Pillar 3 Disclosures

30 September 2024

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. Pillar 3 disclosures on Environmental, Social and Governance (ESG) factors are published semi-annually 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 Chief Risk Officer and approved by the Board of Directors. A reference has been added in cases where additional information addressing Pillar 3 requirements is included in the Financial Statements. The Board of Directors 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 view 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 (if any) are escalated first 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

		Sep-24	Jun-24	Mar-24	Dec-23	Sep-23
	Available own funds (€000)					
1	Common Equity Tier 1 (CET1) capital	266,381	255,959	252,515	254,504	247,029
2	Tier 1 capital	266,381	255,959	252,515	254,504	247,029
3	Total capital	370,565	360,116	356,946	358,676	301,705
	Risk-weighted exposure amounts					
4	Total risk exposure amount	1,855,625	1,815,708	1,774,780	1,740,983	1,619,766
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	14.36%	14.10%	14.23%	14.62%	15.25%
6	Tier 1 ratio (%)	14.36%	14.10%	14.23%	14.62%	15.25%
7	Total capital ratio (%)	19.97%	19.83%	20.11%	20.60%	18.63%
	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 (%)	3.15%	3.15%	4.00%	4.00%	4.00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.77%	1.77%	2.25%	2.25%	2.25%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	2.36%	2.36%	3.00%	3.00%	3.00%
EU 7d	Total SREP own funds requirements (%)	11.15%	11.15%	12.00%	12.00%	12.00%
	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 (%)	0.10%	0.11%	0.09%	0.07%	0.06%
EU 9a	Systemic risk buffer (%)	0.52%	0.51%	0.50%	0.33%	-
10	Global Systemically Important Institution buffer (%)	-	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	0.375%	0.375%	0.375%	0.250%	0.250%
11	Combined buffer requirement (%)	3.49%	3.50%	3.47%	3.14%	3.15%
EU 11a	Overall capital requirements (%)	14.64%	14.65%	15.47%	15.14%	15.15%
12	CET1 available after meeting the total SREP own funds requirements (%)	5.99%	5.73%	5.23%	5.62%	6.25%

	Leverage ratio					
13	Total exposure measure	4,045,486	3,891,007	3,843,430	3,780,199	3,615,963
14	Leverage ratio (%)	6.58%	6.58%	6.57%	6.73%	6.83%
	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)	525,047	448,994	497,744	485,699	513,121
EU 16a	Cash outflows - Total weighted value	375,825	373,042	429,423	418,833	425,100
EU 16b	Cash inflows - Total weighted value	68,588	67,669	76,095	72,354	40,864
16	Total net cash outflows (adjusted value)	307,236	305,373	353,328	346,478	384,237
17	Liquidity coverage ratio (%)	170.89%	147.03%	140.87%	140.18%	133.54%
	Net Stable Funding Ratio					
18	Total available stable funding	3,379,737	3,257,273	3,139,617	3,069,798	2,934,761
19	Total required stable funding	2,462,752	2,410,271	2,370,440	2,337,458	2,196,796
20	NSFR ratio (%)	137.23%	135.14%	132.45%	131.33%	133.59%

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 equity public offering amounting to €65,800,000, hence strengthening further its capital position. Further information on the share capital composition is provided in Note 47.5 to the 2023 Financial Statements.

In November 2020, the Bank joined the list of issuers on the Malta Stock Exchange for the first time with the listing of the €55,000,000 3.25% APS Bank plc Unsecured Subordinated Bonds 2025-2030. In November 2023, the Bank announced the issuance of €50 million 5.80% Unsecured Subordinated Bonds 2028-2033 The subordinated bonds qualify 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 47.5 appended to the 2023 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 matched position for closely correlated currencies, while a capital allocation of 8% of the position is applied for non-closely correlated currencies.
- 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 table below shows the Bank's risk weighted exposure for each exposure class in line with the CRR, and the respective Pillar 1 capital requirement based on the methods outlined above.

The following table discloses the Bank's risk weighted assets and capital requirements as at 30 September 2024 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
		Sep-24 €000	Jun-24 €000	Sep-24 €000
1	**Credit risk (excluding counterparty credit risk)**	**1,720,630**	1,680,758	**137,650**
2	Of which: standardised approach	1,720,630	1,606,050	137,650
	Central government or central banks	9,479	10,189	758
	Multilateral development banks	2,078	2,045	166
	Institutions	34,253	35,814	2,740
	Corporates	504,492	494,547	40,359
	Retail	46,894	45,576	3,752
	Secured by mortgages on immovable property	839,393	811,101	67,151
	Exposures in default	41,722	37,179	3,338
	Items associated with particular high risk	92,157	92,767	7,373
	Covered bonds	1,595	1,592	128
	Claims in the form of CIU	31,804	31,041	2,544
	Equity exposures	318	320	25
	Other Assets	116,445	118,573	9,316
20	**Market risk**	**77**	32	**6**
21	Of which: standardised approach	77	32	6
23	**Operational risk**	**134,918**	134,918	**10,794**
23a	Of which: basic indicator approach	134,918	134,918	10,794
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
29	Total	1,855,625	1,815,708	148,450

The Bank is required to meet a total SREP capital requirement (TSCR) of 11.15%, consisting of 8.0% minimum Pillar 1 requirement and a 3.15% 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), an Other-Systemically Important Institutions (O-SII) buffer and Systemic Risk Buffer (sSyRB). The latter was implemented by the Central Bank of Malta (CBM) in 2023 on all domestic Residential Real Estate ("RRE") mortgages to natural persons applicable to all credit institutions in Malta. 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. Further information on the Bank's capital buffer requirements is provided in tables 'EU CC1' and 'EU CCyB1' below.

