

PILLAR 3 DISCLOSURES
30 SEPTEMBER 2021

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1. Introduction

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

The Pillar 3 disclosures within this report are prepared in line with Banking Rule BR/07/2014 - *Publication of Annual Report and Audited Financial Statements of Credit Institutions Authorised Under the Banking Act 1994*, and governed by Part Eight of the Capital Requirements Regulation (CRR) II No. 2019/876. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published guidelines on disclosure requirements under Part Eight of the CRR.

This report is not subject to external audit, however, it has undergone comprehensive internal review and has been approved by the Group's Board of Directors (hereafter referred to as 'the Board'). The Board is satisfied that the internal controls implemented around the preparation of these Additional Regulatory Disclosures are adequate and such disclosures present a fair and accurate picture of the Group's risk profile and capital position.

2. Key Risk Metrics

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

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

EU KM1 - Key metrics

		Sep-21	Jun-21	Mar-21	Dec-20	Sep-20
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	174,623	176,878	172,142	174,915	171,898
2	Tier 1 capital	174,623	176,878	172,142	174,915	171,898
3	Total capital	229,208	231,452	226,705	229,473	171,898
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,342,428	1,339,304	1,256,854	1,241,291	1,204,628
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	13.00%	13.21%	13.70%	14.09%	14.27%
6	Tier 1 ratio (%)	13.00%	13.21%	13.70%	14.09%	14.27%
7	Total capital ratio (%)	17.06%	17.28%	18.04%	18.49%	14.27%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	3.70%	3.70%	3.70%	3.70%	3.70%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2.08%	2.08%	2.08%	2.08%	2.08%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.78%	2.78%	2.78%	2.78%	2.78%
EU 7d	Total SREP own funds requirements (%)	11.70%	11.70%	11.70%	11.70%	11.70%
	Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	-	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	0.00%	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.06%	0.06%	0.06%	0.06%	0.06%
11	Combined buffer requirement (%)	2.56%	2.56%	2.56%	2.56%	2.56%

EU 11a	Overall capital requirements (%)	14.26%	14.26%	14.26%	14.26%	14.26%
12	CET1 available after meeting the total SREP own funds requirements (%)	1.30%	1.51%	2.00%	2.39%	2.57%
Leverage ratio						
13	Total exposure measure	2,777,939	2,715,917	2,597,965	2,491,603	2,403,422
14	Leverage ratio (%)	6.29%	6.51%	6.63%	7.02%	7.15%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14c	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	432,858	409,288	384,824	358,015	345,271
EU 16a	Cash outflows - Total weighted value	351,705	344,096	336,901	329,145	318,376
EU 16b	Cash inflows - Total weighted value	58,957	57,640	56,505	63,272	62,305
16	Total net cash outflows (adjusted value)	292,749	286,456	280,396	265,873	256,071
17	Liquidity coverage ratio (%)	148.05%	142.63%	137.24%	135.10%	135.42%
Net Stable Funding Ratio						
18	Total available stable funding	2,241,123	2,202,904			
19	Total required stable funding	1,637,977	1,584,417			
20	NSFR ratio (%)	136.82%	139.04%			

3. Capital Management

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

In response to the COVID-19 pandemic, European and national authorities took swift measures to address the impact on the financial sector and the economy at large. In March 2020, the ECB Banking Supervision Unit announced a number of temporary capital and operational relief measures to ensure that banks could continue to fulfil their role in funding the real economy amidst the impact of COVID-19. Banks were allowed, amongst other measures, to fully use capital and liquidity buffers, including Pillar 2 Guidance (P2G). Banks also benefited from anticipated relief in the composition of capital for Pillar 2 requirements.

Following the above, the ECB recommended that banks exercise extreme prudence on dividends distribution and share buy-backs. To this end, the ECB asked all banks to consider not distributing any cash dividends or conducting share buy-backs, or to limit such distributions to the recommended prudent amounts, until 30 September 2021. In July 2021, the ECB confirmed its decision not to extend beyond September 2021 its recommendation that all banks limit dividends. Instead, supervisors will assess the capital and distribution plans of each bank as part of the regular supervisory process.

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

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

Capital Instruments

The Group's capital is composed of Common Equity Tier 1 (CET 1) and Tier 2 capital instruments, as defined by the CRR. CET 1 capital is the highest quality capital and, therefore, the most effective in absorbing losses. The Group's capital is mainly composed of CET 1 capital, which primarily consists of ordinary share capital and retained earnings.

Capital Requirements

In accordance with Banking Rule BR/08/2012 – *Capital Adequacy of Credit Institutions Authorised Under the Banking Act 1994* and the CRR, the Group calculates its capital requirements for Pillar 1 risks using the following approaches:

- The Standardised Approach for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is calculated at 8% of the credit risk-weighted exposures.
- The Standardised Approach for the purposes of calculating its risk-weighted exposure to foreign exchange risk. The capital allocation for foreign exchange risk is therefore equal to 8% of the higher of the sum of the Group's net short or net long positions.
- The Basic Indicator Approach for the purposes of calculating its risk-weighted exposure to operational risk. Under this approach, a 15% capital charge is applied on the average operating income for the previous three financial years.

