Bank of Valletta
Office of the Company Secretary
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BOV/391

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Malta Financial Services Authority Listing Rules:

Quote

During a meeting held on 31 July 2020, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank condensed Interim Financial Statements for the six-month financial period commencing 1 January 2020 to 30 June 2020. These financial statements have been reviewed by KPMG Malta in accordance with ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Profit before tax for the six months amounts to €13.8 million (June 2019: €54.3 million).

The Board of Directors, taking cognisance of supervisory guidance, has resolved not to declare an interim dividend.

The Interim Financial Statements and the financial commentary for the period ended 30 June 2020, are available for view and download on the Bank's website under the Investor Relations section and are also attached herewith:

https://www.bov.com/documents/interim-results-fy2020

Annual General Meeting

Further to Company Announcement No. 383 where the Bank informed the market that it will be postponing its Annual General Meeting (AGM), originally scheduled for the 15 May 2020, to a later date, and following the coming into force of Legal Notice 288/2020, the Bank hereby announces that it shall be availing itself of the extension period granted under the said legal notice for the purpose of holding the Company's AGM. The new date set for the AGM shall be the 26 November 2020. More information on the upcoming AGM will be communicated in due course.

Unquote

Dr. Ruth Spiteri Longhurst B.A., LL.D.
Company Secretary

31 July 2020

Bank of Valletta

INTERIM REPORT

JUNE 2020

Bank of Valletta p.l.c.

Statements of profit or loss for the six months ended 30 June 2020

	The Group		The Bank	
	Jun-20	Jun-19	Jun-20	Jun-19
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	82,795	84,642	82,795	84,642
- on debt and other fixed income instruments	13,316	20,169	13,316	20,169
Interest expense	(23,773)	(27,223)	(23,773)	(27,223)
Net interest income	72,338	77,588	72,338	77,588
Fee and commission income	35,904	42,256	31,435	37,932
Fee and commission expense	(4,337)	(5,940)	(4,337)	(5,940)
Net fee and commission income	31,567	36,316	27,098	31,992
Dividend income	160	377	1,180	25,698
Trading profits	3,847	12,858	3,912	12,857
Net gain on investment securities and hedging instruments	716	143	716	143
Operating income	108,628	127,282	105,244	148,278
Employee compensation and benefits	(41,098)	(35,550)	(39,619)	(34,254)
General administrative expenses	(38,538)	(39,571)	(37,909)	(38,931)
Amortisation of intangible assets	(5,733)	(2,650)	(5,733)	(2,650)
Depreciation	(4,125)	(3,517)	(4,005)	(3,487)
Net impairment charge	(7,462)	(936)	(7,462)	(936)
Operating profit	**11,672**	**45,058**	**10,516**	**68,020**
Share of results of equity-accounted investees, net of tax	2,086	9,244	-	-
Profit before tax	**13,758**	**54,302**	**10,516**	**68,020**
Income tax expense	(3,678)	(16,148)	(3,265)	(17,874)
Profit for the period	**10,080**	**38,154**	**7,251**	**50,146**
Earnings per share	**1.7c**	**6.5c**	**1.2c**	**8.6c**

Statements of profit or loss and other comprehensive income for the six months ended 30 June 2020

	The Group		The Bank	
	Jun-20	Jun-19	Jun-20	Jun-19
	€000	€000	€000	€000
Profit for the period	10,080	38,154	7,251	50,146
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Debt investments at FVOCI				
- change in fair value	(5,953)	2,212	(5,953)	2,212
tax thereon	2,083	(774)	2,083	(774)
- change in fair value transferred to profit or loss	(652)	-	(652)	-
tax thereon	228	-	228	-
	(4,294)	1,438	(4,294)	1,438
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	878	1,574	878	1,574
tax thereon	(307)	(551)	(307)	(551)
	571	1,023	571	1,023
Remeasurement of actuarial losses on defined benefit plans	101	(111)	101	(111)
tax thereon	(35)	39	(35)	39
	66	(72)	66	(72)
Other comprehensive income for the period, net of tax	(3,657)	2,389	(3,657)	2,389
Total comprehensive income for the period	**6,423**	**40,543**	**3,594**	**52,535**

Bank of Valletta p.l.c.

