Pillar 3 Disclosures

31st March 2022

Issued by Bank of Valletta p.l.c., 58, Triq San Żakkarija, Il-Belt Valletta, VLT 1130 – Malta

Bank of Valletta at a Glance

Bank of Valletta plc. (hereinafter referred to as 'the Bank' or 'the Group') is one of the Malta's leading banks providing banking, financial, and investment services to private, business, and corporate clients within the domestic market. BOV is licensed to carry out its activity in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Investment Services Act, 1994 (Chapter 370, Laws of Malta). BOV is headquartered in Santa Venera from where it manages a nationwide branch network and investment centres, servicing the banking needs of residents across Malta and Gozo.

The Bank is the parent institution of a two fully owned subsidiary companies (BOV Asset Management Limited and BOV Fund Services Limited) and two equity-accounted investee companies (MAPFRE Middlesea plc and MAPFRE MSV Life plc.), which together comprise the Bank of Valletta Group. A detailed description of the Group is given in the Annual Report and Financial Statements 2021**.**

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1 Introduction

The Basel III capital adequacy framework consists of three complementary pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market, and operational risks. Pillar 2 establishes a system of supervisory review aimed at improving banks' internal risk management and capital adequacy assessment in line with their risk profile. Pillar 3 is intended to enhance market discipline and requires banks to publish a range of disclosures aimed at providing further insight on the capital structure, adequacy and risk management practices.

The Pillar 3 Disclosures as at March, 2021 comprise both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with Part Eight of CRR II and the European Banking Authority's (EBA) guidelines on disclosure requirements. Furthermore, the said Pillar 3 Disclosures are compliant with the 'Reporting Framework' issued by the European Banking Authority.

This quarterly report provides an updated overview of the Group's capital adequacy, risk weighted assets, and liquidity, in accordance with EBA recommended guidelines on disclosure requirements – 'Final draft implementing technical standards on public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013' .

1.1 Statement of the Management Body

The Pillar 3 Disclosures are not subject to external audit. Nonetheless, the report has been subject to BOV Group's internal verification and validation assessments, to ensure accuracy and compliance of the content with regulatory guidelines. The report has been reviewed and approved by the Internal Control Risk Management Committee (ICRMC), the Risk Committee (RC), the Audit Committee, the Executive Committee (ExCo), and the Board of Directors (BoD).

In line with Article 431 (3) CRR and CRR II, the Bank has disclosed all information within the Pillar 3 Disclosures in accordance with the disclosure requirements, formal policies and internal processes, systems, and controls.

2 Capital Management

2.1 Risk Measurement and Key Risk Metric

BOV's risk measurement and reporting system is an integral part of the Group's risk management approach. The roles and responsibilities with respect to risk measurement include data collection, data reconciliation and data quality verification and validation. BOV monitors the residual material risks through the set of risk thresholds included in the RAF. In certain instances, a root-cause analysis is carried out to identify the main cause of a breach.

The risk measurement system supports regulatory reporting and external disclosures, as well as internal management reporting. Internal reporting highlights the Group's risk profile position as well as providing insight on particular material risks specific to the Group and/or business divisions. The following table provides a summary of the Group's key metrics and overview of the risk-weighted exposure amounts.