The following table discloses the Group's risk weighted assets and capital requirements as at 30 September 2021, classified by exposure class. The difference between the capital requirement of the Group and the Bank is immaterial. Capital allocation is based on the methods highlighted above.

EU OV1 – Overview of total risk exposure amounts

		RWA		Minimum Capital requirements
		Sep-21 €000	Jun-21 €000	Sep-21 €000
1	Credit risk (excluding counterparty credit risk)	1,248,990	1,244,872	99,919
2	Of which: standardised approach	1,248,990	1,244,872	99,919
	Central government or central banks	13,295	9,515	1,064
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	2,452	423	196
	International organisations	-	-	-
	Institutions	28,866	35,978	2,309
	Corporates	338,474	353,828	27,078
	Retail	54,485	56,809	4,359
	Secured by mortgages on immovable property	528,647	498,444	42,292
	Exposures in default	79,673	81,650	6,374
	Items associated with particular high risk	88,710	97,955	7,097
	Covered bonds	419	422	33
	Claims in the form of CIU	41,085	39,553	3,287
	Equity exposures	329	329	26
	Other Assets	72,555	69,966	5,804
19	Market risk	161	155	13
20	Of which: standardised approach	-	-	-
23	Operational risk	94,277	94,277	7,542
24	Of which basic indicator approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	1,343,428	1,339,304	107,474

The Bank is required to meet a total SREP capital requirement (TSCR) of 11.7%, consisting of 8.0% minimum Pillar 1 requirement and a 3.7% Pillar 2 requirement (P2R). In line with the Capital Requirement Directive (CRD V), which came into force in June 2021, banks may partially use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, for example Additional Tier 1 or Tier 2 instruments, to meet the P2R.

Banking Rule BR/15/2015 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994* requires institutions to maintain capital buffers over and above the Pillar 1 requirements. In accordance with this Rule, the Group maintains a Capital Conservation Buffer (CCB), a Countercyclical Capital Buffer (CCyB) and an Other-Systemically Important Institutions (O-SII) buffer. The capital buffers (collectively referred to as the Combined Buffer Requirement) are to be met from Common Equity Tier 1 capital and, if the minimum buffer requirements are breached, the Group might be subject to capital distribution constraints.

As at 30 September 2021, the Bank's Tier 1 and Total Capital Ratios stood at 13.00% and 17.06%, respectively, thereby above the respective applicable regulatory minima.

4. Liquidity and Funding Risk

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

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

The Liquidity Coverage Ratio (LCR) measures the Bank's liquidity buffer to its net liquidity outflows over a 30 calendar days stress period. The Bank reports this ratio to the MFSA on a monthly basis. The Bank's LCR remained consistently above the applicable minimum requirement of 100% and, as at 30 September 2021, stood at 143.64%.

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting December 2020 and ending September 2021. The figures are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. Given that the Bank does not have another 'material currency'¹, other than the Euro, the Bank reports the LCR in the reporting currency (Euro). The difference between the Group and the Bank's LCR is immaterial.

The Bank's liquidity buffer is classified into:

- Level 1 assets (93%), which include withdrawable central bank reserves and central government assets; and
- Level 2 assets (7%), which include regional government or public sector entity assets and corporate debt securities with a credit rating of BBB- or higher.

The improvement in the liquidity buffer was driven by increases in Level 1 assets, that is, mainly withdrawable central bank reserves and central government assets. The improvement in the liquidity buffer outweighed the increase in net cash outflows, thereby leading to an increase in the LCR.

¹ Banks are required to assess the LCR by material currencies. A currency is considered to be a 'material currency' if the aggregate liabilities denominated in that currency amount to, or exceed, 5% of the bank's total liabilities.

