Bank of Valletta p.l.c.

Half Yearly Report

1 January 2021 to 30 June 2021

BOV

Bank of Valletta

CONTENTS

Chairman's Message to Shareholders

Gordon Cordina

"Your Bank staged a revival in profitability during the first half of 2021"

I am pleased to present our Shareholders with the Half Yearly Financial Statements for the first half of 2021.

The performance of your Bank during the period continued to be conditioned by the uncertainty surrounding the pandemic. The economy is showing strong potential for an effective re-start through tourism and related activities, but this is likely to take place in gradual steps. One of the longer term costs of the recent resilience of our economy is a higher level of public debt, which needs to be carefully managed over the coming years.

Your Bank staged a revival in profitability during the first half of 2021. The return on equity, at 4.8%, however remains way below its longer term potential. A return to a stable and predictable dividend is not advisable at this stage, given the risks in the overall economic environment, the litigation risks facing the Bank, and the need for capital to support the Bank's ongoing transformation strategy over the coming months. This view is consistent with regulatory recommendations which prevailed in the first half of the year.

It is nevertheless encouraging to note that Bank of Valletta remains profitable, well-capitalised and liquid, as it emerges from the stresses imposed by the pandemic on its lending portfolio and other assets. Also, greylisting has not implied any immediate significant concerns, thanks to the de-risking programme implemented by the Bank which accelerated in recent months and which is expected to be completed in the current year. A significant prolongation of greylisting status could however have important longer term implications for the Bank's performance.

Prospects for the second half of 2021 point to a continued economic recovery and the rollout of the first tangible results of the transformation strategy. The Bank will nevertheless retain its prudent stance towards credit provisioning, sustain its efforts to combat financial crime in all of its forms, while ensuring that its systems and operating methods become more customer-centric.

The Board will be actively reviewing its dividend policy later in the year as results are crystallised, the strength of our capital to meet future risks is better ascertained, and in line with the recommendations of our regulators.

I thank our Shareholders for their continued support, as well as our Executive Team and staff for their sterling efforts, meeting and exceeding expectations in these extraordinary times.

"Prospects for the second half of 2021 point to a continued economic recovery and the rollout of the first tangible results of the transformation strategy"

Gordon Cordina
Chairman
29 July 2021

Chief Executive Officer's Message

Rick Hunkin

Group 1H 2021 highlights

Reported profit before tax

€25.9m

(1H 2020: €13.8m)

Return on equity

4.8%

(1H 2020: 2.6%)

Common equity tier 1 capital ratio

20.9%

(December 2020: 20.9%)

> We are investing in new technology and streamlining processes as well as undertaking a significant restructuring of our operating models

The Bank embarked on BOV 2023 Strategy - a major transformation programme that will see us deliver significant improvements in our customer servicing capabilities. We are investing in new technology and streamlining processes as well as undertaking a significant restructuring of our operating models. This will be supplemented by branch redesign and refurbishment over the next two years. All of this is being delivered whilst retaining our focus on risk and compliance and continuing to address developing regulatory requirements.

Investing in this way will make us a better Bank in the long term and deliver more sustainable profitability.

> Investing in this way will make us a better Bank in the long term and deliver more sustainable profitability

Such transformation is always a challenging time and I particularly want to express my thanks to our colleagues who are having to deal with major change and challenging workloads. Without their support and dedication such change would not be possible. My Executive team and I are committed to delivering our strategy as agreed with the Board and will provide all the support we can to our colleagues throughout the business. As we move forward our new approach will offer more development and progression opportunities for our staff as we seek to reduce bureaucracy and empower and reward our best talent. To do this, we will make targeted new recruits from whom our existing colleagues can learn new techniques relevant to today's banking environment.

Our strategy is already starting to deliver early benefits and I am confident in the longer term we will deliver more for all our stakeholders.

Rick Hunkin
Chief Executive Officer
29 July 2021

Group financial performance

Bank of Valletta Group reported a profit before tax for the first half of the financial year 2021 of €25.9 million (1H 2020: €13.8 million), representing a return on equity (pre-tax) of 4.8% (1H 2020: 2.6%). This result includes the effect of investment activities in Anti-Financial Crime Transformation and BOV 2023 Strategy of €17.1 million (1H 2020: €5.8 million). While the Group is maintaining a cautious stance as the COVID-19 situation remains relatively uncertain, credit provisions saw a net *release* of €3 million for first half of 2021 (1H 2020: €7.5 million *charge*) with significant movements across a number of different components as depicted in table below:

In €m	1H 2021	1H 2020	△
1. ECLs: predominantly COVID-19	5.4	9.9	(4.5)
2. ECLs: long outstanding non-performing loans	8.3	-	8.3
Total specific impairments:	**13.7**	**9.9**	**3.8**
3. Non performing debt recovery	(8.7)	(3.7)	(5.0)
ECL model update and non-performing debt write-offs	(8.0)	1.3	(9.3)
Net impairment (reversal)/charge	**(3.0)**	**7.5**	**(10.5)**

1. Impairment charges predominantly attributed to COVID-19 of €5.4 million reflected three factors:
   - reviews of specific sectors and individually significant exposures to determine any material increase in credit risk profile;
   - adjustments to model assumptions in respect of sectors considered to face potentially high and medium risk impact from COVID-19. Performing exposures operating in these sectors have not yet experienced asset deterioration but may be subject to a higher probability of default. The resulting charge and previous provisions from December 2020 will be re-assessed again at the end of the financial year; and
   - updates to IFRS 9 model with the latest Central Bank of Malta economic forecasts which showed a more positive outlook than in December 2020.

2. An additional impairment charge amounting to €8.3 million was taken in 1H 2021 in respect of long outstanding non-performing loans. This supports the Group's cautious view to better reflect the current economic circumstances as also guided by regulatory requirements. Provisions on non-performing debt would be released either on settlement or upon improvements in performance.

