Assets and T-Bills	(456,678.00)	(664,670.00)
Securities forex adjustment	(205,411.00)	(205,411.00)
Impairment Provisions	(3,471,960.00)	(3,812,890.00)
Leased Assets	(41,854.00)	(13,450.00)
Impairment Loss	(648,227.00)	(648,227.00)
	(4,366,799.00)	**(4,853,670.00)**
Deferred tax assets thereon @ 35%	**1,528,379.00**	**1,698,784.93**

17) Other Assets

	2021	2020
	EUR	**EUR**
Assets in course of delivery	-	223,432.99
Other Assets	4,903.65	6,249.15
	4,903.65	**229,682.14**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18) Amounts Owed to Banks

	2021	2020
	EUR	EUR
Repayable at call or short notice	2,400,110.19	910,662.32
Current term deposits	-	-
	2,400,110.19	**910,662.32**
By currency:		
Euro	458,844.15	472,701.21
United States Dollar	383,979.47	12,708.33
British Pound	1,362,551.00	18,481.81
Other currencies	194,735.57	406,770.97
	2,400,110.19	**910,662.32**
By country:		
Austria	-	112,708.33
Malta	5,000.74	45,748.82
Belgium	1,943,166.65	451,087.97
Luxembourg	169,247.62	145,044.33
Other countries	282,695.18	156,072.87
	2,400,110.19	**910,662.32**
Related parties:		
Amounts owed to Related Parties	-	-
Amounts owed to other banks	2,400,110.19	910,662.32
	2,400,110.19	**910,662.32**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19) Amounts owed to Customers

	2021 EUR	2020 EUR
Repayble at call or short notice	923,326,895.00	828,866,914.04
Current term deposits	2,412,929.79	1,179,163.33
	925,739,824.79	**830,046,077.37**

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

	2021 EUR	2020 EUR
More than 5 years	-	-
More than 1 to 5 years	1,260,000.00	200,000.00
1 year or less but over 3 months	6,898.81	698.81
3 months or less but not payable on demand	1,146,030.98	978,464.52
	2,412,929.79	**1,179,163.33**

By currency:

	2021 EUR	2020 EUR
Euro	772,947,265.93	591,725,556.54
United States Dollar	103,282,303.12	193,680,083.69
British Pound	38,379,696.31	36,605,003.24
Hong Kong Dollar	174,921.37	217,163.25
Canadian Dollar	919,207.96	284,827.67
Other currencies	10,036,430.10	7,533,442.98
	925,739,824.79	**830,046,077.37**

By country:

	2021 EUR	2020 EUR
Austria	47,415.83	33,918.63
Malta	787,888,426.68	612,198,505.17
Cayman Islands	2,549,578.75	16,304,045.57
British Virgin Islands	3,448,937.94	28,323,234.31
Great Britain	53,976,112.34	89,281,262.12
Other countries	77,829,353.25	83,905,111.57
	925,739,824.79	**830,046,077.37**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20) Other Liabilities

	2021	**2020**
	EUR	**EUR**
Due to shareholders	-	-
Withholding tax	57,974.95	73,715.90
Variation Margin	1,420,000.00	480,000.00
Items in course of settlement	-	-
Net Impairment loss on Loan Commitments	129.85	2,163.34
Government Grant	1,338.94	1,941.15
VAT Payable	42,228.28	6,719.80
Other creditors	555,305.83	145.48
	2,076,977.85	**564,685.67**

The amount presented in relation to 'Other creditors' relates to unsettled funds in relation to sale of securities which were received by the Bank as at the end of the year.

Government Grant

	2021	**2020**
	EUR	**EUR**
Deferred Income	1,338.94	1,941.15
Less than one year	736.19	1,338.40
More than five years	602.75	602.75
	1,338.94	**1,941.15**

21) Lease Liabilities

IFRS 16 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 2021.

Maturity analysis of contractual undiscounted cash flows

By period:

	2021	**2020**
	EUR	**EUR**
Less than one year	183,864.98	219,403.36
One to five years	838,270.48	854,491.04
More than five years	41,911.11	209,555.53
	1,064,046.57	**1,283,449.93**

By liability term (discounted)

Current	142,641.80	170,846.48
Non-Current	779,896.50	922,538.34
	922,538.30	**1,093,384.82**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22) Accruals and Deferred Income

	2021 EUR	2020 EUR
Accrued interest payable	75,373.03	13,355.58
Accrued Liabilities	618,977.76	653,624.91
	694,350.79	**666,980.49**