As at 30 September 2024, the Bank's Tier 1 and Total Capital Ratios stood at 14.50% and 20.12%, 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 these risks 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 such 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 30 September 2024, the Bank's Loan-to-Deposit ratio, computed in line with the methodology adopted by the EBA, was equal to 97.04%, 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 Q3 2024, the Bank's LCR fluctuated consistently above the applicable minimum requirement of 100% and in line with its risk appetite. As at 30 September 2024, the LCR stood at 170.89% (30 June 2024: 147.03%). When compared to the ratio as at end June, the increase is due to an increase in the Liquidity Buffer.

The below table discloses quantitative information on the Bank's LCR for each of the four calendar quarters, starting December 2023 and ending September 2024. 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)

		Total unweighted value (average)				Total weighted value (average)			
	Quarter ending on	Sep-24 €000	Jun-24 €000	Mar-24 €000	Dec-23 €000	Sep-24 €000	Jun-24 €000	Mar-24 €000	Dec-23 €000
EU 1a		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					503,270	496,697	525,242	534,554
	Cash outflows								
2	Retail deposits and deposits from small business customers, of which:	1,566,584	1,539,654	1,506,632	1,474,752	120,766	113,893	108,138	106,458
3	*Stable deposits*	*1,083,710*	*1,055,447*	*1,020,315*	*1,003,690*	*54,185*	*52,772*	*51,016*	*50,184*
4	*Less Stable deposits*	*422,923*	*419,304*	*409,296*	*410,836*	*53,953*	*53,686*	*52,526*	*52,880*
5	Unsecured wholesale funding, of which:	462,811	466,503	475,091	489,580	239,987	251,394	265,266	277,729
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*6,181*	*6,371*	*6,163*	*5,119*	*1,545*	*1,593*	*1,541*	*1,280*
7	*Non-operational deposits (all counterparties)*	456,630	460,132	468,928	484,461	238,442	249,801	263,725	276,449
8	*Unsecured debt*	-	-	-	-	-	-	-	-
9	Secured wholesale funding					-	-	-	-
10	Additional requirements, of which:	**512,157**	**506,068**	**509,669**	**506,957**	**43,181**	**41,679**	**41,529**	**43,906**
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*	512,157	506,068	509,669	506,957	43,181	41,679	41,529	43,906
14	Other contractual funding obligations	4,162	3,786	3,389	2,885	4,162	3,786	3,389	2,885
15	Other contingent funding obligations	15,810	14,318	12,650	10,951	-	-	-	-
16	Total Cash Outflows					408,096	410,752	418,322	430,978
	Cash Inflows								
17	Secured lending (eg reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	86,651	65,305	56,062	55,682	54,355	50,204	47,135	47,037
19	Other cash inflows	966	822	675	850	966	822	675	850
20	Total Cash Inflows	87,617	66,127	56,737	56,532	55,321	51,026	47,810	47,887
	Total Adjusted Value								
EU-21	Liquidity Buffer					503,270	496,697	525,242	534,554
22	Total net cash outflows					352,775	359,726	370,512	383,091
23	Liquidity Coverage Ratio (%)					144.31%	138.11%	141.50%	139.85%

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 137.23%, the Bank's NSFR was above the regulatory minimum requirement and within the Bank's risk appetite as at 30 September 2024 (30 June 2024: 135.14%).

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	-	-	-	388,400	388,400
2	*Own funds*	-	-	-	*388,400*	*388,400*
3	*Other capital instruments*		-	-	-	-
4	Retail deposits		1,994,899	310,962	409,417	2,562,665
5	*Stable deposits*		*1,356,060*	*203,402*	*336,365*	*1,817,854*
6	*Less stable deposits*		*638,839*	*107,560*	*73,052*	*744,811*
7	Wholesale funding		540,122	62,953	161,520	408,114
8	*Operational deposits*		-	-	-	-
9	*Other wholesale funding*		*540,122*	*62,953*	*161,520*	*408,114*
10	Interdependent liabilities		-	-	-	-
11	Other liabilities	-	21,788	7,216	16,950	20,558
12	*NSFR derivative liabilities*					
13	*All other liabilities and capital instruments not included in the above categories*		*21,788*	*7,216*	*16,950*	*20,558*
14	**Total Available stable funding (ASF)**					3,379,737
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					**25,885**

[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 15a	Assets encumbered for a residual maturity of one year or more in a cover pool		-	-	-	-
16	Deposits held at other financial institutions for operational purposes		-	-	-	-
17	Performing loans and securities:		**99,892**	**146,300**	**2,865,570**	**2,176,096**
18	Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut		-	-	-	-
19	*Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions*		72,560	32,981	128,503	152,249
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:*		24,057	101,592	889,557	812,457
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*555*	*6,248*	*32,455*	*24,497*
22	*Performing residential mortgages, of which:*		2,752	11,727	1,847,510	1,211,128
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*		*844*	*9,188*	*1,832,475*	*1,196,124*
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*		523	-	-	262
25	Interdependent assets		-	-	-	-
26	Other assets:	-	**63,968**	**45,791**	**155,707**	**206,523**
27	*Physical traded commodities*				-	-
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	*All other assets not included in the above categories*		63,968	45,791	155,707	206,523
32	Off-balance sheet items		**3,042**	**152,042**	**985,601**	**57,248**
33	Total Required stable funding (RSF)					2,462,752
34	Net Stable Funding Ratio (%)					137.23%