3. Increased efforts to boost recoveries from past debts during the first half of 2021 are starting to yield results and are expected to continue to do so in the second half of 2021.

Excluding the impact of investment in Transformation and Strategy, and credit provisions, the underlying profit stood at €39.9 million in 1H 2021 (1H 2020: €27 million). The increased underlying profit was driven by higher operating revenues, lower operating costs and improved performance from our associates:

- Net interest income of €73.4 million (1H 2020: €72.3 million) was underpinned by a steady growth in home loans and in corporate loans issued in support of businesses under the BOV MDB Covid-19 Assist scheme. Growth in deposits coupled with persistent negative interest rates continued to exert pressure on our net interest margin, as did the redemption of securities previously generating positive returns which continue to be reinvested at lower or negative rates. The headwinds challenging our net interest revenue were offset by lower cost of funding, also as the Group's €71 million 4.8% subordinated bond matured in 1Q 2020.

- Commission and Trading revenues of €40.4 million (1H 2020: €36.3 million) benefited from the relaxation of COVID-19 restrictions which in 2020 had severely impacted business lines such as cards and payments. Activity in 2021 however still remains below 2019 levels. Furthermore, the results for the first half of the year included a €1.5 million refund of customer fees and charges which had been introduced late last year. A review of these with the regulator is ongoing. Subdued volumes continued in the foreign exchange business due to reduced foreign trade and travel. A gain on Visa shares held of €1.2 million contributed to Operating Income in first half of 2021.

- Operating costs decreased to €81.5 million as at end of June (1H 2020: €83.7 million) reflecting lower consultancy costs as some aspects of our de-risking programme reached completion, partly offset by an operating loss of circa €1.0 million due to the cost of refunding customers who were recently targeted in fraudulent scams.

- The share of profit from insurance associates for the first six-month period was €7.6 million (1H 2020: €2.1 million). The increase in profitability was largely driven by an increase in market value of investments and higher written premiums.

Financial position

The Group's total assets were €13.7 billion as at June 2021 which was 6.4% higher than December 2020. The funding of the Bank remains through customer deposits with more than half of these driven by retail deposits. Customers continued to prefer short-term deposit products and channelled their savings into the banking system due to the lack of more beneficial opportunities in the market.

Net loans and advances as at end June 2021 were just below the €5 billion mark, with a growth rate of 3.9% over December 2020. BOV provided substantial customer support through payment moratoria and provision of government guaranteed funding to business customers through our BOV MDB COVID-19 assist scheme. These measures, which were granted to eligible customers in line with CBM Directive 18, were key in alleviating business specific liquidity shortages inevitably brought about by the pandemic. The loan book was also sustained by a continued growth in home loans.

Despite the momentum in the loan book, the liquidity position remained very strong with cash and short-term funds increasing by €365 million in the first half. This significant increase primarily arose after the Bank participated in the TLTRO III Eurosystem funding during the first quarter of 2021. This funding seeks to support lending growth in banks, and as we are achieving growth the funding cost is negative, contributing to lower overall funding cost. This also supports our desire to maintain our position as a key player in the provision of finance to local businesses and households.

The pressure of excess liquidity continued to be mitigated, to the extent possible, by investments in both local and foreign securities. The majority of treasury assets are measured at amortised cost reflecting the Bank's primary business model to hold securities until maturity, collecting interest revenues over the life of the investment. The risk appetite for investment quality remained unchanged with asset quality of more than 90% in A- or higher.

The Group's capital ratios remained stable, with the CET 1 and total capital ratios as at June 2021 of 20.9% and 24.5% respectively. With the Deiulemar claim still outstanding and the current COVID-19 uncertainties, the Board has committed to maintain strong capital reserves and has responsibly decided not to declare any interim dividend for the first half of 2021. The position will be assessed again at the end of the year.

Litigation update

The Deiulemar litigation situation has not changed during the last six months. The Group maintains its position, based upon robust legal opinions (including one from Italy's leading independent and specialist authority in these areas), that this claim is wholly without merit. An offer to settle out of court made last year was based solely upon a desire to end this long-standing matter quickly to remove uncertainty and avoid costs associated with addressing the matter. This would also enable us to make a more effective use of its capital surplus. Significant efforts continue on a number of fronts to resolve this situation and no additional provision for litigation is considered necessary.

'Greylisting' of Malta

On 25 June, the Financial Action Task Force placed Malta on the so-called greylist. The Maltese authorities have pledged continued commitment to fight money laundering and the financing of international terrorism and implement the required reforms.

The greylisting is not expected to have an immediate impact on the Bank's operations and rating. However, greylisting could raise transaction costs and impact cross-border transaction flows for the whole banking sector. Increased monitoring by foreign banks and counterparts is also expected. Initial indications are that our international trading partners had factored in such an eventuality, but we will watch closely as there remains a risk that a prolonged period before removal from the grey list may lead to some potentially changing their view.

The Group has robust policies and disciplined practices to support its commitment to protect its customers and society from financial crime. Over the past years, we invested heavily in a comprehensive AFC transformation programme and as a result strengthened the Anti-Financial Crime controls and enhanced its automated systems for the monitoring of payments and transactions and customer screening, amongst others.

Strategy BOV 2023 - 1H Update

The BOV 2023 Strategy continues to build momentum in the first half of 2021. In the first 6 months, we moved key workstreams forward and started to deliver tangible benefits. Building on the achievements to significantly reduce over-the-counter transactions and cheques processed and encashed in branches, we have also increased the customers' usage of our online platform and digital application. As part of the Strategy to improve the customer experience, we have delivered new customer facing solutions for our Investment advisors with significant reduction in time to collect all the requisite information and assess suitability in line with regulatory requirements. New Digital factories have been established to deliver improvements and simplification across Account Opening, Web and Mobile applications and Home Loans allowing our front-line colleagues more time with our customers.