23) Called-Up Share Capital

	2021 EUR	2020 EUR
Authorised:		
25,000 *(2020: 25,000)* Ordinary 'A' voting shares of €1,000 each	25,000,000.00	25,000,000.00
25,000 *(2020: 25,000)* Ordinary 'B' non-voting shares of €1,000 each	25,000,000.00	25,000,000.00
	50,000,000.00	**50,000,000.00**
Issued and fully paid:		
20,100 *(2020: 17,000)* Ordinary 'A' voting shares of €1,000 each	20,100,000.00	17,000,000.00
20,100 *(2020: 17,000)* Ordinary 'B' non-voting shares of €1,000 each	20,100,000.00	17,000,000.00
	40,200,000.00	**34,000,000.00**

During the current year ending 31 December 2021, the Bank's issued share capital increased by EUR6.2million as a result of a bonus share issue of EUR3million during July 2021 and a share capital injection of EUR3.2million from the Bank's immediate parent company, Sparkasse (Holdings) Malta Limited, during August 2021.

24) Fair Value Reserve

	2021 EUR	2020 EUR
Debt instruments at FVOCI		
Balance at 01 January	(27,056.94)	115,954.07
Fair value movement for the year	41,626.06	(220,016.94)
Deferred tax	(14,569.12)	77,005.93
Balance as at 31 December	-	**(27,056.94)**

The fair value movements for 2021 presented in the table above relates to the reclassification of previously recognised fair value movements on derecognised assets, to profit or loss.

Similarly, the amount for the deferred tax asset for 2021 relates to the write-off of the deferred tax asset relating to previously recognised fair value movements.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25) Property Revaluation Reserve

	2021 EUR	2020 EUR
Freehold Property		
Balance at 01 January 2021 (gross of Deferred Tax)	3,444,099.68	3,743,586.61
Fair value movement for the year	1,504,900.00	-
Deferred tax	(120,392.00)	(299,486.93)
Balance as at 31 December 2021	**4,828,607.68**	**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 Bank engaged an independent architect to review the value of the property during 2021, which resulted in an increase in the fair value of the said property by EUR1.5million, as illustrated in the table above. The value of the property will be reviewed again in 2024.

26) Operating Profit before Changes in operating assets and liabilities

	2021 EUR	2020 EUR
Profit on ordinary activities before tax	4,089,786.03	3,639,764.74
Adjustment for:		
Government grant	(602.75)	-
Gain on disposal of securities	(1,279,003.08)	(3,386,786.59)
Unrealised forex differences on securities	(2,125,562.78)	(553,834.35)
Interest Expense on Leased Assets	48,556.88	54,257.52
(Gain)/Loss on fixed assets and investments written off	-	-
Increase in Provision on loans and advances to customers	140,828.99	2,153,470.87
Prepayments and accrued income	(561,114.14)	219,222.22
Interest payable and accrued liabilities	27,370.30	(259,330.78)
Amortisation of securities	96,995.41	210,760.11
Net Fair Value Movement on Financial Assets at FVTPL	(1,800.71)	106,663.89
Depreciation	1,087,045.16	1,025,910.70
	1,522,499.30	**3,210,098.33**

27) Cash and Cash Equivalents

	2021 EUR	2020 EUR
Cash in hand (Note 8)	2,614.11	10,470.80
Balances at Central Bank of Malta (Note 8)	527,624,823.15	358,482,289.27
Loans and Advances to Banks (Note 9)	46,165,121.24	57,135,808.81
	573,792,558.50	**415,628,568.88**

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 3,895.81 for the year under review (*2020: EUR 1,877.65)*

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 4,968,445.75 (*2020: 3,894,456.48)*

30) Related party transactions

Related party transactions include the below:

	2021 EUR	2020 EUR
Interest receivable and similar income (Note 1)	-	-
Interest payable on deposits (Note 1)	-	(3,384.19)
Commission payable (Note 2)	-	(18,175.93)

Year end balances with Related Parties are as follows:

Loans and advances to Related Parties (Note 9)	-	-
Amounts owed to Related Parties (Note 18)	210,968.09	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:

	2021 EUR	2020 EUR
Salary and Bonuses	455,247.81	475,384.52
Defined Plan Contribution and other Variable Remuneration	135,000.00	146,410.33
Social Security Contribution	2,601.56	2,573.48
	592,849.37	**624,368.33**

SPARKASSE Bank Malta plc

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

31) Contingent Liabilities

Sparkasse Bank Malta plc has no contingent liabilities to report as at end of 2021.

