



# BOV

Bank of Valletta

## Pillar 3 Disclosures

30 September, 2021

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

Bank of Valletta p.l.c. is a public limited company regulated by the MFSA and is licensed to carry out the business of banking and investment services in terms of the Banking Act (Cap.371 of the Laws of Malta) and the Investment Services Act (Cap.370 of the Laws of Malta). Bank of Valletta p.l.c. is an enrolled tied insurance intermediary of MAPFRE MSV Life p.l.c. MAPFRE MSV Life is authorised by the MFSA to carry out long term business of insurance under the Insurance Business Act (Cap.403 of the Laws of Malta). Bank of Valletta p.l.c. is authorised to act as a trustee by the MFSA

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## 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 bank, providing banking, financial, and investment services to its 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 make the Bank of Valletta Group. A detailed description of the Group (LEI 529900RWC8ZYB066JF16) is given in the Annual Report and Financial Statements 2020.

# 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 September, 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 3.0' issued by the European Banking Authority in March, 2021.

Through the templates provided based in accordance with EBA recommended guidelines on disclosure requirements – 'Final Report on the Guidelines on disclosure requirements under Part Eight of Regulation No 575/2013 - EBA/GL/2016/11' this quarterly report provides an updated overview of the Group's capital adequacy, risk weighted assets, and liquidity.

This document is not subject to external audit and is based upon information available at the time of compilation. The Pillar 3 disclosures have also been approved by the Group's senior management.

## 2 Overview of the Risk Weighted Exposure Amounts (RWA)

In accordance with Article 438(c) to (f) of the CRR, the Table EU OV1 shows RWA broken down by risk types and model approaches compared to the previous quarter end. It also shows the corresponding own fund requirements. Differently from previous years, the Bank is also allocating capital under the securitisation in view of its first securitisation portfolio related to the MDB COVID Assist scheme.

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

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

Table 1: EU OV1 - Overview of risk weighted exposure amounts

| <i>€ millions</i> |   |                   |                |                              |
|-------------------|---|-------------------|----------------|------------------------------|
|                   |   | RWAs              |                | Total own funds requirements |
|                   |   | 30 September 2021 | 30 June 2021   | 30 September 2021            |
| <b>1</b>          | <b>Credit risk (excluding CCR)</b>  | <b>3,951.5</b>    | <b>3,978.6</b> | 316.1                        |
| <b>2</b>          | <i>Of which the standardised approach</i>                                       | <b>3,951.5</b>    | <b>3,978.6</b> | 316.1                        |
|                   | <i>Central government or central banks</i>                                      | <b>1.0</b>        | <b>1.0</b>     | 0.1                          |
|                   | <i>Regional government or local authorities</i>                                 | <b>11.0</b>       | <b>12.1</b>    | 0.9                          |
|                   | <i>Public sector entities</i>   | <b>36.7</b>       | <b>35.7</b>    | 2.9                          |
|                   | <i>Multilateral development banks</i>   | -                 | -              | -                            |
|                   | <i>International organisations</i>  | -                 | -              | -                            |
|                   | <i>Institutions</i>   | <b>437.2</b>      | <b>461.7</b>   | 35.0                         |
|                   | <i>Corporates</i>   | <b>1,076.1</b>    | <b>1,095.1</b> | 86.1                         |
|                   | <i>Retail</i>   | <b>604.7</b>      | <b>607.7</b>   | 48.4                         |
|                   | <i>Secured by mortgages on immovable property</i>                               | <b>926.3</b>      | <b>878.6</b>   | 74.1                         |
|                   | <i>Exposures in default</i>   | <b>116.1</b>      | <b>139.4</b>   | 9.3                          |
|                   | <i>Items associated with particular high risk</i>                               | <b>107.2</b>      | <b>109.6</b>   | 8.6                          |
|                   | <i>Covered bonds</i>  | -                 | -              | -                            |
|                   | <i>Claims in the form of CIU</i>  | -                 | -              | -                            |
|                   | <i>Equity exposures</i>   | <b>236.5</b>      | <b>235.7</b>   | 18.9                         |
|                   | <i>Other items</i>  | <b>398.7</b>      | <b>402.0</b>   | 31.9                         |
| <b>6</b>          | <b>Counterparty credit risk - CCR</b>   | <b>4.2</b>        | <b>4.0</b>     | 0.3                          |
| EU 8b             | <i>Of which credit valuation adjustment - CVA</i>                               | <b>1.4</b>        | <b>0.8</b>     | 0.1                          |
| <b>9</b>          | <i>Of which other CCR (Mark to Market)</i>                                      | <b>2.8</b>        | <b>3.3</b>     | 0.2                          |
| <b>15</b>         | <b>Settlement risk</b>  | -                 | -              | -                            |
| <b>16</b>         | <b>Securitisation exposures in the non-trading book (after</b>                  | <b>23.0</b>       | <b>19.8</b>    | 1.8                          |
| <b>19</b>         | <i>Of which SEC-SA approach</i>   | <b>23.0</b>       | <b>19.8</b>    | 1.8                          |
| <b>20</b>         | <b>Position, foreign exchange and commodities risks</b>                         | <b>1.8</b>        | <b>1.8</b>     | 0.1                          |
| <b>21</b>         | <i>Of which the standardised approach</i>                                       | <b>1.8</b>        | <b>1.8</b>     | 0.1                          |
| <b>23</b>         | <b>Operational risk</b>   | <b>461.5</b>      | <b>461.5</b>   | 36.9                         |
| EU 23a            | <i>Of which basic indicator approach</i>  | <b>461.5</b>      | <b>461.5</b>   | 36.9                         |
| <b>24</b>         | <b>Amounts below the thresholds for deduction (subject to 250% risk weight)</b> | <b>406.5</b>      | <b>406.4</b>   | 32.5                         |
| <b>29</b>         | <b>Total</b>  | <b>4,442.1</b>    | <b>4,465.7</b> | <b>355.4</b>                 |