Underpinning the Strategy is a significant investment in systems, people and controls. To date, we have already embraced reskilling with training of our employees. In the first half of this year, more than 600 colleagues went through targeted training programmes to enhance customer service and meet customer needs more effectively.

Finally, the Group continues to build on our solid foundations put in place by the Risk Transformation and de-risking programmes. We continue to invest in our Risk, Compliance and Audit functions, resourcing them with the necessary manpower and giving them effective tools and training to perform at their best.

Closing statement

The Board's decision to not pay a dividend for the period despite the general improvement in performance and profitability is justified by the exceptional and uncertain circumstances in our operating environment. The Strategy which BOV embarked on will deliver long-term sustainability and once the outlook on prevailing risks becomes less uncertain, we anticipate a return to a more stable and predictable dividend.

The Board expresses its gratitude to all employees for their continued perseverance during these challenging times as we embark upon a significant transformation programme. Coping with such change can be difficult and we will continue to do all we can to help manage our team through this. The Board together with the Executive management team firmly believe that employees, customers and shareholders appreciate the need for change in order to improve our quality of service to our customers and longer-term profitability and sustainability.

Statement of Responsibility by the Directors pursuant to Listing Rules

We, the undersigned, confirm that to the best of our knowledge the condensed interim financial statements as at 30 June 2021 have been prepared, in all material respect, in accordance with International Financial Reporting Standards as adopted by the EU applicable to IAS 34 *Interim Financial Reporting* and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries.

Approved by the Board of Directors and authorised for issue on 29 July 2021 and signed on its behalf by:

Dr. Gordon Cordina Chairman	Mr. Rick Hunkin CEO & Executive Director

Statements of Profit or Loss

for the six months ended 30 June 2021

	The Group		The Bank	
	Jun-21	Jun-20	Jun-21	Jun-20
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	83,267	82,795	83,267	82,795
- on debt and other fixed income instruments	9,662	13,316	9,662	13,316
Interest expense	(19,488)	(23,773)	(19,488)	(23,773)
Net interest income	73,441	72,338	73,441	72,338
Fee and commission income	38,299	35,904	33,518	31,435
Fee and commission expense	(4,030)	(4,337)	(4,030)	(4,337)
Net fee and commission income	34,269	31,567	29,488	27,098
Dividend income	140	160	1,639	1,180
Net trading income	5,966	3,847	5,940	3,912
Net gain on investment securities and hedging instruments	5	716	5	716
Operating income	113,821	108,628	110,513	105,244
Employee compensation and benefits	(41,117)	(41,098)	(39,814)	(39,619)
General administrative expenses	(47,583)	(38,538)	(46,828)	(37,909)
Amortisation of intangible assets	(5,678)	(5,733)	(5,678)	(5,733)
Depreciation	(4,207)	(4,125)	(4,078)	(4,005)
Net impairment reversal/(charge)	3,009	(7,462)	3,009	(7,462)
Operating profit	**18,245**	**11,672**	**17,124**	**10,516**
Share of results of equity-accounted investees, net of tax	7,633	2,086	-	-
Profit before tax	**25,878**	**13,758**	**17,124**	**10,516**
Income tax expense	(6,438)	(3,678)	(6,043)	(3,265)
Profit for the period	**19,440**	**10,080**	**11,081**	**7,251**
Earnings per share	**3.3c**	**1.7c**	**1.9c**	**1.2c**

Statements of Profit or Loss and Other Comprehensive Income

for the six months ended 30 June 2021

BOV
Bank of Valletta

	The Group		The Bank	
	Jun-21	Jun-20	Jun-21	Jun-20
	€000	€000	€000	€000
Profit for the period	19,440	10,080	11,081	7,251
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Debt investments at FVOCI				
- change in fair value	(282)	(5,953)	(282)	(5,953)
tax thereon	99	2,083	99	2,083
- change in fair value transferred to profit or loss	-	(652)	-	(652)
tax thereon	-	228	-	228
	(183)	(4,294)	(183)	(4,294)
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	(1,509)	878	(1,509)	878
tax thereon	528	(307)	528	(307)
	(981)	571	(981)	571
Remeasurement of actuarial losses on defined benefit plans	(98)	101	(98)	101
tax thereon	34	(35)	34	(35)
	(64)	66	(64)	66
Other comprehensive income for the period, net of tax	(1,228)	(3,657)	(1,228)	(3,657)
Total comprehensive income for the period	**18,212**	**6,423**	**9,853**	**3,594**

Statements of Financial Position

as at 30 June 2021

	The Group		The Bank	
	Jun-21	Dec-20	Jun-21	Dec-20
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	4,227,392	3,798,449	4,227,392	3,798,449
Financial assets at fair value through profit or loss	161,327	168,500	161,166	168,340
Investments	3,547,344	3,279,412	3,547,344	3,279,412
Loans and advances to banks	415,013	479,409	415,013	479,409
Loans and advances to customers at amortised cost	4,927,736	4,741,443	4,927,736	4,741,443
Investments in equity-accounted investees	138,638	111,999	72,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	56,940	59,666	56,940	59,666
Property and equipment	127,235	128,646	126,267	128,155
Current tax	15,183	26,759	16,200	26,093
Deferred tax	89,700	91,259	89,700	91,259
Assets held for realisation	9,640	9,958	9,640	9,958
Other assets	7,153	5,251	7,960	5,257
Prepayments	9,980	10,020	7,660	9,125
Total Assets	**13,733,281**	**12,910,771**	**13,672,118**	**12,855,666**
LIABILITIES				
Financial liabilities at fair value through profit or loss	7,443	12,391	7,443	12,391
Amounts owed to banks	569,384	88,031	569,384	88,031
Amounts owed to customers	11,558,411	11,272,289	11,566,393	11,277,692
Deferred tax	6,187	6,186	6,187	6,186
Other liabilities	207,501	161,016	206,363	160,396
Provisions	112,010	113,880	112,010	113,880
Accruals and deferred income	361	601	-	-
Derivatives designated for hedge accounting	13,410	16,015	13,410	16,015
Subordinated liabilities	163,237	163,237	163,237	163,237
Total Liabilities	12,637,944	11,833,646	12,644,427	11,837,828
EQUITY				
Called up share capital	583,849	583,849	583,849	583,849
Share premium account	49,277	49,277	49,277	49,277
Revaluation reserves	54,313	55,477	54,201	55,365
Retained earnings	407,898	388,522	340,364	329,347
Total Equity	1,095,337	1,077,125	1,027,691	1,017,838
Total Liabilities and Equity	**13,733,281**	**12,910,771**	**13,672,118**	**12,855,666**
MEMORANDUM ITEMS				
Contingent liabilities	**293,131**	**285,775**	**293,131**	**285,775**
Commitments	**1,985,013**	**1,818,970**	**1,985,013**	**1,818,970**

Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. The appropriation to the "Reserve for General Banking Risks" shall be effected from the profits for the year. As at the reporting date this reserve amounts to €4.9 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 29 July 2021 and signed on its behalf by:

Dr. Gordon Cordina
Chairman

Mr. Rick Hunkin
CEO & Executive Director

Statements of Changes in Equity

for the six months ended 30 June 2021

The Group	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
At 1 January 2020	**583,849**	**49,277**	**54,898**	**374,281**	**1,062,305**
Profit for the period	-	-	-	10,080	**10,080**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(3,870)	-	**(3,870)**
- change in fair value transferred to profit or loss, net of tax	-	-	(424)	-	**(424)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	571	-	**571**
- change in fair value transferred to retained earnings, net of tax	-	-	(162)	162	**-**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	66	**66**
Total other comprehensive income	-	-	(3,885)	228	**(3,657)**
Total comprehensive income for the period	-	-	**(3,885)**	**10,308**	**6,423**
At 30 June 2020	**583,849**	**49,277**	**51,013**	**384,589**	**1,068,728**
At 1 January 2021	**583,849**	**49,277**	**55,477**	**388,522**	**1,077,125**
Profit for the period	-	-	-	19,440	**19,440**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(183)	-	**(183)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(981)	-	**(981)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(64)	**(64)**
Total other comprehensive income	-	-	(1,164)	(64)	**(1,228)**
Total comprehensive income for the period	-	-	**(1,164)**	**19,376**	**18,212**
At 30 June 2021	**583,849**	**49,277**	**54,313**	**407,898**	**1,095,337**

Statements of Changes in Equity

for the six months ended 30 June 2021 *(continued)*

BOV Bank of Valletta

The Bank	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
At 1 January 2020	**583,849**	**49,277**	**54,786**	**327,242**	**1,015,154**
Profit for the period	-	-	-	7,251	**7,251**
Other comprehensive income					
Debt investments at FVOCI - change in fair value, net of tax	-	-	(3,870)	-	**(3,870)**
- change in fair value transferred to profit or loss, net of tax			(424)		**(424)**
Equity investments at FVOCI - change in fair value, net of tax	-	-	571	-	**571**
- change in fair value transferred to retained earnings, net of tax	-	-	(162)	162	**-**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	66	**66**
Total other comprehensive income	-	-	(3,885)	228	**(3,657)**
Total comprehensive income for the period	**-**	**-**	**(3,885)**	**7,479**	**3,594**
At 30 June 2020	**583,849**	**49,277**	**50,901**	**334,721**	**1,018,748**
At 1 January 2021	**583,849**	**49,277**	**55,365**	**329,347**	**1,017,838**
Profit for the period	-	-	-	11,081	**11,081**
Other comprehensive income					
Debt investments at FVOCI - change in fair value, net of tax	-	-	(183)	-	**(183)**
Equity investments at FVOCI - change in fair value net of tax	-	-	(981)	-	**(981)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(64)	**(64)**
Total other comprehensive income	-	-	(1,164)	(64)	**(1,228)**
Total comprehensive income for the period	-	-	**(1,164)**	**11,017**	**9,853**
At 30 June 2021	**583,849**	**49,277**	**54,201**	**340,364**	**1,027,691**

Statements of Cash Flows

for the six months ended 30 June 2021

	The Group		The Bank	
	Jun-21	Jun-20	Jun-21	Jun-20
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	135,659	132,740	130,856	128,477
Interest, commission and compensation payments	(20,631)	(24,511)	(20,631)	(24,588)
Payments to employees and suppliers	(90,868)	(79,636)	(86,384)	(77,528)
Operating profit before changes in operating assets and liabilities	24,160	28,593	23,841	26,361
(Increase)/decrease in operating assets:				
Loans and advances	(187,135)	(102,317)	(187,135)	(102,317)
Reserve deposit with Central Bank of Malta	(6,501)	(4,524)	(6,501)	(4,524)
Fair value through profit or loss financial assets	(10,251)	23,153	(10,256)	23,153
Fair value through profit or loss equity instruments	(230)	4,232	(229)	4,233
Treasury bills with original maturity of more than 3 months	45,507	(173,929)	45,507	(173,929)
Other assets	(988)	37,796	(1,789)	37,795
Increase/(Decrease) in operating liabilities:				
Amounts owed to banks and customers	284,741	510,253	287,320	512,619
Other liabilities	40,791	(2,249)	40,049	(3,194)
Net cash from operating activities before tax	190,094	321,008	190,807	320,197
Tax received/(paid)	7,258	(5,885)	5,970	(5,090)
Net cash from operating activities	197,352	315,123	196,777	315,107
Cash flows from investing activities				
Dividends received	1,134	160	1,639	160
Interest received from amortised and other fixed income instruments	20,937	12,444	20,937	12,444
Investment in equity-accounted investees	(20,000)	-	(20,000)	-
Proceeds on sale of equity investments	-	562	-	562
Purchase of debt instruments	(517,674)	(765,468)	(517,674)	(765,468)
Proceeds from sale or maturity of debt instruments	246,718	506,930	246,718	506,930
Purchase of property and equipment and intangible assets	(4,769)	(8,585)	(4,764)	(8,579)
Net cash used in investing activities	(273,654)	(253,957)	(273,144)	(253,951)
Cash flows from financing activities				
Proceeds from TLTRO III Borrowings	500,000	-	500,000	-
Repayment of Long Term Borrowings	-	(70,000)	-	(70,000)
Interest paid on Long Term Borrowings	(2,887)	(3,567)	(2,887)	(3,567)
Payment of Lease Liability	(967)	(832)	(902)	(822)
Net cash from/(used in) financing activities	496,146	(74,399)	496,211	(74,389)
Net change in cash and cash equivalents	**419,844**	**(13,233)**	**419,844**	**(13,233)**
Effect of exchange rate changes on cash and cash equivalents	(120)	1,462	(120)	1,462
Net change in cash and cash equivalents after effect of exchange rate changes	419,964	(14,695)	419,964	(14,695)
Net change in cash and cash equivalents	419,844	(13,233)	419,844	(13,233)
Cash and cash equivalents at 1 January	3,950,672	3,968,868	3,950,672	3,968,868
Cash and cash equivalents at 30 June	**4,370,516**	**3,955,635**	**4,370,516**	**3,955,635**