32) Commitments

	2021 EUR	2020 EUR
Credit Facilities and other commitments to lend	**24,509,771.69**	**24,064,018.60**

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.
The Ireland Branch is not considered as a separate business line from the Malta Head Office.
In addition, financial information of the Branch are not considered material so as to warrant seperate disclosure and presentation

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.

35) Subsequent Events

On the 5th of March 2022, the Bank's immediate parent company, Sparkasse (Holdings) Malta Ltd, entered into an agreement with Merkanti Holdings plc, a subsidiary of Scullly Royalty Ltd and the immediate parent company of Merkanti Bank Ltd. This agreement provided that Merkanti Holdings plc would acquire the 99.99% shareholding which AVS holds in Sparkasse (Holdings) Malta Ltd. Upon closing of this transaction, and subject to regulatory approval, it is the intention to merge Sparkasse Bank Malta plc and Merkanti Bank Ltd.

During the first quarter of 2022, conflicts between Russia and Ukraine broke out, resulting in various impacts and consequences world-wide. In this respect, the Bank has performed an in-depth assessment of its potential risk exposures and has taken precautionary measures to protect and mitigate against imminent risks, including heightened credit exposures from the Bank's banking book as well as risks arising from its client business, the latter including cyber-crime and sanctions risk. The outcome of this evaluation resulted in the Bank concluding that exposures affected by the current conflict are very minor and the Bank is adequately protected in the event of further escalation.

36) Comparative Figures

Selected comparative figures for the previous financial year ending 31 December 2020, have been amended to be in line with the current financial year's presentation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management

Introduction

The Bank's risk management framework is explained in the Directors' Report and the Bank's Pillar 3 Disclosures document.

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

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

These disclosures in this note 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 Appetite

The risk appetite of the Bank is determined by a series of indicators set out in the Bank's Risk Appetite Statement.

Information on the Bank's risk management objectives and policies and governance arrangements can be found in the Pillar 3 disclosures document.

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 sub-categories of risk, 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.
    - Credit Valuation adjustment risk, defined as the risk of changes in the mark-to-market value of the Bank's exposure to its derivative transaction counterparties.
    - Credit Spread risk in the banking book, which refers to the risk driven by changes in the market perception about the price of credit risk, liquidity premium and potentially other components of credit-risky instruments, which is not explained by IRRBB or by expected credit default risk.

- 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

- 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 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. 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.

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.

Following an assessment made during the Bank's internal capital adequacy and assessment process ('ICAAP') for the reference year ending 31 December 2020, and which document was submitted to the MFSA in 2021, the Bank identified counterparty credit risk arising from its forward foreign exchange transactions entered into with client and counterparties, as material. In light of this, the Bank has included a Pillar 1 capital requirement for this risk. The Bank calculates its exposure value for counterparty credit risk using the Original Exposure Method as outlined in Section 5 of Chapter 6 of Title II of Part Three of the CRR. In order for the Bank to be able to utilise this method, it needs to meet pre-defined thresholds, as defined in Article 273a(2) of the CRR, based on a monthly assessment using the data as of the last day of the month. Given that the Bank met both of these thresholds during all periods under consideration, including as at the end of the financial year, then the Original Exposure Method was used to calculate the exposure value for CCR. The exposure value from CCR is then added to that under credit issuer and default risk in line with the exposure class of the counterparty giving risk to such risk.

Apart from Credit Issuer and Default Risk and Counterparty Credit Risk, the Bank is also exposed to credit concentration risk, defined as 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. This risk is 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 credit concentration risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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 Statement and Liquidity Management 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 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 2021 are displayed below:

Credit Risk Exposures - On Balance Sheet Exposures		
Balances with Central Bank of Malta	620,937	552,318
Loans and Advances to Banks	46,118	65,255
Loans and Advances to Customers	10,234	17,975
Financial Assets	286,249	225,053
of which: Sovereigns	79,120	73,662
Multi-lateral Development Banks	72,528	43,051
International Organisations	26,074	38,957
Institutions	71,665	40,565
Corporates	35,377	28,749
Collective Investment Schemes	1,411	-
Equity Securities	73	68
Other Assets	17,705	15,953
Total Credit Risk Exposures - On Balance Sheet Exposures	**981,243**	**876,553**

Credit Risk Exposures - Off Balance Sheet Exposures		
Contingent Liabilties	-	-
Commitments	24,510	24,064
Counterparty Credit Risk exposures	16,985	-
Total Credit Risk Exposures - Off Balance Sheet Exposures	**41,495**	**24,064**
Total Credit Risk Exposures	**1,022,738**	**900,617**