Table 1 EU KM1- Key Metrics

	€millions except where indicated	31 March 2022	31 December 2021	30 September 2021	30 June 2021	31 March 2021
	Available own funds (amounts)					
1	Common Equity Tier 1 (CET1) capital	**981.6**	985.4	946.3	952.1	937.4
2	Tier 1 capital	**981.6**	985.4	946.3	952.1	937.4
3	Total capital	**1,144.3**	1,148.7	1,109.0	1,115.4	1,100.1
	Risk-weighted exposure amounts					
4	Total risk-weighted exposure amount	**4,461.2**	4,499.8	4,442.1	4,465.7	4,463.5
	Capital ratios (as a percentage of risk-weighted exposure amount)					
5	Common Equity Tier 1 ratio (%)	**22.0%**	21.9%	21.3%	21.3%	21.0%
6	Tier 1 ratio (%)	**22.0%**	21.9%	21.3%	21.3%	21.0%
7	Total capital ratio (%)	**25.7%**	25.5%	25.0%	25.0%	24.6%
	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 (%)	**3.0%**	3.3%	3.3%	3.3%	3.3%
EU 7b	of which: to be made up of CET1 capital (percentage points)	**1.7%**	1.8%	1.8%	1.8%	1.8%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	**2.3%**	2.4%	2.4%	2.4%	2.4%
EU 7d	Total SREP own funds requirements (%)	**11.0%**	11.3%	11.3%	11.3%	11.3%
	Combined buffer requirement (as a percentage of risk-weighted exposure amount)					
8	Capital conservation buffer (%)	**2.5%**	2.5%	2.5%	2.5%	2.5%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
9	Institution specific countercyclical capital buffer (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
EU 9a	Systemic risk buffer (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
10	Global Systemically Important Institution buffer (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
EU 10a	Other Systemically Important Institution buffer	**2.0%**	2.0%	2.0%	2.0%	2.0%
11	Combined buffer requirement (%)	**4.5%**	4.5%	4.5%	4.5%	4.5%
EU 11a	Overall capital requirements (%)	**15.5%**	15.8%	15.8%	15.8%	15.8%
12	CET1 available after meeting the total SREP own funds requirements (%)	**11.0%**	10.6%	10.1%	10.1%	9.8%
	Leverage ratio					
13	Total exposure measure	**14,749.3**	14,632.0	14,194.4	13,994.3	13,835.4
14	Leverage ratio (%)	**6.7%**	6.7%	6.7%	6.8%	6.8%
	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 (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
EU 14b	of which: to be made up of CET1 capital (percentage points)	**0.0%**	0.0%	0.0%	0.0%	0.0%
EU 14c	Total SREP leverage ratio requirements (%)	**3.0%**	3.0%	3.0%	3.0%	3.0%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	**0.0%**	0.0%	0.0%	0.0%	0.0%
EU 14e	Overall leverage ratio requirements (%)	**3.0%**	3.0%	3.0%	3.0%	3.0%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	**6,232.0**	6,173.6	5,779.3	5,498.4	5,515.1
EU 16a	Cash outflows - Total weighted value	**2,116.2**	2,080.3	1,960.8	1,908.4	1,934.6
EU 16b	Cash inflows - Total weighted value	**729.5**	692.7	670.9	807.1	758.8
16	Total net cash outflows (adjusted value)	**1,386.8**	1,387.6	1,289.9	1,101.3	1,175.8
17	Liquidity coverage ratio (%)	**449.4%**	444.9%	448.0%	499.2%	469.0%
	Net Stable Funding Ratio					
18	Total available stable funding	**11,685.2**	11,548.8	11,302.6	11,272.4	-
19	Total required stable funding	**6,044.9**	6,102.1	6,130.4	6,111.5	-
20	NSFR ratio (%)	**193.3%**	189.3%	184.4%	184.4%	-

In 2022 the total Supervisory Review and Evaluation Process (SREP) own funds requirements decreased to 11%, following a change in Pillar 2 Requirements (P2R) and Pillar 2 Guidance (P2G) allocations to 3% and 2.75% respectively.

During the first quarter of 2022 the total leverage exposure increased by €117.3 million. This was mainly due to an increase of around €100 million in loans and advances to customers.

As announced on 4th May 2022, an out-of-court settlement was reached on the longstanding Deiulemar case whereby it was agreed to pay a full and final settlement of €182.5m, thus closing the Deiulemar litigation case. Given that the Bank had set aside €80 million as provisions in case of a negative outcome, this had an impact on the profit of €101.2m. End of April 2022 figures show that following this one-time hit, the Bank still maintains a strong capital position and is able to meet all capital requirements, [including Pillar 2 Requirements, Pillar 2 Guidance and the combined capital buffer requirements ("CBR")].