1. Reporting entity

Bank of Valletta p.l.c ('the Bank') is a credit institution incorporated and domiciled in Malta with its registered address at 58, Triq San Żakkarija, Il-Belt Valletta. The condensed interim financial statements of the Bank for the six months ended 30 June 2021 include the Bank, subsidiaries and equity-accounted investees (together referred to as the 'the Group').

Th audited financial statements of the Group as at and for the year ended 31 December 2020 are provided upon request from the Bank's registered office and are available for viewing on its website at www.bov.com.

2. Basis of preparation

The published figures have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU. The condensed half yearly financial statements have been extracted from Bank of Valletta's unaudited management accounts for the six months ended 30 June 2021, and have been reviewed in accordance with ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The half yearly results are being published in terms of Chapter 5 of the Listing Rules of the Malta Financial Services Authority.

These condensed half yearly financial statements should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2020. The significant accounting policies used in the preparation of these condensed half yearly financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2020. These policies are described in Note 1 of the Bank's audited financial statements for the year ended 31 December 2020. New standards which came into effect as of 1 January 2021 are mentioned in note 2.1 below.

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. Any changes to the judgements as at 31 December 2020 made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period have been disclosed in the financial statements.

During the first quarter of 2021, the Bank participated in the third targeted longer-term refinancing operations (TLTRO III) Eurosystem funding. A negative borrowing rate applies on this loan depending on the lending patterns of the Bank. The reduced interest rate is subject to the achievement of predefined lending performance thresholds and interest will be settled in arrears on the maturity of the TLTRO III operation or on early repayment. This will contribute to mitigate the costs of funding liabilities through which the Bank will continue to sustain its position as a key player in the provision of finance to local businesses and households. In preparing these condensed interim financial statements, management has recognised the TLTRO III Eurosystem funding as a financial liability at amortised cost in accordance with the requirements of IFRS 9 *Financial Instruments*. Negative interest on this loan is calculated using the effective interest rate.

As required by IAS 34 *Interim Financial Reporting*, these condensed half yearly financial statements include the comparative statements of financial position information as of 31 December 2020, and the comparative statements of profit or loss, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the period ended 30 June 2020.

Related party transactions with other components of the BOV Group covering the period from 1 January to 30 June 2021 have not materially affected the performance for the period under review.

2.1 Adoption of new standards / amendments:

The following amendments to standards were effective from 1 January 2021 but did not have a material effect on the Group's financial statements.
(i) Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform Phase 2.

Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group does not have significant exposure to interbank offered rates ('IBOR') on its financial instruments that will be affected as part of this market-wide initiative. The Group does not anticipate that the IBOR reform will have significant operational, risk management and accounting impacts across its business lines.

The Bank has entrusted the Compliance unit, together with Treasury function and Business Banking to manage its transition to alternative rates. Its objective include evaluating the extent to which loans granted and the Group's financial liabilities are based on IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform, tackling data feed issues affecting our core banking system and how to manage communication about IBOR reform with counterparties.

The majority of the Bank's loan portfolio contracts are priced against the Bank's base rate and only a very small fraction are pegged to a floating interbank offered rate. The Bank's LIBOR referenced facilities will be replaced by alternative risk-free rates as from 1Q 2022 whilst the EURIBOR referenced facilities will remain undisturbed as long as the reformed EURIBOR continues to be published. To this effect, a Contingency Plan is being drafted including fallback provisions to outline the actions to be taken following the cessation or unavailability of a floating rate.

The Bank has no floating-rate financial liabilities. All deposit products are linked to fixed rates of interest that do not depend on IBOR.

With respect to derivative instruments, the Bank holds such positions for risk management purposes only. The interest rate derivatives instruments all have receive-floating legs that are IBOR indexed and are entered into as economic fair value hedges. The Bank did not designate any derivatives as hedging instruments in cash flow hedges.

As a result of the limited exposure to IBOR related financial instruments, the Group does not anticipate that the IBOR reform will have significant operational, risk management and accounting impact across the business lines.

