Pillar 3 Disclosures

31 March 2022

APS bank

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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 as outlined in the Pillar 3 Disclosures Policy. This report has been reviewed by the Group's Chief Risk Officer and 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 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 Group's strategic planning and risk management framework. The differences between the Group and the Bank's metrics are immaterial.

EU KM1 - Key metrics

		Mar-22	Dec-21	Sep-21	Jun-21	Mar-21
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	174,031	176,723	174,623	176,878	172,142
2	Tier 1 capital	174,031	176,723	174,623	176,878	172,142
3	Total capital	228,639	231,320	229,208	231,452	226,705
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,367,698	1,378,563	1,342,428	1,339,304	1,256,854
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	12.72%	12.82%	13.00%	13.21%	13.70%
6	Tier 1 ratio (%)	12.72%	12.82%	13.00%	13.21%	13.70%
7	Total capital ratio (%)	16.72%	16.78%	17.06%	17.28%	18.04%
	Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)					
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%
7b	of which: to be made up of CET1 capital (percentage points)	2.08%	2.08%	2.08%	2.08%	2.08%
7c	of which: to be made up of Tier 1 capital (percentage points)	2.78%	2.78%	2.78%	2.78%	2.78%
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%
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%
9a	Systemic risk buffer (%)	-	-	-	-	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
10a	Other Systemically Important Institution buffer (%)	0.125%	0.06%	0.06%	0.06%	0.06%
11	Combined buffer requirement (%)	2.63%	2.56%	2.56%	2.56%	2.56%
11a	Overall capital requirements (%)	14.33%	14.26%	14.26%	14.26%	14.26%
12	CET1 available after meeting the total SREP own funds requirements (%)	1.02%	1.11%	1.30%	1.51%	2.00%

	Leverage ratio					
13	Total exposure measure	2,977,556	2,871,279	2,777,939	2,715,917	2,597,965
14	Leverage ratio (%)	5.84%	6.15%	6.29%	6.51%	6.63%
	Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)					
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)	466,941	443,370	432,858	409,288	384,824
16a	Cash outflows - Total weighted value	371,161	359,090	351,705	344,096	336,901
16b	Cash inflows - Total weighted value	61,044	56,904	58,957	57,640	56,505
16	Total net cash outflows (adjusted value)	310,117	302,185	292,749	286,456	280,396
17	Liquidity coverage ratio (%)	150.99%	147.28%	148.05%	142.63%	137.24%
	Net Stable Funding Ratio					
18	Total available stable funding	2,377,648	2,288,589	2,241,123	2,202,904	
19	Total required stable funding	1,681,725	1,682,802	1,637,977	1,584,417	
20	NSFR ratio (%)	141.38%	136.00%	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.

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.

3.1. Capital Instruments

The Group' 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.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange with the listing of the EUR55,000,000 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 Group's capital instruments is provided in Note 46.6 appended to the 2021 Financial Statements which are available on the Bank's website.

3.2. Capital Requirements

In accordance with 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 31 March 2022 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-22 €000	Dec-21 €000	Mar-22 €000
1	**Credit risk (excluding counterparty credit risk)**	**1,262,477**	**1,273,347**	**100,998**
2	Of which: standardised approach	1,262,477	1,273,347	100,998
	Central government or central banks	11,234	12,692	899
	Regional government or local authorities	-	-	-
	Public sector entities	-	-	-
	Multilateral development banks	2,127	2,202	170
	International organisations	-	-	-
	Institutions	25,576	25,821	2,046
	Corporates	329,255	362,774	26,340
	Retail	53,305	54,379	4,264
	Secured by mortgages on immovable property	572,556	552,970	45,804
	Exposures in default	83,064	78,461	6,645
	Items associated with particular high risk	74,473	73,633	5,958
	Covered bonds	244	247	20
	Claims in the form of CIU	32,938	40,250	2,635
	Equity exposures	333	330	27
	Other Assets	77,372	69,588	6,190
19	**Market risk**	**134**	**129**	**11**
20	Of which: standardised approach	-	-	-
23	**Operational risk**	**105,087**	**105,087**	**8,407**
24	Of which basic indicator approach	-	-	-
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	1,367,698	1,378,563	109,416

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 31 March 2022, the Bank's Tier 1 and Total Capital Ratios stood at 12.72% and 16.72%, 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 increased to 161% as at 31 March 2022, from 141% as at 31 December 2021.