Moreover, the Bank is currently taking the necessary steps to remedy the resultant increase in the MREL deficit, with an approved issuance plan to remedy this deficit by the end of 2023, in line with supervisory expectations, already in place.

2.2 Overview of the Risk Weighted Exposure Amounts (RWA)

In accordance with Article 438(c) to (f) of the CRR, Table EU OV1 provides an overview of the total RWA, and the capital requirement for credit risk, as well as capital required for operational risk, foreign exchange risk, and credit valuation adjustment risk. In contrast with previous years, the Bank is also allocating capital under securitization in view of its first securitization portfolio related to the MDB COVID-19 Assist scheme.

No capital is allocated for market risk as the Bank does not operate a trading book. Moreover, there is no Pillar 1 capital allocated for settlement risk, commodities risk, position risk and large exposures.

The exposure value is equal to the total on-balance sheet amount and off-balance sheet amount net of value adjustments, together with provisions and post Credit Conversion Factor (CCF).

Table 2: EU OV1 - Overview of risk weighted exposure amounts

Template EU OV1 – Overview of total risk exposure amounts

	€ millions	Risk weighted exposure amounts (RWEAs)		Total own funds requirements
		31 March 2022	31 December 2021	31 March 2021
1	**Credit risk (excluding CCR)**	**3,987.7**	4,020.4	319.0
2	*Of which the standardised approach*	**3,987.7**	4,020.4	319.0
6	**Counterparty credit risk - CCR**	**2.4**	3.2	0.2
7	*Of which the standardised approach*	**-**	-	-
EU 8a	*Of which exposures to a CCP*	**0.1**	0.1	0.0
EU 8b	*Of which credit valuation adjustment - CVA*	**0.8**	0.8	0.1
9	*Of which other CCR*	**1.5**	2.3	0.1
15	**Settlement risk**	**-**	-	-
16	**Securitisation exposures in the non-trading book (after the cap)**	**20.0**	21.8	1.6
19	*Of which SEC-SA approach*	**20.0**	21.8	1.6
20	**Position, foreign exchange and commodities risks (Market risk)**	**1.9**	1.9	0.1
21	*Of which the standardised approach*	**1.9**	1.9	0.1
23	**Operational risk**	**449.2**	452.6	35.9
EU 23a	*Of which basic indicator approach*	**449.2**	452.6	35.9
24	**Amounts below the thresholds for deduction (subject**	**393.4**	393.6	31.5
29	**Total**	**4,461.2**	4,499.8	356.9

Total risk weighted exposure amount decreased by approximately €38.6 million during the first quarter of 2022. This was mainly due to a decline in Credit Risk and Counterparty Credit Risk as indicated below:

- Credit Risk, excluding CCR, decreased by approximately €32.7 million, mainly due to a decline of €153 million in credit exposure to ‘Institutions and Corporates’ which was partially offset by an increase in credit exposure of €113.6 million to ‘Retail’, ‘Immovable property secured by Mortgages’, and ‘Exposures in default’, among other minor changes.
- Counterparty Credit Risk declined by around €0.8 million and such change is attributed to a decline in exposure to ‘Derivatives’ and ‘Long Settlement transactions’.

3 Liquidity Risk

During 2017, the EBA issued a set of guidelines (EBA/GL/2017/01) which aim to harmonize the disclosures in line with the CRR Article 435(1) in relation to liquidity risk.

Liquidity risk is the risk that a bank is unable to meet its current or future payment obligations as they fall due, and/or to replace at reasonable cost, when funds are withdrawn, even when this occurs unexpectedly. Funding liquidity risk arises when a bank is not able to efficiently meet various cash flow and collateral needs without affecting its daily operations and/or financial position. In contrast, market liquidity risk arises when a bank is not able to easily offset or eliminate positions at the market price because of inadequate market depth and/or market disruption. The Bank has always taken the management of liquidity risk very seriously; to this end, the objective of the Bank's liquidity risk management actions is to ensure that both foreseeable and unpredicted funding commitment can be met when due at a reasonable cost.