3. Segment information

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20	Jun-21	Jun-20
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
The Group										
Operating income for the six months	58,413	55,866	55,331	53,566	8,165	9,635	(8,088)	(10,439)	113,821	108,628
Profit before taxation for the six months	11,524	8,140	34,198	34,593	12,555	8,566	(32,399)	(37,541)	25,878	13,758

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-21	Dec-20	Jun-21	Dec-20	Jun-21	Dec-20	Jun-21	Dec-20	Jun-21	Dec-20
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Total Assets	2,607,806	2,478,324	2,533,306	2,483,969	3,949,764	3,670,620	4,642,405	4,277,858	13,733,281	12,910,771
Total Liabilities	2,842,840	2,699,706	3,254,533	2,897,852	3,793,230	3,499,490	2,747,341	2,736,598	12,637,944	11,833,646

4. Provisions and Contingent Liabilities

(a) Litigation Provisions

Bank of Valletta is party to legal proceedings arising out of its normal business operations. Matters arising from a set of similar circumstances can give rise to either a provision or a contingent liability, depending on the relevant facts and circumstances. The recognition of provisions and disclosure of contingent liabilities in relation to such matters involves critical accounting estimates and judgements and is determined in accordance with the relevant accounting policies. At each reporting date, the status of each significant loss contingency is reviewed to assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, a liability for the estimated loss is provided for.

Due to the uncertainties inherent in such matters, provisions on the principal legal cases that have been disclosed in note 33 of the 2020 Financial Statements of the Bank, are based on the best information available at the reporting date. On the basis that no significant developments happened on the principal legal cases, the provision of €80 million recorded as at 31 December 2020 was retained as at 30 June 2021.

(b) Financial Guarantees and Loan Commitment Provisions

Refer to Note 8 for impact of expected credit losses on loan commitments and financial guarantee contracts during the six months to 30 June 2021.

5. Fair value measurement

5.1 Fair value hierarchy

Level 1 in the fair value hierarchy represents quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 in the fair value hierarchy represents inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 in the fair value hierarchy represents unobservable inputs.

5.2 Fair Value hierarchy of assets and liabilities measured at fair value

The Group

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 June 2021				
Assets				
Treasury Bills	-	378,323	-	378,323
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	9,176	16	-	9,192
- equity and other non-fixed income instruments	683	21,519	11,079	33,281
- loans and advances	-	116,670	-	116,670
- derivative financial instruments	-	2,184	-	2,184
Investments				
Debt and other fixed income instruments				
- FVOCI	51,033	-	71,322	122,355
Equity and other non-fixed income instruments				
- FVOCI	13,204	7,070	-	20,274
	74,096	**525,782**	**82,401**	**682,279**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	7,443	-	7,443
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	13,410	-	13,410
	-	**20,853**	**-**	**20,853**

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2020				
Assets				
Treasury Bills	-	158,218	-	158,218
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	9,414	16	-	9,430
- equity and other non-fixed income instruments	603	20,539	10,227	31,369
- loans and advances	-	125,685	-	125,685
- derivative financial instruments	-	2,016	-	2,016
Investments				
Debt and other fixed income instruments				
- FVOCI	52,164	-	72,115	124,279
Equity and other non-fixed income instruments				
- FVOCI	13,770	8,013	-	21,783
	75,951	**314,487**	**82,342**	**472,780**
Liabilities				
Financial liabilities at fair value through profit or loss	-	12,391	-	12,391
Financial liabilities designated for hedge accounting	-	16,015	-	16,015
	-	**28,406**	**-**	**28,406**

5. Fair value measurement *(continued)*

5.3 Fair Value hierarchy of assets and liabilities not measured at fair value

The following table provide an analysis of financial instruments that are not measured at fair value subsequent to initial recognition:

	Fair value measurement				Carrying
	Level 1	**Level 2**	**Level 3**	**Total**	**Amount**
	€000	**€000**	**€000**	**€000**	**€000**
At 30 June 2021					
Investments					
at Amortised cost	3,144,448	307,272	-	3,451,720	3,404,715
Financial liabilities					
Subordinated liabilities	167,385	-	-	167,385	163,237

	Fair value measurement				Carrying
	Level 1	**Level 2**	**Level 3**	**Total**	**Amount**
	€000	**€000**	**€000**	**€000**	**€000**
At 31 December 2020					
Investments					
at Amortised cost	2,865,094	342,845	-	3,207,939	3,133,350
Financial liabilities					
Subordinated liabilities	163,251	-	-	163,251	163,237

The following are all other financial instruments that are not measured at fair value subsequent to initial recognition and that are not included in the table above:

(i) Loans and advances to customers
Loans and advances to customers are the largest financial asset held by the Group, and are reported net of allowances to reflect the estimated recoverable amounts. The carrying amount of loans and advances to customers is a reasonable approximation of fair value because these are repriced to take into account changes in both benchmark rate and credit spreads.

(ii) Loans and advances to banks and balances with Central Bank
The majority of these assets reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iii) Other financial assets
The fair value of other financial assets is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iv) Amounts owed to banks and customers
These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(v) Other financial liabilities
The fair value of other financial liabilities is not deemed to differ materially from their carrying amount at the respective reporting dates.

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of financial statements for the year ended 31 December 2020.

5. Fair value measurement (continued)

5.4 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances of the Group's financial assets measured at fair value with a Level 3 input.

	Fair value through profit or loss	Fair value through other comprehensive income	
	Equity and other non-fixed income instruments	Debt and other fixed income instruments	Total
2021	**€000**	**€000**	**€000**
Opening balance 1 January 2021	10,227	72,115	82,342
Net change in fair value	852	(793)	59
Closing balance 30 June 2021	11,079	71,322	82,401

	Fair value through profit or loss	Fair value through other comprehensive income	
	Equity and other non-fixed income instruments	Debt and other fixed income instruments	Total
2020	**€000**	**€000**	**€000**
Opening balance 1 January 2020	16,135	79,539	95,674
Net change in fair value	(955)	106	(849)
Purchases	29	-	29
Sales	(838)	-	(838)
Closing balance 30 June 2020	14,371	79,645	94,016

During the six months under review no change in levels was made in financial assets at fair value through profit or loss (June 2020: Nil) and financial assets classified as FVOCI (June 2020: Nil).

The financial assets at fair value through profit or loss with a Level 3 input for the six month period ended 30 June 2021 amounted to €0.85 million of realised/unrealised net gains compared to realised/unrealised net losses of €0.95 million in June 2020.