\*Own Funds allocated for Commodities Risk is equal to zero

\*Own Funds allocated for Position Risk is equal to zero

## 3 Pillar 3 Disclosures Templates and relevant Key Risk Metrics

In the following table EU KM1 we provide key regulatory metrics and ratios as well as related input components as defined by the amended versions of CRR and CRD. They comprise own funds, RWAs, capital ratios, additional requirements based on SREP, capital buffer requirements, leverage ratio, liquidity coverage ratio and net stable funding ratio. They serve as high level metrics and form part of Group's holistic risk management across individual risk types in addition to the Group specific internal risk metrics. Based on this they are fully integrated across strategic planning, risk appetite framework and stress testing concepts and are reviewed and approved by our Management Board at least annually.

Table 2: EU KM1 – Key Metrics

|   | 30 September<br>2021   | 30 June<br>2021 | 31 March<br>2021 | 31 December<br>2020 | 30 September<br>2020 |          |
|---|--|-----------------|------------------|---------------------|----------------------|----------|
| <i>€ millions except where indicated</i>  |  |                 |                  |                     |                      |          |
| <b>Available own funds</b>  |  |                 |                  |                     |                      |          |
| 1   | Common Equity Tier 1 (CET1) capital  | 946.3           | 952.1            | 937.4               | 941.9                | 905.6    |
| 2   | Tier 1 capital   | 946.3           | 952.1            | 937.4               | 941.9                | 905.6    |
| 3   | Total capital  | 1,109.0         | 1,115.4          | 1,100.1             | 1,105.1              | 1,068.3  |
| <b>Risk-Weighted Assets (RWAs)</b>  |  |                 |                  |                     |                      |          |
| 4   | Total risk-weighted assets   | 4,442.1         | 4,465.7          | 4,463.5             | 4,486.8              | 4,670.7  |
| <b>Risk-based capital ratios as a percentage of RWA</b>   |  |                 |                  |                     |                      |          |
| 5   | Common Equity Tier 1 ratio (%)   | 21.30%          | 21.32%           | 21.00%              | 20.99%               | 19.39%   |
| 6   | Tier 1 ratio (%)   | 21.30%          | 21.32%           | 21.00%              | 20.99%               | 19.39%   |
| 7   | Total capital ratio (%)  | 24.97%          | 24.98%           | 24.65%              | 24.63%               | 22.87%   |
| <b>Additional own funds requirements based on SREP as a percentage of RWA</b>   |  |                 |                  |                     |                      |          |
| EU 7a   | Additional own funds requirements to address risks other than the risk of excessive leverage (%)           | 3.25%           | 3.25%            | 3.25%               | 3.25%                | 3.25%    |
| EU 7b   | of which: to be made up of CET1 capital (percentage points)  | 1.83%           | 1.83%            | 1.83%               | 1.83%                | 1.83%    |
| EU 7c   | of which: to be made up of Tier 1 capital (percentage points)  | 2.44%           | 2.44%            | 2.44%               | 2.44%                | 2.44%    |
| EU 7d   | Total SREP own funds requirements (%)  | 11.25%          | 11.25%           | 11.25%              | 11.25%               | 11.25%   |
| <b>Combined buffer requirement as a percentage of RWA</b>   |  |                 |                  |                     |                      |          |