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)*

37) Financial Risk Management *(continued)*

2021	Carrying Amount EUR €'000	Malta EUR €'000	Austria EUR €'000	Other EUR €'000
Central Government or Central Banks	798,659	620,937	10,065	167,657
Institutions	117,783	2,039	16,425	99,319
Corporates	45,436	10,042	-	35,394
Retail	176	176	-	-
Collective Investment Scheme	1,411	-	-	1,411
Equity Securities	73	-	-	73
Other Items	17,705	17,705	-	-
	981,243	**650,898**	**26,490**	**303,854**

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	46,566	17,797	-	28,769
Retail	156	156	-	-
Collective Investment Scheme	-	-	-	-
Equity Securities	68	-	-	68
Other Items	15,953	15,953	-	-
	876,553	**609,834**	**37,802**	**228,917**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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

2021	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	798,659	622,940	96,848	78,871
Institutions	117,783	50,135	20,373	47,275
Corporates	45,436	9,593	24,852	10,990
Retail	176	5	171	-
Collective Investment Scheme	1,411	-	-	1,411
Equity Securities	73	-	-	73
Other Items	17,705	309	1,427	16,004
	981,243	**682,982**	**143,672**	**154,624**

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	46,566	17,946	12,164	16,456
Retail	156	149	7	-
Collective Investment Scheme	-	-	-	-
Equity Securities	68	-	-	68
Other Items	15,953	540	868	14,545
	876,553	**662,760**	**64,533**	**149,260**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) 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 2021 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.

2021	**Total €'000**	**Treasury Bills €'000**	**Other Securities €'000**
AAA to A-	279,778	-	279,778
Lower to A-	4,987	-	4,987
Unrated	1,484	-	1,484
	286,249	**-**	**286,249**

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**

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.

2021	**Total €'000**	**Level 1 €'000**	**Level 2 €'000**
AAA to A-	279,778	279,778	-
Lower to A-	4,987	4,987	-
Unrated	1,484	-	1,484
	286,249	**284,765**	**1,484**

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**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) 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 2021 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 2021.

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 2021 and 31 December 2020.

31.12.2021			
Rating	**PD**	**Gross carrying amount**	**Loss Allowance**
		EUR	**EUR**
AAA-AA+	0.06%	2,478,926.29	1,453.06
AA-AA-	0.01%	4,099,322.01	409.93
A+ -A-	0.04%	37,753,150.42	15,767.18
BBB+	0.00%	-	-
BBB	0.11%	44,970.98	47.66
BBB- and lower	0.28%	191,480.82	529.07
Unrated	3.18%	1,619,770.72	51,502.95
		46,187,621.24	**69,709.85**

01.01.2021			
Rating	**PD**	**Gross carrying amount**	**Loss Allowance**
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%	36,099,582.50	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
Unrated	0.00%	-	-
		65,306,355.56	**51,253.28**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) 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 2021	**51,253.28**
Increase in impairment loss allowance	18,456.56
Closing balance as at 31 December 2021	**69,709.85**

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)*

37) 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 2021 and 1 January 2021.

31.12.2021	Regular 0 - 30dpd	Watch 31dpd - 90dpd	Default More than 90dpd	Total
	EUR	EUR	EUR	EUR
Gross Carrying Amount	9,943,829.69	294,352.30	3,824,940.29	14,063,122.28
Average PD	0.03%	0.35%	100.00%	
Loss allowance	2,846.22	1,032.73	3,824,940.29	3,828,819.24

01.01.2021	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	3,724,482.95

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 2021	**3,724,482.95**
Increase in impairment loss allowance	104,336.29
Closing balance as at 31 December 2021	**3,828,819.24**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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:

	31.12.2021			
	Regular 0 - 30dpd	Watch 31dpd - 90dpd	Default More than 90dpd	Total
	EUR	EUR	EUR	EUR
Off-balance sheet exposure	24,509,901.54	-	-	24,509,901.54
Exposure at Default	34,470.86	-	-	34,470.86
Average PD	0.00%	0.00%	0.00%	
Loss allowance	129.85	-	-	129.85

	01.01.2021			
	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

The table below presents the movement in the ECL allowance on off-balance sheet exposures for 2021:

	EUR
Opening loss allowavce as at 01 January 2021	**2,163.34**
Increase in impairment loss allowance	(2,033.49)
Closing balance as at 31 December 2021	**129.85**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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 the Bank as posing lower credit risk and hence loss allowances recognised during the period are limited to the 12-month ECL. The Bank 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 2021.