Statements of financial position as at 30 June 2020

	The Group		The Bank	
	Jun-20	Dec-19	Jun-20	Dec-19
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	3,904,893	3,669,580	3,904,893	3,669,580
Financial assets at fair value through profit or loss	176,665	205,139	176,504	204,979
Investments	3,309,632	3,071,160	3,309,632	3,071,160
Loans and advances to banks	444,704	501,686	444,704	501,686
Loans and advances to customers at amortised cost	4,535,610	4,445,812	4,535,610	4,445,812
Investments in equity-accounted investees	103,565	101,479	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	60,733	60,463	60,733	60,463
Property and equipment	125,737	126,196	125,129	126,031
Current tax	21,348	15,185	21,211	14,678
Deferred tax	73,638	76,017	73,638	76,017
Assets held for realisation	9,609	10,123	9,609	10,123
Other assets	5,345	42,627	6,366	42,627
Prepayments	5,346	5,142	3,094	3,031
Total Assets	**12,776,825**	**12,330,609**	**12,730,223**	**12,285,287**
LIABILITIES				
Financial liabilities at fair value through profit or loss	12,222	10,907	12,222	10,907
Amounts owed to banks	69,877	66,047	69,877	66,047
Amounts owed to customers	11,132,300	10,629,719	11,137,207	10,632,260
Deferred tax	5,736	5,736	5,736	5,736
Other liabilities	182,183	189,109	181,215	188,881
Provisions	122,392	118,109	122,392	118,109
Accruals and deferred income	561	484	-	-
Derivatives designated for hedge accounting	19,608	13,963	19,608	13,963
Subordinated liabilities	163,218	234,230	163,218	234,230
Total Liabilities	11,708,097	11,268,304	11,711,475	11,270,133
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	51,013	54,898	50,901	54,786
Retained earnings	384,589	374,281	334,721	327,242
Total Equity	1,068,728	1,062,305	1,018,748	1,015,154
Total Liabilities and Equity	**12,776,825**	**12,330,609**	**12,730,223**	**12,285,287**
MEMORANDUM ITEMS				
Contingent liabilities	**289,246**	**341,618**	**289,246**	**341,618**
Commitments	**1,902,250**	**1,828,756**	**1,902,250**	**1,828,756**

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 €5.227 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 31 July 2020 and signed on its behalf by:

Alfred Lupi
Interim Chairman

Rick Hunkin
CEO & Executive Director

Statements of changes in equity for the six months ended 30 June 2020

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Group					
At 1 January 2019	**530,772**	**49,277**	**50,034**	**364,050**	**994,133**
Profit for the period	-	-	-	38,154	**38,154**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,438	-	**1,438**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	1,023	-	**1,023**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(72)	**(72)**
Release of surplus on sale of property, net of tax	-	-	(82)	82	**-**
Total other comprehensive income	-	-	2,379	10	**2,389**
Total comprehensive income for the period	-	-	**2,379**	**38,164**	**40,543**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	**-**
At 30 June 2019	**583,849**	**49,277**	**52,413**	**349,137**	**1,034,676**
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**

Statements of changes in equity for the six months ended 30 June 2020

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Bank					
At 1 January 2019	**530,772**	**49,277**	**49,922**	**309,278**	**939,249**
Profit for the period	-	-	-	50,146	**50,146**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,438	-	**1,438**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	1,023	-	**1,023**
Release of surplus on sale of property, net of tax	-	-	(82)	82	**-**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(72)	**(72)**
Total other comprehensive income	-	-	2,379	10	**2,389**
Total comprehensive income for the period	**-**	**-**	**2,379**	**50,156**	**52,535**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	**-**
At 30 June 2019	**583,849**	**49,277**	**52,301**	**306,357**	**991,784**
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**

Bank of Valletta p.l.c.

Statements of cash flow for the six months ended 30 June 2020

	The Group		The Bank	
	Jun-20	Jun-19	Jun-20	Jun-19
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	132,740	148,880	128,477	144,434
Interest, commission and compensation payments	(24,511)	(24,283)	(24,588)	(24,133)
Payments to employees and suppliers	(79,636)	(77,171)	(77,528)	(75,235)
Operating profit before changes in operating assets and liabilities	28,593	47,426	26,361	45,066
(Increase)/decrease in operating assets:				
Loans and advances	(102,317)	(142,575)	(102,317)	(142,575)
Reserve deposit with Central Bank of Malta	(4,524)	(2,147)	(4,524)	(2,147)
Fair value through profit or loss financial assets	23,153	7,520	23,153	7,520
Fair value through profit or loss equity instruments	4,232	911	4,233	91
Treasury bills with original maturity of more than 3 months	(173,929)	6,173	(173,929)	6,173
Other assets	37,796	(2,158)	37,795	(2,152)
Increase/(Decrease) in operating liabilities:				
Amounts owed to banks and customers	510,253	237,468	512,619	237,055
Other liabilities	(2,249)	37,908	(3,194)	38,369
Net cash from operating activities before tax	321,008	190,526	320,197	187,400
Tax paid	(5,885)	(8,680)	(5,090)	(11,473)
Net cash from operating activities	315,123	181,846	315,107	175,927
Cash flows from investing activities				
Dividends received	160	19,806	160	25,698
Interest received from amortised and other fixed income instruments	12,444	19,317	12,444	19,317
Investment in subsidiaries	-	-	-	(10)
Proceeds on sale of equity investments	562	-	562	-
Purchase of debt instruments	(765,468)	(309,513)	(765,468)	(309,513)
Proceeds from sale or maturity of debt instruments	506,930	351,022	506,930	351,022
Purchase of property and equipment and intangible assets	(8,585)	(13,036)	(8,579)	(12,999)
Proceeds from disposal of property and equipment	-	330	-	330
Net cash (used in) / from investing activities	(253,957)	67,926	(253,951)	73,845
Cash flows from financing activities				
Repayment of Long Term Borrowings	(70,000)	(40,318)	(70,000)	(40,318)
Interest paid on Long Term Borrowings	(3,567)	(5,491)	(3,567)	(5,491)
Payment of Lease Liability	(831)	(516)	(822)	(516)
Net cash used in financing activities	(74,399)	(46,325)	(74,389)	(46,325)
Net change in cash and cash equivalents	**(13,233)**	**203,447**	**(13,233)**	**203,447**
Effect of exchange rate changes on cash and cash equivalents	1,462	1,371	1,462	1,371
Net change in cash and cash equivalents after effect of exchange rate changes	(14,695)	202,076	(14,695)	202,076
Net change in cash and cash equivalents	(13,233)	203,447	(13,233)	203,447
Cash and cash equivalents at 1 January	3,968,868	3,626,859	3,968,868	3,626,859
Cash and cash equivalents at 30 June	**3,955,635**	**3,830,306**	**3,955,635**	**3,830,306**