| 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 (%)  | 2.00%           | 2.00%            | 2.00%               | 2.00%                | 2.00%    |
| 11  | Combined buffer requirement (%)  | 4.50%           | 4.50%            | 4.50%               | 4.50%                | 4.50%    |
| EU 11a  | Overall capital requirements (%)   | 15.75%          | 15.75%           | 15.75%              | 15.75%               | 15.75%   |
| 12  | CET1 available after meeting the total SREP own funds requirements (%)                                     | 10.05%          | 10.07%           | 9.75%               | 9.74%                | 8.14%    |
| <b>Leverage ratio</b>   |  |                 |                  |                     |                      |          |
| 13  | Leverage ratio total exposure measure  | 14,194.4        | 13,994.3         | 13,835.4            | 13,164.1             | 12,997.3 |
| 14  | Leverage ratio (%)   | 6.67%           | 6.80%            | 6.78%               | 7.15%                | 6.97%    |
| <b>Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)</b> |  |                 |                  |                     |                      |          |
| EU 14a  | Additional own funds requirements to address the risk of excessive leverage (%)                            | 0.00%           | 0.00%            | 0.00%               | 0.00%                | 0.00%    |
| EU 14b  | of which: to be made up of CET1 capital (percentage points)  | 0.00%           | 0.00%            | 0.00%               | 0.00%                | 0.00%    |
| EU 14c  | Total SREP leverage ratio requirements (%)   | 0.00%           | 0.00%            | 0.00%               | 0.00%                | 0.00%    |
| <b>Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)</b>                           |  |                 |                  |                     |                      |          |
| EU 14d  | Leverage ratio buffer requirement (%)  | 0.00%           | 0.00%            | 0.00%               | 0.00%                | 0.00%    |
| EU 14e  | Overall leverage ratio requirements (%)  | 3.00%           | 3.00%            | 3.00%               | 3.00%                | 3.00%    |
| <b>Liquidity Coverage Ratio</b>   |  |                 |                  |                     |                      |          |
| 15  | Total high-quality liquid assets (HQLA) (Weighted value - average)   | 5,779.3         | 5,498.4          | 5,515.1             | 5,522.8              | 5,454.5  |
| EU 16a  | Cash outflows - Total weighted value   | 1,960.8         | 1,908.4          | 1,934.6             | 1,900.7              | 1,990.5  |
| EU 16b  | Cash inflows - Total weighted value  | 670.9           | 807.1            | 758.8               | 707.4                | 737.2    |
| 16  | Total net cash outflows (adjusted value)   | 1,289.9         | 1,101.3          | 1,175.8             | 1,193.3              | 1,253.3  |
| 17  | Liquidity Coverage Ratio (%)   | 448%            | 499%             | 469%                | 463%                 | 435%     |
| <b>Net Stable Funding Ratio</b>   |  |                 |                  |                     |                      |          |
| 18  | Total available stable funding   | 11,394.6        | 11,272.4         |                     |                      |          |
| 19  | Total required stable funding  | 6,130.4         | 6,111.5          |                     |                      |          |
| 20  | NSFR ratio (%)   | 186%            | 184%             |                     |                      |          |

The Pillar 3 disclosure obligations require Banks to disclose the 12 months rolling averages each quarter.