		31.12.2021	
Rating	**PD**	**Exposure at default**	**Loss Allowance**
AAA to AAA-	0.01%	136,447,415.46	11,916.59
AA+ to AA-	0.01%	79,308,020.24	8,500.11
A+ to A-	0.04%	70,154,375.00	24,827.50
BBB+ to BBB-	0.19%	5,262,500.00	9,815.77
		291,172,310.69	**55,059.97**

		01.01.2021	
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**

The closing loss allowance for debt securities as at 31 December 2021 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 2021	**34,990.35**
Increase in impairment loss allowance	20,069.62
Closing balance as at 31 December 2021	**55,059.97**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

Market Risk

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.

Interest Rate risk in the Banking Book ('IRRBB')

The Bank defines its exposure to IRRBB as being solely related to gap risk, that is the risk resulting from the term structure of interest-rate sensitive instruments that arise from differences in the timing of their rate changes, covering changes to the term structure of interest rates occurring consistently across the yield curve or differentially by period. Following a Pillar 2 assessment made by the Bank in its latest ICAAP submission, it was concluded that the Bank's exposure to such risk is low and hence does not require the allocation of a Pillar 2 capital requirement. This position will be re-assessed in the next ICAAP submission.

Exchange Rate Risk

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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

2021	USD to EUR €'000	GBP to EUR €'000	CZK to EUR €'000	HKD to EUR €'000
Assets denominated in foreign currencies				
Central Bank Balances	53,302	28,576	-	-
Loans and advances to Banks	13,229	11,197	2,249	208
Loans and advances to customers	5,974	29	1	-
Financial Assets	32,125	-	-	-
	104,630	**39,802**	**2,250**	**208**
Liabilities denominated in foreign currencies				
Amounts owed to Banks	384	1,363	-	16
Amounts owed to customers	103,282	38,380	2,253	175
	103,666	**39,743**	**2,253**	**191**
Net Exposure	**964**	**59**	**(3)**	**17**

2020	USD to EUR €'000	GBP to EUR €'000	CHF 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**	**10**	**2**

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

	2021 EUR	2020 EUR
USD to EUR	1.1350	1.2273
GBP to EUR	0.8399	0.8993
CHF to EUR	1.0363	1.0811
HKD to EUR	8.8522	9.5147
CZK to EUR	24.8597	26.2341

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) 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. The Bank uses the Basic Indicator Approach to calculate its capital requirement for foreign exchange risk, which requires the Bank to allocate an amount equivalent to 8% of its net currency exposure.

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. The Bank frequently monitors its Financial Assets portfolio and comes up with solutions and decisions were deemed fit should it decide on acquiring or disposing any investments. Nevertheless, the Bank maintains its stance on investing in high quality financial assets with a healthy credit rating.

In light of the fact that financial assets held at FVTPL only represent a very minor portion of the Bank's total financial assets, the Bank has concluded that its exposure to investment price risk is immaterial and therefore no capital requirement is required to be held in respect of such risk.

It is important to note also that the Bank is not exposed to commodity price risk.

Credit Valuation Adjustment ('CVA') Risk

The Bank's exposure to CVA risk arises from the forward foreign exchange transactions which the Bank enters into both with its clients as well as with its counterparties to fully hedge client transactions. In the latest ICAAP submission, the Bank has assessed its exposure to such risk and determined this to be material. As a result, the Bank has started calculating a Pillar 1 capital requirement for CVA risk, which requirement is calculated using the Standardised Method outlined in Article 384 of the CRR.

Credit Spread Risk in the Banking Book ('CSRBB')

CSRBB arises from banking book positions that meet the following conditions:

- Are actively traded on a deep and large market
- Are held in a business model envisaging a possible sale before maturity under business-as-usual conditions
- The market value of which is affected by credit-spread risk component

Based on the above conditions, the risk would be limited to the Bank's positions held in the 'Hold-to-Collect-and-Sell' portfolio. Translating this into IFRS methodology, CSRBB would be applicable for financial assets which are measured either at FVTPL or FVTOCI. Given that as at the end of the year, these financial assets only represented a very minimal portion of the total financial assets portfolio, then it was not deemed necessary to allocate a capital requirement in respect of this risk.