6. Investments in equity-accounted investees

On 25 May 2021, the Bank made a capital injection of €20 million in its associate company MAPFRE MSV Life p.l.c. (MMSV). MMSV had approached its 2 shareholders, Bank of Valletta p.l.c. and Mapfre International S.A. for a capital injection of a total of €40 million (€20 million from Mapfre International S.A. and €20 million for the Bank). Following the capital injection, the Bank continues retaining its 50% shareholding in MMSV and therefore the Bank retains the same influence within MMSV.

An increase of €5.5m in share of results of equity-accounted investees has been registered over same period last year. This increase in profitability was largely driven by an increase in market value of investments and higher written premiums.

7. Earnings per share

The earnings per share was calculated on profit attributable to shareholders of the Group €19,440,000 (2020: €10,080,000) and the Bank €11,081,000 (2020: €7,251,000) divided by 583,849,270 shares outstanding as at 30 June 2021.

8. COVID-19 impact on Expected Credit Losses

8.1 Assumptions and judgements

Expected Credit Losses, ('ECL') are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. At least, on an annual basis, the Group re-assesses the applicability of the key economic variables used by the model, which inputs impact the credit risk and thus the expected credit losses for each portfolio. These economic variables and their associated impact on probability of defaults vary by financial instrument. Macro-economic factors that are found to be statistically significant for all portfolios are forecasted using a Vector Auto Regressive model ('VAR').

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may significantly differ to those projected.

Models typically perform well for the range of inputs on which they were developed or calibrated. When an extreme shock appears in the input data such as the economic shock brought about by the pandemic, this is considered as a new 'experience' for the model and may provide biased results. Thus, updates to the forecasts for each scenario, optimistic/baseline/pessimistic, used by the model are required to balance out the economic shock from the projections. As at June 2021, the IFRS 9 model was updated with the Central Bank of Malta, ('CBM') baseline macro-economic forecasts instead of the model generated forecasts. These forecasts reflect the national impact brought about by the pandemic and are also in line with recommendations issued by the European Central Bank ('ECB'). A probability weighting of 25/50/25 was applied to the three scenarios used by the model.

The table below presents the difference in forecasts for the three main macro economic variables as per CBM projections issued in 2020, Q4 utilised by the Bank for the December 2020 Expected Credit Losses calculation, compared to those issued by the CBM in 2021, Q2 *source Outlook for the Maltese Economy 2021:2*.

	December 2020			**June 2021**				
		CBM Forecasts		**Actual**		**CBM Forecasts**		
	2020	**2021**	**2022**	**2020**	**2021**	**2022**	**2023**	**▲ ECL**
Macrovariable	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**€' million**
Change in weights from 50/50 to 25/50/25								(2.9)
Updates to the VAR model								(4.2)
GDP	(7.5)	5.9	4.4	(7.0)	4.9	5.4	4.7	(6.1)
Inflation	0.8	0.9	1.4	0.8	1.2 [1]	1.3	1.6	10.9
Unemployment	4.1	3.9	3.9	4.3	4.2	4.2	4.2	(1.4)
								(3.7)

Management also applied judgement to reflect the higher probability of default in respect of performing exposures operating in high and medium risk sectors. As at the reporting date, management is satisfied that the carrying value of such exposures, net of provisions, is a fair reflection of their asset quality and remains committed to continue reviewing its assessment of such values as the COVID-19 pandemic risks evolve. However it was deemed appropriate to apply a higher sectorial probability of default as a management overlay since the circumstances relating to COVID-19 remain uncertain. An additional manual overlay of €2.7 million was required on these exposures during the period.

8.2 Asset Quality Deteriorations in a COVID-19 scenario

In line with the European Banking Authority ('EBA') guidance 'Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures' dated 25th March 2020 and reiterated in the recent 'EBA Report on the Implementation of Selected COVID-19 Policies' dated 29th January 2021, the application of moratoria or deferral of payments, aimed at addressing the adverse systemic economic impact of the COVID-19 pandemic, should not by itself act as a trigger to conclude that significant increase in credit risk occurred. However, this does not remove the obligations of a credit institution to assess the credit quality of the exposures benefitting from these measures and identifying any situation of unlikeliness to pay of the borrower.

The moratoria period is considered a suitable measure to give relief to borrowers temporarily unable to serve their loan obligations due to COVID-19 disruptions. Expert judgement was applied to identify whether a significant increase in credit risk exists by distinguishing between a borrower taking up payment deferrals for temporary liquidity issues related to Government imposed restrictions and borrowers taking up payment deferrals that shall lead to long term financial difficulties over the life of the exposure, thus recognised as a significant increase in credit risk.

COVID-19 measures were granted to exposures eligible to the parameters of Directive 18 issued by the Central Bank of Malta on 13th April 2020, and other Government guaranteed COVID-19 assistance measures.

[1] The 2021 CBM forecast adopted in the model was projected by CBM based on the pre-pandemic weights which stands at 1.2% as opposed to 0.3%. The latter was projected by CBM based on the most recent weights that experienced a dramatic shift in consumption patterns from non-essential to essential expenditure due to COVID-19. As the economy recovers, consumption patterns are expected to continue to change and somewhat return to 2019 patterns.

8. COVID-19 impact on Expected Credit Losses *(continued)*

8.2 Asset Quality Deteriorations in a COVID-19 scenario *(continued)*

The table below presents the Group's credit portfolio grouped by industry risk.

	Jun-21				Dec-20
Industry Risk	**Total Balance €000**	**MDB Covid Assist €000**	**Total moratoria €000**	**Of which expired moratoria €000**	**Total Balance €000**
High	805,553	117,501	291,607	177,085	1,033,555
Medium	738,004	56,885	157,899	143,277	654,714
Other	3,675,717	63,419	402,890	386,302	3,345,534
Total	**5,219,274**	**237,805**	**852,396**	**706,664**	**5,033,803**

Industry risk is categorised as High, Medium or Other as follows:
- High: Substantial negative downturn and medium-to-long term recovery,
- Medium: Negative downturn and short-to-medium term recovery,
- Other: Minimal impact and consumer finance, including home loans.