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

Total unweighted value (average)					Total weighted value (average)			
Quarter ending on	Sep-21	Jun-21	Mar-21	Dec-20	Sep-21	Jun-21	Mar-21	Dec-20
	€000	€000	€000	€000	€000	€000	€000	€000
Number of data points used in the calculation of average	12	12	12	12	12	12	12	12
High-quality liquid assets								
1 Total HQLA					432,858	409,288	384,824	358,015
Cash outflows								
2 Retail deposits and deposits from small business customers, of which:	1,067,032	1,014,424	968,671	878,600	74,189	70,179	66,836	64,536
3 <i>Stable deposits</i>	788,786	753,277	720,666	646,090	39,439	37,664	36,033	33,923
4 <i>Less Stable deposits</i>	278,246	261,147	248,005	232,510	34,750	32,515	30,803	30,613
5 Unsecured wholesale funding, of which:	396,439	388,014	374,478	344,126	209,870	207,960	205,356	201,515
6 <i>Operational deposits (all counterparties) and deposits in networks of cooperative banks</i>	-	-	-	-	-	-	-	-
7 <i>Non-operational deposits (all counterparties)</i>	396,439	388,014	374,478	344,126	209,870	207,960	205,356	201,515
8 <i>Unsecured debt</i>	-	-	-	-	-	-	-	-
9 Secured wholesale funding					-	-	-	-
10 Additional requirements, of which:	822,165	803,818	782,349	756,473	63,068	63,027	62,721	61,342
11 <i>Outflows related to derivative exposures and other collateral requirements</i>	-	-	-	-	-	-	-	-
12 <i>Outflows related to loss of funding on debt products</i>	-	-	-	-	-	-	-	-
13 <i>Credit and liquidity facilities</i>	822,165	803,818	782,349	756,473	63,068	63,027	62,721	61,342
14 Other contractual funding obligations	5,700	4,445	3,582	3,078	4,578	2,930	1,988	1,753
15 Other contingent funding obligations	-	-	-	-	-	-	-	-
16 Total Cash Outflows					351,705	344,096	336,901	329,145
Cash Inflows								
17 Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18 Inflows from fully performing exposures	66,507	63,958	62,588	67,297	57,368	54,810	54,621	60,974
19 Other cash inflows	1,589	1,999	1,884	2,233	1,589	1,999	1,884	2,298
20 Total Cash Inflows	68,096	65,957	64,472	69,530	58,957	56,809	56,505	63,272
Total Adjusted Value								
21 Total HQLA					432,858	409,288	384,824	358,015
22 Total net cash outflows					292,748	287,287	280,396	265,873
23 Liquidity Coverage Ratio (%)					148%	143%	137%	135%

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. Under CRR II, institutions are required to maintain a NSFR of at least 100%. Given that the Bank does not have a 'material currency'², other than the Euro, the Bank reports the NSFR in the reporting currency (Euro), regardless of the actual denomination of assets, liabilities and off-balance sheet items. All liabilities with a residual maturity of one year or more shall be subject to a 100% ASF factor, unless otherwise specified in CRR II.

EU LIQ2 - Net Stable Funding Ratio

		Unweighted value by residual maturity				Weighted Value
		No Maturity	< 6 months	6 months to <1 year	> 1 year	
		€000	€000	€000	€000	€000
Available stable funding (ASF) Items						
1	Capital items and instruments	-	-	-	249,365	249,365
2	<i>Own funds</i>	-	-	-	249,365	249,365
3	<i>Other capital instruments</i>	-	-	-	-	-
4	Retail deposits	-	1,327,200	116,035	345,253	1,691,566
5	<i>Stable deposits</i>	-	895,448	52,570	219,886	1,120,503
6	<i>Less stable deposits</i>	-	431,752	63,465	125,367	571,062
7	Wholesale funding	-	452,977	59,695	78,687	280,864
8	<i>Operational deposits</i>	-	-	-	-	-
9	<i>Other wholesale funding</i>	-	452,977	59,695	78,687	280,864
10	Interdependent liabilities	-	-	-	-	-
11	Other liabilities	-	32,101	1,943	18,356	19,327
12	<i>NSFR derivative liabilities</i>	-	-	-	-	-
13	<i>All other liabilities and capital instruments not included in the above categories</i>	-	32,101	1,943	18,356	19,327
14	Total available stable funding (ASF)					2,241,123

² Banks are required to assess the NSFR by material currencies. A currency is considered to be a 'material currency' if the aggregate liabilities denominated in that currency amount to, or exceed, 5% of the bank's total liabilities.

Required stable funding (RSF) Items

15	Total high-quality liquid assets (HQLA)	-	-	-	-	30,474
17	Performing loans and securities:	-	92,862	113,739	1,745,084	1,334,867
	<i>Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions</i>	-	50,554	32,999	64,938	86,493
	<i>Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:</i>	-	13,693	62,252	522,915	475,018
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>	-	366	5,656	37,163	27,167
22	<i>Performing residential mortgages, of which:</i>	-	4,612	13,433	1,157,231	768,429
23	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>	-	1,869	7,711	1,121,200	733,570
	<i>Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products</i>	-	24,004	5,055	-	4,928
26	Other assets:	-	30,734	16,602	191,960	226,173
27	<i>Physical traded commodities</i>	-	-	-	-	-
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>	-	-	-	-	-
29	<i>NSFR derivative assets</i>	-	-	-	-	-
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>	-	-	-	-	-
31	<i>All other assets not included in the above categories</i>	-	30,734	16,602	191,960	226,173
32	Off-balance sheet items	-	3,797	74,644	739,818	46,464
33	Total RSF					1,637,977
34	Net Stable Funding Ratio (%)					136.82%