Table 3: EU LIQ1 – Quantitative

|                                   |  | Total unweighted value (average) |              |               |                  | Total weighted value (average) |                |                |                  |
|-----------------------------------|--|----------------------------------|--------------|---------------|------------------|--------------------------------|----------------|----------------|------------------|
|                                   |  | 30 September 2021                | 30 June 2021 | 31 March 2021 | 30 December 2020 | 30 September 2021              | 30 June 2021   | 31 March 2021  | 30 December 2020 |
|                                   | Number of data points used in the calculation of averages      | 12                               | 12           | 12            | 12               | 12                             | 12             | 12             | 12               |
| <b>High-Quality Liquid Assets</b> |  |                                  |              |               |                  |                                |                |                |                  |
| 1                                 | Total high-quality liquid assets (HQLA), after application of  | -                                | -            | -             | -                | 5,597.7                        | 5,519.9        | 5,487.8        | 5,340.1          |
| <b>Cash-Outflows</b>              |  |                                  |              |               |                  |                                |                |                |                  |
| 2                                 | retail deposits and deposits from small business customers     | 7,421.1                          | 7,196.6      | 7,002.1       | 6,816.1          | 487.0                          | 474.1          | 462.8          | 450.2            |
|                                   | <i>of which:</i>   |                                  |              |               |                  |                                |                |                |                  |
| 3                                 | Stable deposits  | 5,204.7                          | 5,008.8      | 4,844.4       | 4,720.6          | 260.2                          | 250.4          | 242.2          | 236.0            |
| 4                                 | Less stable deposits   | 2,216.5                          | 2,187.8      | 2,157.7       | 2,095.5          | 226.7                          | 223.7          | 220.6          | 214.2            |
| 5                                 | Unsecured wholesale funding                                    | 2,770.3                          | 2,773.9      | 2,772.5       | 2,728.4          | 1,235.9                        | 1,250.8        | 1,251.3        | 1,241.0          |
| 6                                 | Operational deposits (all counterparties) and deposits in      | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 7                                 | Non-operational deposits (all counterparties)                  | 2,770.3                          | 2,773.9      | 2,772.5       | 2,722.4          | 1,235.8                        | 1,250.7        | 1,251.3        | 1,235.0          |
| 8                                 | Unsecured debt   | 0.0                              | 0.0          | 0.0           | 6.0              | 0.0                            | 0.0            | 0.0            | 6.0              |
| 9                                 | Secured wholesale funding                                      | -                                | -            | -             | -                | 7.6                            | 6.7            | 8.0            | 5.1              |
| 10                                | Additional requirements  | 1,894.3                          | 1,842.9      | 1,799.9       | 1,750.3          | 158.9                          | 154.3          | 148.8          | 141.9            |
| 11                                | Outflows related to derivative exposures and other collateral  | 0.8                              | 1.2          | 1.5           | 1.5              | 0.8                            | 1.2            | 1.5            | 1.5              |
| 12                                | Outflows related to loss of funding on debt products           | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 13                                | Credit and liquidity facilities                                | 1,893.5                          | 1,841.7      | 1,798.3       | 1,748.8          | 158.1                          | 153.1          | 147.2          | 140.4            |
| 14                                | Other contractual funding obligations                          | 53.2                             | 48.9         | 43.5          | 30.9             | 51.1                           | 46.9           | 41.6           | 29.3             |
| 15                                | Other contingent funding obligations                           | 136.1                            | 133.8        | 132.4         | 142.6            | 6.8                            | 6.7            | 6.6            | 19.1             |
| 16                                | <b>Total Cash Outflows</b>                                     | <b>-</b>                         | <b>-</b>     | <b>-</b>      | <b>-</b>         | <b>1,947.3</b>                 | <b>1,939.6</b> | <b>1,919.1</b> | <b>1,886.6</b>   |
| <b>Cash-inflows</b>               |  |                                  |              |               |                  |                                |                |                |                  |
| 17                                | Secured lending (e.g. reverse repos)                           | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 18                                | Inflows from fully performing exposures                        | 838.0                            | 840.3        | 853.6         | 884.7            | 626.4                          | 626.2          | 637.9          | 663.1            |
| 19                                | Other cash inflows   | 96.5                             | 99.1         | 94.7          | 93.8             | 96.5                           | 99.1           | 94.7           | 93.7             |
| 19a                               | (Difference between total weighted inflows and total weighted) | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 19b                               | (Excess inflows from a related specialised credit institution) | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 20                                | <b>Total Cash-Inflows</b>                                      | <b>934.5</b>                     | <b>939.4</b> | <b>948.4</b>  | <b>978.4</b>     | <b>722.9</b>                   | <b>725.4</b>   | <b>732.6</b>   | <b>756.8</b>     |
| 20a                               | Fully exempt inflows   | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 20b                               | Inflows subject to 90% cap                                     | -                                | -            | -             | -                | -                              | -              | -              | -                |
| 20c                               | Inflows subject to 75% cap                                     | 934.5                            | 939.4        | 948.4         | 978.4            | 722.9                          | 725.4          | 732.6          | 756.8            |
| <b>Total Adjusted Buffer</b>      |  |                                  |              |               |                  |                                |                |                |                  |
| 21                                | Liquidity Buffer   | -                                | -            | -             | -                | 5,597.7                        | 5,519.9        | 5,487.8        | 5,340.1          |
| 22                                | Total Net Cash Outflows  | -                                | -            | -             | -                | 1,224.4                        | 1,214.2        | 1,186.5        | 1,129.8          |
| 23                                | Liquidity Coverage Ratio                                       | -                                | -            | -             | -                | 458.1%                         | 455.5%         | 464.8%         | 476.1%           |