The capital requirements in relation to foreign exchange risk and CVA adjustment risk are summarised in the 'Capital Requirements' section.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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 Bank calculates Pillar I capital requirement for Operational Risk using the Basic Indicator, 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 2021 and 2020 is illustrated in the table overleaf:

	2021 EUR €'000	**2020 EUR €'000**
Net Interest Income	3,056	4,961
of which Realised Gains and Losses on Investments	(1,252)	(3,201)
	1,805	1,760
Profit on foreign exchange activity	1,541	1,216
Net fee and Commission Income	8,568	7,424
Other Operating Income	13	42
Operating Profit	**11,926**	**10,441**
3 Year Profit Average *(2019: 13,325; 2020: 10,441)*	11,897	11,776
15% Haircut Application (for 2021 / for 2020)	**1,785**	**1,766**

Following the conclusion of the SREP review concluded by the MFSA in 2021, the MFSA imposed a 5% Pillar 2 capital requirement on the Bank, which requirement was attributable to the under-capitalisation of operational risk under Pillar 1. This Pillar 2 requirement has been implemented by the Bank as from March 2021 onwards. On an annual basis as part of its ICAAP, the Bank assesses the Pillar 2 capital requirement for operational risk using an internally-developed model. The resulting capital requirement is compared to the 5% capital requirement imposed by the MFSA. To date, no excess capital requirement has been identified in this respect.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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 356%. 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 504% as at year end.

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

2021	**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	620,937	620,937	-	-	-
Loans and advances to Banks	46,118	46,118	-	-	-
Loans and Advances to Customers	10,234	988	7,856	1,390	-
Financial Assets	286,249	3,002	3,772	140,855	138,620
	963,538	**671,045**	**11,628**	**142,245**	**138,620**
Liabilities					
Amounts owed to Banks	2,400	2,400	-	-	-
Amounts owed to Customers	925,740	924,473	7	1,260	-
	928,140	**926,873**	**7**	**1,260**	**-**
Maturity Gap		**(255,828)**	**11,621**	**140,985**	**138,620**
Cumulative Gap		**(255,828)**	**(244,207)**	**(103,222)**	**35,398**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) 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
	860,600	**628,346**	**33,874**	**63,665**	**134,715**
Liabilities					
Amounts owed to Banks	911	911	-	-	-
Amounts owed to Customers	830,047	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**

Own Funds

While the Bank's capital management is based on the regulatory requirements established under the CRR and CRD, 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 2021, 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 2021 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;
- Fair Value Reserve – the movement in the fair value of financial assets accounted for at FVTOCI, as presented in Note 24
- Property Revaluation Reserve – the movement in the value of the Bank's freehold premises, as presented in Note 25
- Other regulatory adjustments including deductions for intangible assets and prudential filters for financial assets in accordance with CRD IV; and
- 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

	2021 €'000	2020 €'000
Own Funds		
Common Equity Tier 1 (CET1)		
Paid up Share Capital	40,200	34,000
Retained Earnings	2,433	3,327
Fair Value Reserve	-	(27)
Property Revaluation Reserve	4,829	3,444
CET 1 Capital before regulatory adjustments	**47,461**	**40,744**
Deductions and Adjustments		
Adjustment to CET 1 due to prudential filters	(2)	(22)
Intangible Assets	(3,397)	(2,756)
Total Deductions and Adjustments	(3,400)	(2,778)
Total Tier 1 After Prudential Filters and Deductions	**44,062**	**37,966**
Tier 2 Capital		
Capital Instruments and subordinated loans		
Total Tier 2 Capital	-	-
Total Own Funds	**44,062**	**37,966**
Total Risk Weighted Assets	**135,473**	**141,505**
CET1 Capital Ratio	**32.52%**	**26.83%**
Tier 1 Capital Ratio	**32.52%**	**26.83%**
Total Capital Ratio	**32.52%**	**26.83%**

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.

Capital Requirements

The Bank is required 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, operational risk, counterparty credit risk and CVA adjustment risk.

The table overleaf summarises the Bank's total capital requirement, including Pillar 1 requirement, Pillar 2 requirement and Pillar 2 guidance.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

2021	Exposure Value €'000	Risk Weighted Assets €'000	Capital Requirement €'000
Pillar I			
Credit Risk			
Central Governments or Central banks	700,057	18,573	1,486
Multi-lateral Development Banks	72,528	-	-
International Organisations	26,074	-	-
Institutions	125,985	38,666	3,093
Corporates	59,121	37,568	3,005
Retail	176	132	11
Claims in the form of Collective Investment Schemes	1,411	1,411	113
Equity	73	73	6
Other Items	17,705	16,598	1,328
Total Credit Risk	**1,003,130**	**113,021**	**9,042**
Foreign Exchange Risk		-	-
CVA Adjustment		145	**12**
Operational Risk		22,307	**1,785**
Total Pillar I Risk		**135,473**	**10,838**
Pillar II Capital Requirement		84,670	**6,774**
Pillar II Guidance		16,934	**1,355**
Total Capital Requirement		**237,077**	**18,966**

The Bank calculates the Total Capital Ratio as defined within the CRR, by dividing regulatory capital versus risk weighted assets.