Since the implementation of the European regulatory LCR requirement, the Bank has consistently exhibited levels well above the 100% minimum requirement. As at end of March 2022, the Bank was well positioned with an LCR of 449.4% (December 2021, 444.9%).

The absolute quarterly increase of 4.48% pts in the LCR (relative 1.01% increase) is mainly attributable to several elements. On the part of 'Outflows', the main drivers were the increase in retail deposits, increase in non-operational deposits, and increase in other liabilities. All these items contributed to a 1.73% increase in 'Outflows' when compared to the previous quarter. On the other hand, 'Inflows' exhibited a relative increase of 5.30% when compared to the last quarter. This increase is mainly attributed to an increase in amounts due from financial institutions, increase in amounts due from non-financial customers and a decline in contracted base of securities falling due within a month of the reporting date (end Mar-22).

Such movements resulted in a slight decrease of 0.06% in the 'Net Liquidity Outflows' (LCR denominator). This together with a rise of around 0.95% in the 'Liquidity Buffer' (LCR numerator) resulted in the abovementioned LCR increase when compared to the previous quarter. Nevertheless, the LCR level as at Q1 of this year of 449.4% continued to exhibit a very robust level over four-and-a-half times the regulatory minimum, attesting to BOV's resilient liquidity risk profile.

Table EU LIQ1 disclosed below provides quantitative LCR information which complements Article 435 (1) (f) of Regulation (EU) No 575/2013, no other factors other than those specified in the template are included in the LCR calculation.

Table 3: EU LIQ1 - Quantitative information of LCR

€ millions		Total unweighted value (average)				Total weighted value (average)			
		31 March 2022	**31 December 2021**	**30 September 2021**	**30 June 2021**	**31 March 2022**	**31 December 2021**	**30 September 2021**	**30 June 2021**
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
	High-Quality Liquid Assets								
1	Total high-quality liquid assets (HQLA), after application of haircuts in line with Article 9 of regulation (EU) 2015/61	-	-	-	-	5,858.7	5,727.4	5,597.7	5,519.9
	Cash-Outflows								
2	retail deposits and deposits from small business customers	7,863.9	7,625.2	7,421.1	7,196.6	518.9	501.6	487.0	474.1
	of which:								
3	*Stable deposits*	5,461.1	5,327.1	5,204.7	5,008.8	273.1	266.4	260.2	250.4
4	*Less stable deposits*	2,402.8	2,298.0	2,216.5	2,187.8	245.8	235.2	226.7	223.7
5	Unsecured wholesale funding	2,849.3	2,809.4	2,770.3	2,773.9	1,255.8	1,241.4	1,235.9	1,250.8
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,849.2	2,809.4	2,770.3	2,773.9	1,255.8	1,241.3	1,235.8	1,250.7
8	*Unsecured debt*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
9	*Secured wholesale funding*	-	-	-	-	4.1	6.6	7.6	6.7
10	Additional requirements	1,901.5	1,927.9	1,894.3	1,842.9	159.9	162.0	158.9	154.3
11	*Outflows related to derivative exposures and other collateral requirements*	0.6	0.7	0.8	1.2	0.6	0.7	0.8	1.2
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	1,900.9	1,927.2	1,893.5	1,841.7	159.3	161.3	158.1	153.1
14	Other contractual funding obligations	70.2	62.7	53.2	48.9	67.8	60.5	51.1	46.9
15	Other contingent funding obligations	138.0	137.3	136.1	133.8	6.9	6.9	6.8	6.7
16	**Total Cash Outflows**	**-**	**-**	**-**	**-**	**2,013.4**	**1,979.0**	**1,947.3**	**1,939.6**
	Cash-Inflows								
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	835.3	826.6	838.0	840.3	624.8	616.4	626.4	626.2
19	Other cash inflows	112.1	112.9	96.5	99.1	112.1	112.9	96.5	99.1
19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)	-	-	-	-	-	-	-	-
19b	(Excess inflows from a related specialised credit institution)	-	-	-	-	-	-	-	-
20	**Total Cash-Inflows**	**947.4**	**939.5**	**934.5**	**939.4**	**736.9**	**729.3**	**722.9**	**725.4**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	947.4	939.5	934.5	939.4	736.9	729.3	722.9	725.4
	Total Adjusted Buffer								
21	Liquidity Buffer	-	-	-	-	5,858.7	5,727.4	5,597.7	5,519.9
22	Total Net Cash Outflows	-	-	-	-	1,276.5	1,249.6	1,224.4	1,214.2
23	Liquidity Coverage Ratio	-	-	-	-	460.1%	459.3%	458.1%	455.5%