## 4 Main Movements

### 4.1 Liquidity Risk

The LCR is intended to promote the short-term resilience of a bank's liquidity risk profile over a 30-day stress scenario. The ratio is defined as the amount of High-Quality Liquid Assets ("HQLA") that could be used to raise liquidity, measured against the total volume of net cash outflows, arising from both contractual and modelled exposures, in a stressed scenario. The Bank calculates and monitors the LCR in line with the relative regulatory dictum – Commission Delegated Regulation (EU) 2015/61 – on a monthly basis. LCR captures all significant cash inflows and cash outflows over a one-month time horizon and for disclosure purposes, Group's LCR is calculated using a twelve-month average which is measured using monthly calculations during the quarter. As at end of September 2021, the Bank was well positioned with an LCR of 448.05% (June 2021, 499.25%). This ratio shows a resilient liquidity framework and exceeds the minimum threshold of 100% representing full ratio phase-in as from 2021.

The absolute quarterly decrease of 51.2% in the LCR (relative 10.26% decrease) is mainly attributed to several constituent elements. On the part of 'Outflows', the main drivers consisted of increases in non-operational deposits, committed facilities and retail deposits, while other liabilities experienced a decline. This resulted into a 2.74% increase on outflows from the previous quarter. On the other hand, 'Inflows' exhibited a relative quarter-on-quarter decrease of around 16.87% mainly attributable to declines in securities falling due within a month of reporting date (September 2021) and in monies due from financial customers.

Such movements resulted in a significant increase in the Net Liquidity Outflows (LCR denominator). This, together with a rise of 5.11% in the Liquidity Buffer (LCR numerator), resulted in the abovementioned LCR decline during the quarter. Nevertheless, the end-of-quarter LCR value of 448.05% continued to exhibit a very robust level over four-and-a-half times the regulatory minimum attesting to BOV's resilient liquidity risk profile.