The minimum capital requirement is composed of the following:

- A Pillar 1 capital requirement of 8% of the total risk exposure amount, in line with Article 92 of the CRR
- A Pillar 2 capital requirement of 5% of the total risk exposure amount, as prescribed by the MFSA following the SREP review performed during 2021
- A capital conservation buffer of 2.5% of total risk exposure amount
- A countercyclical capital buffer, which is equal to the Bank's exposure with the respective jurisdiction multiplied by the weighted average of the countercyclical buffer rates applicable in that jurisdiction
- A Pillar 2 guidance of 1% of the total risk exposure amount, as prescribed by the MFSA following the SREP review performed during 2021

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

CET1 Capital

CET1 Capital	44,062
Tier 2	-
Total Own Funds	**44,062**
Total Capital Ratio	**18.59%**

	Capital Requirement €'000	Capital Requirement %
Pillar I Capital Requirement	10,838	8.00%
Pillar II Capital Requirement	6,774	5.00%
Total SREP Capital Requirement	**17,611**	**13.00%**
Capital Conservation Buffer	3,387	2.50%
Countercyclical Capital Buffer	18	0.01%
Overall Capital Requirement (OCR)	**21,017**	**15.51%**
Pillar II Guidance	1,355	1.00%
OCR and Pillar II Guidance	**22,371**	**16.51%**
Head room over OCR	**21,690**	

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 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.

The Bank has decided to adopt the standardised approach in respect of Pillar I and welcomed the internal capital 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

37) Financial Risk Management *(continued)*

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.

The Bank's leverage ratio has always averaged above the 3% minimum regulatory requirement under Basel III. In fact, as shown in the table below, the Bank's leverage ratio as at the end of the year exceeded 4%.

2021	**€'000**
Exposure Values	
On-Balance Sheet Expsoures (excluding derivatives and SFTs)	981,243
Off-Balance Sheet Exposures at gross notional amount	21,887
Leverage ratio total exposure measure	**1,003,130**
Tier 1 Capital	44,062
Total Tier 1 Capital	**44,062**
Leverage Ratio	**4.39%**

DETAILED INCOME STATEMENT

DETAILED INCOME STATEMENT

	2021	2020
	EUR	EUR
Interest receivable and similar income		
Loans and advances and Balances held at Central Bank of Malta	3,477,421.54	2,608,081.31
On debt and other fixed income instruments	1,997,332.41	4,232,385.92
Interest Expense	(2,418,263.66)	(1,879,675.66)
Net Interest Income	**3,056,490.29**	**4,960,791.57**
Fees and Commission Receivable	9,982,579.50	8,612,643.35
Fees and Commission Expense	(1,414,931.10)	(1,188,467.87)
Net Fee and Commission income	**8,567,648.40**	**7,424,175.48**
Trading profits		
Impairment provision reversal	481,759.48	56,387.90
Net Fair Value Movement on Financial Assets at FVTPL	1,800.71	(106,663.89)
Increase in Net Impairment Loss on Financial Assets	(140,828.99)	(2,153,470.87)
Profit on foreign exchange activities	1,540,531.43	1,215,909.37
Other income	36,924.08	441,767.88
Operating Profit	**13,544,325.40**	**11,838,897.44**
Staff Costs	(4,715,297.43)	(4,300,489.08)
Other Administrative expenses	(3,652,196.78)	(2,872,732.92)
Depreciation and Amortisation	(1,087,045.16)	(1,025,910.70)
	(9,454,539.37)	**(8,199,132.70)**
Profit before income tax	**4,089,786.03**	**3,639,764.74**
Income Tax Expense	(1,984,109.81)	(2,025,170.00)
Profit after income tax	**2,105,676.22**	**1,614,594.74**