During the period a number of exposures were downgraded as a result of COVID either qualitatively through the credit review carried out by the relationship manager or triggered by the days past due. An ECL charge of €6.4 million was incurred during the period as a result of these downgrades.

The net impairment reversal for the period of €3 million includes €5.4 million charge which is predominantly attributed to COVID-19.

8.3 Reconciliation of ECL

The following tables explain the changes in the loss allowance between the beginning and the end of the period due to the following factors:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. Changes in the staging allocation of balances existing at 1 January 2021 (and associated ECL changes) are presented in "transfers to/(from)", whereas subsequent changes in the staging allocation of new assets originated during the period are presented in "new financial assets originated";
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL to forward looking assumptions - the VAR forecasts for the main macro economic variables, GDP, Inflation and Unemployment for 2021, 2022 and 2023 were replaced with those of the CBM, baseline scenario;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

[2] Most of the expired exposures are back on track i.e. honouring their debt obligations according to plan.

BOV
Bank of Valletta

8. COVID-19 impact on Expected Credit Losses *(continued)*

8.3 Reconciliation of ECL *(continued)*

Allowances on On-Balance Sheet Exposures	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	€000	**€000**	**€000**	**€000**
Total allowances at 1 January 2021	**17,362**	**30,558**	**118,755**	**166,675**
Transfer to/(from):				
Stage 1	(549)	2,600	2,041	**4,092**
Stage 2	120	(6,647)	11,536	**5,009**
Stage 3	1,193	1,135	(6,016)	**(3,688)**
New financial assets originated*	2,264	1,204	1,233	**4,701**
Financial assets that have been derecognised	(318)	(605)	(2,334)	**(3,257)**
Write-offs	-	-	(1,440)	**(1,440)**
Changes to model inputs and assumptions	(1,133)	(796)	133	**(1,796)**
Other movements	2,818	(3,240)	4,994	**4,572**
Total allowances at 30 June 2021	**21,757**	**24,209**	**128,902**	**174,868**

Provisions on Off-Balance Sheet Exposures	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	€000	**€000**	**€000**	**€000**
Total Provisions at 1 January 2021	**9,024**	**9,427**	**13,820**	**32,271**
Transfer to/(from):				
Stage 1	(65)	(80)	718	**573**
Stage 2	12	(1,416)	745	**(659)**
Stage 3	2	692	(1,973)	**(1,279)**
New financial assets originated*	4,803	813	691	**6,307**
Financial assets that have been derecognised	(707)	(86)	-	**(793)**
Write-offs	-	-	(171)	**(171)**
Changes to model inputs and assumptions	(723)	(1,170)	(35)	**(1,928)**
Other movements	(3,306)	(358)	(198)	**(3,862)**
Total Provisions at 30 June 2021	**9,040**	**7,822**	**13,597**	**30,459**

The following table discloses changes in the gross carrying amount of the loan portfolio to help further explain their significance to the changes in the loss allowance for the same portfolio as discussed above:

Carrying Amount	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month ECL	**Lifetime ECL**	**Lifetime ECL**	**Total**
	€000	**€000**	**€000**	**€000**
Total Gross Carrying Amount at 1 January 2021	**4,216,884**	**579,430**	**237,489**	**5,033,803**
Transfer to/(from):				
Stage 1	(84,617)	78,214	22,346	**15,943**
Stage 2	23,393	(59,993)	37,209	**609**
Stage 3	4,666	8,628	(15,244)	**(1,950)**
New financial assets originated*	175,392	11,308	1,420	**188,120**
Financial assets that have been derecognised	(87,721)	(9,829)	(4,155)	**(101,705)**
Write-offs	-	-	(2,331)	**(2,331)**
Other movements	78,057	10,026	(1,298)	**86,785**
Total Gross Carrying Amount at 30 June 2021	**4,326,054**	**617,784**	**275,436**	**5,219,274**
Less Allowances	(21,757)	(24,209)	(128,902)	(174,868)
Net Loans and Advances to customers	**4,304,297**	**593,575**	**146,534**	**5,044,406**

Carrying amount comprises loans and advances to customers at amortised cost and loans and advances to customers designated as fair value through profit or loss.

* Newly originated financial assets during the period comprises of:
- Stage 2 - assets that have been originated to counterparties in stage 2 that are still subject to the Bank's cure/probation criteria,
- Stage 3 - include €1.3 million of originated credit impaired assets which relate to new facilities granted to counterparties in default as part of the existing commitments.

KPMG
92, Marina Street
Pietà, PTA 9044
Malta
Telephone (+356) 2563 1000
Fax (+356) 2566 1000
Website www.kpmg.com.mt

Independent Auditors' Report on review of condensed interim financial statements

To the Board of Directors of Bank of Valletta p.l.c.

Introduction

We have reviewed the accompanying condensed interim financial statements of Bank of Valletta p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the Condensed Half Yearly Financial Statements') which comprise the condensed statements of financial position as at 30 June 2021, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flow for the period then ended and the notes to the condensed half yearly financial statements. Management is responsible for the preparation and presentation of the Condensed Interim Financial Statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Our responsibility is to express a conclusion on these interim financial statements based on our review.

This report is made solely to the Board of Directors in accordance with the terms of our engagement and is released for publication in compliance with the requirements of Listing Rule 5.75.4 issued by the Listing Authority. Our review has been undertaken so that we might state to the Board of Directors those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors for our review work, for this report, or for the conclusions we have expressed.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Half Yearly Financial Statements for the period ended 30 June 2021 are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

The Principal authorised to sign on behalf of KPMG on the review resulting in this independent auditors' report is Noel Mizzi.

KPMG
Registered Auditors

29 July 2021