

Pillar 3 Disclosures

31 March 2023

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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. Pillar 3 disclosures on Environmental, Social and Governance (ESG) factors are published in a separate report which is available on the Bank's website in conjunction with this report. To enhance the comparability and consistency of banks' Pillar 3 disclosures, the EBA published Implementing Technical Standards (ITS) on institutions' public disclosures of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.

The Group has in place a Pillar 3 Disclosures Policy which sets out the approach to be adopted to ensure that the Group complies with the disclosure requirements set out in the CRR and respective EBA ITS. The Policy outlines the roles and responsibilities, the basis of preparation of the report and the verification and approval process.

This report is not subject to external audit. However, this report has undergone comprehensive internal review as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Risk Committee and Audit Committee and has been approved by the Group's Board of Directors (hereafter referred to as 'the Board'). A reference has been added in cases where additional information addressing Pillar 3 requirements is included in the Financial Statements. The Board is satisfied that the internal controls implemented around the preparation of these Additional Regulatory Disclosures are adequate and such disclosures present a fair and accurate 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-Liabilities Committee 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. Risk reports are presented using a RAG (also known as "traffic lights") approach. 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 Bank's key regulatory ratios, and their underlying components, for the reporting quarter and the preceding four quarters. These ratios form an integral part of the Bank's strategic planning and risk management framework.

EU KM1 – Key Metrics

		Mar-23	Dec-22	Sep-22	Jun-22	Mar-22
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	231,683	229,430	227,607	233,693	174,031
2	Tier 1 capital	231,683	229,430	227,607	233,693	174,031
3	Total capital	286,336	284,072	282,238	288,312	228,639
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,531,098	1,512,514	1,499,604	1,422,060	1,367,698
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	15.13%	15.17%	15.18%	16.43%	12.72%
6	Tier 1 ratio (%)	15.13%	15.17%	15.18%	16.43%	12.72%
7	Total capital ratio (%)	18.70%	18.78%	18.82%	20.27%	16.72%
	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 (%)	4.00%	4.00%	4.00%	4.00%	3.70%
EU 7b	of which: to be made up of CET1 capital (percentage points)	2.25%	2.25%	2.25%	2.25%	2.08%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	3.00%	3.00%	3.00%	3.00%	2.78%
EU 7d	Total SREP own funds requirements (%)	12.00%	12.00%	12.00%	12.00%	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 (%)	0.05%	0.02%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.25%	0.125%	0.125%	0.125%	0.125%
11	Combined buffer requirement (%)	2.80%	2.64%	2.64%	2.63%	2.63%
EU 11a	Overall capital requirements (%)	14.80%	14.64%	14.64%	14.63%	14.33%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.93%	7.93%	8.19%	9.65%	6.09%

Leverage ratio						
13	Total exposure measure	3,364,243	3,212,972	3,198,985	3,149,505	2,977,556
14	Leverage ratio (%)	6.89%	7.14%	7.11%	7.42%	5.84%
Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	-	-	-	-	-
EU 14b	of which: to be made up of CET1 capital (percentage points)	-	-	-	-	-
EU 14c	Regulatory minimum leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
EU 14d	Leverage ratio buffer requirement (%)	-	-	-	-	-
EU 14e	Overall leverage ratio requirement (%)	3.00%	3.00%	3.00%	3.00%	3.00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	484,368	520,596	514,187	495,721	466,941
EU 16a	Cash outflows - Total weighted value	455,764	415,055	402,518	384,888	371,161
EU 16b	Cash inflows - Total weighted value	97,425	60,845	58,994	56,196	61,044
16	Total net cash outflows (adjusted value)	358,338	354,210	343,524	328,693	310,117
17	Liquidity coverage ratio (%)	135.17%	147.33%	149.43%	150.51%	150.99%
Net Stable Funding Ratio						
18	Total available stable funding	2,668,447	2,604,853	2,548,536	2,483,686	2,377,648
19	Total required stable funding	2,014,489	1,930,995	1,892,401	1,777,060	1,681,725
20	NSFR ratio (%)	132.46%	134.90%	134.67%	139.76%	141.38%

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 the Bank's 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 currently challenging economic conditions.

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

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

3.1. Capital Instruments

The Bank's capital is composed of Common Equity Tier 1 (CET 1) and Tier 2 capital instruments, as defined by the CRR. CET 1 capital is the highest quality capital and, therefore, the most effective in absorbing losses. The Bank's capital is mainly composed of CET 1 capital, which primarily consists of ordinary share capital and retained earnings. In June 2022 the Bank issued its first public offering worth €65,800,000, hence strengthening further its capital position. Further information on the share capital composition is provided in Note 37 to the 2022 Financial Statements.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange with the listing of the €55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. The subordinated bond qualifies as Tier 2 Capital, which ranks after the claims of all depositors (including financial institutions) and all other creditors.

Further information on the main features and terms and conditions of the Bank's capital instruments is provided in Note 48.6 appended to the 2022 Financial Statements which are available on the Bank's website.