5 YEAR SUMMARIES

INCOME STATEMENT - 5 YEAR SUMMARY

	2021	2020	2019	2018	2017
	€'000	€'000	€'000	€'000	€'000
Interest receivable and similar income	5,475	6,840	7,449	3,434	1,793
Interest Expense	(2,418)	(1,880)	(1,369)	(1,069)	(873)
Net interest income	**3,057**	**4,960**	**6,081**	**2,365**	**920**
Reversal of Impairment on securities	482	56	33	42	220
(Increase) / Reversal of Net Impairment Loss on Financial Assets	(141)	(2,153)	- 1,366	79	-
Net Fair Value Movement on Financial Assets at FVTPL	2	(107)	201	- 150	-
Profit on foreign exchange activities	1,541	1,216	1,299	2,607	1,334
Commissions (net)	8,568	7,424	6,906	6,379	5,997
Other income	37	442	47	126	90
Total Operating Profit	**13,546**	**11,839**	**13,201**	**11,448**	**8,561**
Operating expenses					
Administrative expenses	(9,455)	(8,199)	(7,357)	(5,737)	(3,985)
Profit on ordinary activities before taxation	**4,091**	**3,640**	**5,844**	**5,711**	**4,576**
Tax on ordinary activities	(1,984)	(2,025)	(1,960)	(2,132)	(1,699)
Profit on ordinary activities after taxation	2,107	1,615	3,884	3,579	2,877
Earnings per 1000 shares	**59**	**54**	**199**	**140**	**122**

SPARKASSE Bank Malta plc

STATEMENT OF FINANCIAL POSITION - 5 YEAR SUMMARY

	2021	2020	2019	2018	2017
	€'000	€'000	€'000	€'000	€'000
			(As Restated)		
Assets					
Cash and Balances held with Central Bank of Malta	620,940	574,371	442,219	279,856	122,850
Loans and advances to banks	46,118	65,255	93,466	132,639	209,333
Loans and advances to customers	10,234	17,975	18,708	12,963	10,213
Financial assets at Amortised Cost	283,801	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	2,448	68	3,169	2,969	-
Available for Sale Financial Assets	-	-	-	-	168,447
Investment Property	-	-	-	2,310	2,410
Property, plant and equipment	10,189	9,037	9,240	3,333	3,414
Intangible Assets	3,397	2,756	2,326	2,054	1,777
Right-Of-Use Assets	854	1,053	1,153	-	-
Prepayments and accrued income	1,729	1,168	1,387	876	573
Deferred tax	1,528	1,699	1,119	704	977
Other assets	5	230	38	481	3
Total assets	981,243	876,553	810,737	719,057	519,997
Equity					
Called up share capital	40,200	34,000	30,000	26,000	24,000
Revaluation reserve	-	-	-	-	(62)
Fair Value reserve	-	(27)	116	211.00	-
Property Revaluation Reserve	4,829	3,444	3,444.00	-	-
Retained Earnings	2,433	3,327	5,712	1,129	1,160
Total Equity	47,461	40,744	39,272	27,340	25,098
Liabilities					
Amount owed to banks	2,400	911	1,078	7,404	6,399
Amount owed to customers	925,740	830,046	763,351	678,568	482,035
Other liabilities	2,077	565	2,288	3,175	3,072
Lease Liabilities	923	1,093	1,198	-	-
Accruals and deferred income	694	667	926	789	182
Current tax	1,947	2,527	2,624	1,781	3,210
Total liabilities	933,781	835,809	771,465	691,717	494,899
Total Equity and Liabilities	981,243	876,553	810,737	719,057	519,997

STATEMENT OF CASH FLOWS - 5 YEAR SUMMARY

	2021	2020	2019	2018	2017
	€'000	€'000	€'000	€'000	€'000
Net Cash from operating activities	214,222	7,526	221,174	30,974	25,873
Cash Flows from investing activities					
Disposal of securities	92,238	125,207	341,114	286,314	260,196
Disposal of tangible assets	-	-	2	-	-
Purchase of securities	(149,470)	(105,784)	(296,738)	(387,749)	(285,361)
Recovery of written-off security	(623)	-	-	-	-
Purchase of tangible assets	(211)	(322)	(255)	(217)	(5,144)
Purchase of intangible assets	(972)	(746)	(558)	(554)	(865)
Proceeds from Government Grant	-	2.00	-	-	-
Net Cash used in investing activities	(59,039)	18,357	43,565	(102,206)	(31,174)
Cash Flows from financing activities					
Lease Liability Payments	(219)	(264)	-	-	-
Issue of shares	3,200	-	4,000	2,000	2,000
Dividends paid	-	-	(3,000)	(3,000)	(2,508)
Net Cash from used in financing activities	2,981	(264)	1,000	(1,000)	(508)
Movements in cash and cash equivalents	158,164	25,619	265,739	(72,232)	(5,809)
Cash and Cash Equivalents at beginning of the year	415,629	390,010	124,271	196,503	202,312
Cash and Cash Equivalents at close of the year	573,793	415,629	390,010	124,271	196,503

Sparkasse Bank Malta plc

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