The Bank's liquidity buffer as at March 2022, quoted at post-haircut values, may be segmented into the following HQLA classes;

- Level 1 assets (98.74%), mainly composed of withdrawable central bank reserves (68.24%), central government assets (24.92%), followed by multilateral development bank and international organizations assets (5.59%);
- Level 2A assets (0.66%), mainly composed of regional government or public sector entity assets with a 20% risk weight (49.84%); and
- Level 2B assets (0.60%), composed of corporate debt securities Credit Quality Step 2 or 3.

Cash flows from derivatives were minimal and insignificant for LCR purposes. Total financial assets related to derivatives amounted to €0.84m. Initial margin as at end of the reporting period stood at €2.71m.

The LCR is also assessed by currency. Since no other currency other than the domestic currency, exceeded the 5% aggregate amount of liabilities to total liabilities, only the euro-denominated LCR was calculated. In fact, 96% of total liabilities are euro-denominated. In principle, BOV does not finance its assets in a currency different from that in which the assets are denominated.

The top 10 Bank's deposit names (including groups of connected depositors) comprised 4.8% of total customer deposits whilst the top 20 depositors amounted to 7.2% of total customer deposits. The large, diversified, and relatively stable customer deposit base avoids reliance on wholesale funding from financial customers. In fact, all the other customers individually do not exceed more than circa. 0.21% each of the total customer deposit base. An analysis of concentration by product type demonstrates that retail deposits accounted for 57.4% of total funding, followed by unsecured wholesale funding at 24.0% (of which 19.4% are deposits from non-financial customers and 4.7% are deposits from financial customers) and retail term deposits at 5.6%. The weighted average residual maturity for retail term accounts not withdrawable within a 30-day time horizon, approximates to 9 months.

4 Appendices

4.1 List of Abbreviations

ICRMC	Internal Control Risk Management Committee	CRR	Capital Requirements Regulation
BoD	Board of Directors	P2R	Pillar Two Requirements
BOV	Bank of Valletta (as Group)	P2G	Pillar Two Guidance
LCR	Liquidity Coverage Ratio	RC	Risk Committee
MDB	Malta Development Bank	ExCo	Executive Committee
MFSA	Malta Financial Services Authority	HQLA	High Quality Liquidity Assets
CCF	Credit Conversion Factor	EU	European Union
CCR	Counterparty Credit Risk	RWA	Risk Weighed Exposure Amounts
COVID-19	Coronavirus	SREP	Supervisory Review and Evaluation Process
EBA	European Banking Authority	NSFR	Net Stable Funding Ratio
CET	Common Equity Tier	RAF	Risk Appetite Framework
CCP	Central Clearing Counterparty		
CBR	Combined Buffer Requirement		

4.2 List of Tables

4.3 Qualitative Disclosures

	Pillar 3 Disclosures Location
EU LIQB: Qualitative information on LCR, which complements template EU LIQ1	Section 3

4.4 Non-Applicable Disclosures

	Reason
EU CR8: RWEA flow statements of credit risk exposures under the IRB approach	The Bank does not utilize the IRB approach.
EU CCR7: RWEA flow statements of CCR exposures under the IMM	The Bank does not utilize the IMM approach.
EU MR2-B: RWA flow statements of market risk exposures under the IMA	The Bank does not utilize the IMA approach.