3.2. Capital Requirements

In accordance with the CRR, the Bank calculates its capital requirements for Pillar 1 risks using the following approaches:

- The Standardised Approach for the purposes of calculating its risk-weighted exposure to credit risk. The minimum regulatory capital allocation to credit risk is calculated at 8% of the credit risk-weighted exposures.
- The Standardised Approach for the purposes of calculating its risk-weighted exposure to foreign exchange risk. The capital allocation for foreign exchange risk is therefore equal to 4% of the 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 31 March 2023 for each exposure class in line with the CRR, and the respective Pillar 1 capital requirement based on the methods outlined above. The difference between the capital requirement of the Group and the Bank is immaterial.

EU OV1 – Overview of total risk exposure amounts

		RWA		Minimum Capital requirements
		Mar-23 €000	Dec-22 €000	Mar-23 €000
1	Credit risk (excluding counterparty credit risk)	1,413,077	1,393,156	113,046
2	Of which: standardised approach	1,413,077	1,393,156	113,046
	Central government or central banks	9,361	9,126	749
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	1,998	1,988	160
	International organisations	-	-	-
	Institutions	22,195	21,282	1,776
	Corporates	392,504	392,218	31,400
	Retail	45,222	54,430	3,618
	Secured by mortgages on immovable property	662,354	641,982	52,988
	Exposures in default	80,606	80,161	6,448
	Items associated with particular high risk	87,237	84,313	6,979
	Covered bonds	1,578	1,763	126
	Claims in the form of CIU	25,174	30,165	2,014
	Equity exposures	320	326	26
	Other Assets	84,527	75,402	6,762
20	Market risk	9	54	1
21	Of which: standardised approach	9	54	1
23	Operational risk	118,014	119,344	9,441
23a	Of which: basic indicator approach	118,014	119,344	9,441
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	1,531,100	1,512,554	122,488

The Bank is required to meet a total SREP capital requirement (TSCR) of 12.0%, consisting of 8.0% minimum Pillar 1 requirement and a 4.0% Pillar 2 requirement (P2R)¹. In line with the Capital Requirement Directive (CRD V), 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/15/2022 – *Capital Buffers of Credit Institutions Authorised Under Banking Act 1994* requires institutions to maintain capital buffers over and above the Pillar 1 requirements. In accordance with this Rule, the Bank maintains a Capital Conservation Buffer (CCB), a Countercyclical Capital Buffer (CCyB) 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 31 March 2023, the Bank's Tier 1 and Total Capital Ratios stood at 15.13% and 18.70%, respectively, thereby above the respective applicable regulatory minima.

¹ Further information on the capital requirements is included in Section 2, table EU KM1

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 Bank manages this risk by seeking to match the maturities of assets and liabilities in its balance-sheet. The management of liquidity and funding is governed by a detailed Liquidity and Funding Risk Policy. This Policy establishes clear lines of responsibility, limits and guidance on the measurement and monitoring of the Group's net funding requirements. The Asset Liability Management Unit is responsible for implementing the Policy; whereas the Assets-Liabilities Committee is responsible for monitoring and ensuring the implementation of and adherence with the Policy, as well as ensuring consistency with the Bank's Risk Appetite. It also ensures that adequate liquidity is held to meet both expected and unexpected commitments. This Policy includes a detailed Liquidity Contingency Plan, which addresses the strategy for handling liquidity crises and includes procedures for covering cash flow shortfalls in emergency situations.

Through the Internal Liquidity Adequacy Assessment Process (ILAAP), the Bank ensures that it maintains, at all times, liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. Thus, the ILAAP serves as a key decision-making tool in liquidity and funding management. The latest ILAAP, compiled in line with EBA Guidelines, concluded that the Bank maintains adequate levels of liquidity buffers and adequate funding. The document is reviewed in detail by the Bank's Internal Audit Department and Risk Committee and subsequently presented to the Board for approval. Following Board approval, the ILAAP Report is submitted to the MFSA.

The Bank funds loans primarily by sourcing retail deposits. As at 31 March 2023, the Bank's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 98.8%, which is in line with the Bank's risk appetite. Moreover, the Bank has a high level of stable deposits, which acts as a virtually permanent source of liquidity. The Bank also has a portfolio of highly marketable assets that can be easily liquidated in the event of any unforeseen cash flow requirements.

4.1. Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) measures the Group's liquidity buffer to its net liquidity outflows over a 30 calendar day stressed period. The Bank reports this ratio to the MFSA on a monthly basis. During Q1 2023, the Bank's LCR fluctuated consistently above the applicable minimum requirement of 100% and in line with its risk appetite. As at 31 March 2023, the LCR stood at 135.2% (31 December 2022: 128.5%).

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting June 2022 and ending March 2023. 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'², other than the Euro, the Bank reports the LCR in the reporting currency (Euro).

² 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 a bank's total liabilities.