The increase in the LCR during the first quarter of 2022 is attributed to an improvement in the liquidity buffer, which outweighed the increase in net cash outflows.

The Bank's liquidity buffer is classified into:

- Level 1 assets (96%), which include withdrawable central bank reserves and central government assets; and
- Level 2 assets (4%), 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 mainly by an increase in withdrawable central bank reserves (Level 1 assets).

The table overleaf discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting June 2021 and ending March 2022. The figures are calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter. The difference between the Group and the Bank's LCR is immaterial. 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.

[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		Mar-22 €000	Dec-21 €000	Sep-21 €000	Jun-21 €000	Mar-22 €000	Dec-21 €000	Sep-21 €000	Jun-21 €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					466,941	443,370	432,858	409,288
Cash outflows									
2	Retail deposits and deposits from small business customers, of which:	1,172,738	1,117,192	1,067,032	1,014,424	83,668	968,671	74,189	70,179
3	*Stable deposits*	855,250	822,731	788,786	753,277	42,762	720,666	39,439	37,664
4	*Less Stable deposits*	317,488	294,461	278,246	261,147	40,906	248,005	34,750	32,515
5	Unsecured wholesale funding, of which:	430,121	409,523	396,439	388,014	222,104	374,478	209,870	207,960
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	430,121	409,523	396,439	388,014	222,104	374,478	209,870	207,960
8	*Unsecured debt*		-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	819,246	826,770	822,165	803,818	59,799	61,944	63,068	63,027
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*	812,246	826,770	822,165	803,818	59,799	61,944	63,068	63,027
14	Other contractual funding obligations	5,890	6,564	5,700	4,445	5,590	5,846	4,578	2,930
15	Other contingent funding obligations	-	-	-	-	-	-	-	-
16	**Total Cash Outflows**					**371,161**	**359,090**	**351,705**	**344,096**
Cash Inflows									
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	67,936	64,441	66,507	63,958	58,513	54,855	57,368	55,641
19	Other cash inflows	2,531	2,050	1,589	1,999	2,531	2,050	1,589	1,999
20	**Total Cash Inflows**	**70,467**	**66,491**	**68,096**	**65,957**	**61,044**	**56,904**	**58,957**	**57,640**
Total Adjusted Value									
21	**Total HQLA**					**466,941**	**443,370**	**432,858**	**409,288**
22	**Total net cash outflows**					**310,117**	**302,185**	**292,748**	**286,456**
23	**Liquidity Coverage Ratio (%)**					**151%**	**147%**	**148%**	**143%**

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.

At 141.4%, the Bank's NSFR was above the regulatory minimum requirement and within the Bank's risk appetite as at 31 March 2022.

EU LIQ2 - Net Stable Funding Ratio

		Unweighted value by residual maturity				
		No Maturity	< 6 months	6 months to <1 year	> 1 year	Weighted Value
		€000	€000	€000	€000	€000
	Available stable funding (ASF) Items					
1	Capital items and instruments	-	-	-	247,181	247,181
2	*Own funds*	-	-	-	247,181	247,181
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		1,432,457	150,012	310,323	1,787,357
5	*Stable deposits*		969,966	86,275	197,334	1,200,763
6	*Less stable deposits*		462,491	63,737	112,989	586,594
7	Wholesale funding		565,364	50,105	84,140	323,201
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		565,364	50,105	84,140	323,201
10	Interdependent liabilities		-	-	-	-
11	Other liabilities	-	15,338	1,085	19,366	19,909
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above categories*		15,338	1,085	19,366	19,909
14	**Total available stable funding (ASF)**					2,377,648
	Required stable funding (RSF) Items					
15	Total high-quality liquid assets (HQLA)					19,768

[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.

17	Performing loans and securities:		104,852	76,493	1,892,480	1,420,441
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		63,266	19,039	72,940	88,787
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		10,047	41,081	551,240	486,978
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		379	1,301	35,703	24,047
22	*Performing residential mortgages, of which:*		2,498	16,373	1,268,300	841,772
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		2,152	10,776	1,228,589	805,047
24	*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*		29,041	-	-	2,904
26	Other assets:	-	29,014	11,886	168,035	198,940
27	*Physical traded commodities*				-	-
31	*All other assets not included in the above categories*		29,014	11,886	168,035	198,940
32	Off-balance sheet items		2,540	91,750	724,292	42,576
33	Total RSF					1,681,725
34	Net Stable Funding Ratio (%)					141.38%