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

Quarter ending on		Total unweighted value (average)				Total weighted value (average)			
		Mar-23 €000	Dec-22 €000	Sep-22 €000	Jun-22 €000	Mar-23 €000	Dec-22 €000	Sep-22 €000	Jun-22 €000
EU 1a	Quarter ending on (DD Month YYYY)	T	T-1	T-2	T-3	T	T-1	T-2	T-3
EU 1b	Number of data points used in the calculation of average	12	12	12	12	12	12	12	12
High-quality liquid assets									
1	Total HQLA					522,233	520,596	514,187	495,721
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	1,384,801	1,339,779	1,289,795	1,231,114	101,064	97,509	93,324	88,423
3	Stable deposits	981,195	953,018	923,618	889,662	49,060	47,651	46,180	44,483
4	Less Stable deposits	403,606	386,761	366,177	341,452	52,005	49,858	47,144	43,940
5	Unsecured wholesale funding, of which:	515,426	502,064	485,561	453,659	270,921	254,850	246,212	232,429
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	124	-	-	-	31	-	-	-
7	Non-operational deposits (all counterparties)	515,302	502,064	485,561	453,659	270,890	254,850	246,212	232,429
8	Unsecured debt	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	744,659	816,689	817,818	818,545	59,700	60,897	59,938	59,371
11	Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	744,659	816,689	817,818	818,545	59,700	60,897	59,938	59,371
14	Other contractual funding obligations	1,893	1,799	3,045	4,678	1,893	1,799	3,044	4,665
15	Other contingent funding obligations	4,633	4,431	3,149	1,616	-	-	-	-
16	Total Cash Outflows					433,579	402,518	384,888	371,161
Cash Inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	65,707	66,916	65,584	62,996	57,682	59,047	56,929	54,204
19	Other cash inflows	1,285	1,798	2,065	1,991	1,285	1,798	2,065	1,991
20	Total Cash Inflows	66,992	68,714	67,649	64,987	58,967	60,845	58,994	56,195
Total Adjusted Value									
EU-21	Liquidity Buffer					522,233	520,596	514,187	495,721
22	Total net cash outflows					374,612	354,210	343,524	328,693
23	Liquidity Coverage Ratio (%)					140.2%	147.3%	149.43%	150.51%

4.2. Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) measures the amount of stable funding available to a financial institution against the required amount of stable funding. Under CRR II, institutions are required to maintain a NSFR of at least 100%. Given that the Bank does not have a 'material currency'³, 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.

At 132.48%, the Bank's NSFR was above the regulatory minimum requirement and within the Bank's risk appetite as at 31 March 2023.

EU LIQ2 - Net Stable Funding Ratio

	Unweighted value by residual maturity				Weighted Value €000
	No Maturity €000	< 6 months €000	6 months to <1 year €000	> 1 year €000	
Available stable funding (ASF) Items					
1 Capital items and instruments	-	-	-	313,942	313,942
2 Own funds	-	-	-	313,942	313,942
3 Other capital instruments		-	-	-	-
4 Retail deposits		1,557,278	348,123	283,415	2,061,784
5 Stable deposits		1,062,268	207,876	201,597	1,408,233
6 Less stable deposits		495,010	140,249	81,818	653,551
7 Wholesale funding		546,147	128,388	24,242	268,321
8 Operational deposits		-	-	-	-
9 Other wholesale funding		546,147	128,388	24,242	268,321
10 Interdependent liabilities		-	-	-	-
11 Other liabilities	-	23,405	2,535	23,132	24,399
12 NSFR derivative liabilities					
13 All other liabilities and capital instruments not included in the above categories		23,405	2,535	23,132	24,399
14 Total Available stable funding (ASF)					2,668,447
Required stable funding (RSF) Items					
15 Total high-quality liquid assets (HQLA)					14,011

³ Banks are required to assess the NSFR by material currencies. A currency is considered to be a 'material currency' if the aggregate liabilities denominated in that currency amount to, or exceed, 5% of the bank's total liabilities.

EU	Assets encumbered for a residual maturity of one year or more in a cover pool	-	-	-	-
15a					
16	Deposits held at other financial institutions for operational purposes	-	-	-	-
17	Performing loans and securities:	123,654	106,394	2,260,022	1,701,910
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut	-	-	-	-
19	<i>Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions</i>	85,726	32,775	73,707	98,667
20	<i>Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:</i>	30,307	55,945	654,831	585,988
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>	348	6,569	68,724	48,143
22	<i>Performing residential mortgages, of which:</i>	7,621	17,674	1,531,485	1,017,255
23	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>	7,561	14,107	1,485,770	976,584
24	<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>	0	0	0	0
25	Interdependent assets	-	-	-	-
26	Other assets:	-	35,251	9,081	216,571
27	<i>Physical traded commodities</i>			-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs			-	-
29	NSFR derivative assets			-	-
30	NSFR derivative liabilities before deduction of variation margin posted			-	-
31	<i>All other assets not included in the above categories</i>	35,251	9,081	216,571	249,882
32	Off-balance sheet items	2,969	98,179	856,616	48,425
33	Total Required stable funding (RSF)				2,014,228
34	Net Stable Funding Ratio (%)				132.48%