STATEMENT PURSUANT TO THE LISTING RULES ISSUED BY THE LISTING AUTHORITY

I confirm that to the best of my knowledge the condensed interim financial statements as at 30 June 2020 have been prepared, in all material respect, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).

Rick Hunkin
CEO & Executive Director

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, Zachary Street, Valletta. The condensed interim financial statements of the Bank as at end for the six months ended 30 June 2020 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 2019 are available 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 interim financial statements have been extracted from Bank of Valletta's unaudited management accounts for the six months ended 30 June 2020, and have been reviewed in terms of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The interim results are being published in terms of Chapter 5 of the Listing Rules of the Malta Financial Services Authority.

These condensed interim financial statements should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2019. The significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2019. These policies are described in Note 1 of the Bank's audited financial statements for the year ended 31 December 2019. New standards which came into effect as of 1 January 2020 are mentioned in note 2.1 below.

As required by IAS 34 *Interim Financial Reporting*, these condensed financial statements include the comparative statements of financial position information as of 31 December 2019, and the comparative statements of profit or loss, statements of profit or loss and other comprehensive income, statments of changes in equity and statements of cash flows information for the period ended 30 June 2019.

In preparing these interim financial statements, the Board has considered the contents of the Public Statement issued by the European Securities and Markets Authority dated 20 May 2020 (ESMA32-63-972) the objective of which is to promote transparency and consistent application of European requirements for information provided in the half-yearly reports under the current circumstances related to the COVID-19 outbreak.

Related party transactions with other components of the BOV Group covering the period 1 January to 30 June 2020 have not materially affected the performance for the period under review except for dividends from subsidiaries which were recognised in the Bank's profit.

2.1 Adoption of new standards / amendments:

The following amendments to standards were effective from 1 January 2020 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;
(ii) Amendments to IAS 1 and IAS 8: Definition of Material;
(iii) Amendments to References to the Conceptual Framework in IFRS Standards;
(iv) Amendments to IFRS 3 Business Combinations

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 replaced or reformed as part of this market-wide initiative. In any case, there is significant uncertainty over the timing and the methods of transition. 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 its Treasury function 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 and how to manage communication about IBOR reform with counterparties.

The majority of the Bank's loan portfolio is priced against the Bank's base rate and only very few loans are floating rate loans. Presently, no fallback provisions have been contracted for when IBOR ceases to exist.

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.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorization with respect to Euribor under the European Union Benchmark Regulation. This allows market participants to continue to use Euribor after 1 January 2020 for both existing and new contracts. The Bank expects that Euribor will continue to exist as a benchmark rate for the foreseeable future and does not anticipate changing the hedged risk to a different benchmark. For these reasons, the Bank does not consider its fair value hedges of the Euribor benchmark interest rate to be directly affected by interest rate benchmark reform at 30 June 2020.

3. Segment information

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-20 €000	Jun-19 €000	Jun-20 €000	Jun-19 €000	Jun-20 €000	Jun-19 €000	Jun-20 €000	Jun-19 €000	Jun-20 €000	Jun-19 €000
Operating income for the six months	55,866	57,456	53,566	57,603	9,635	21,060	(10,439)	(8,837)	108,628	127,282
Profit before taxation for the six months	8,140	18,635	34,593	40,700	8,566	27,793	(37,541)	(32,826)	13,758	54,302

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-20 €000	Dec-19 €000	Jun-20 €000	Dec-19 €000	Jun-20 €000	Dec-19 €000	Jun-20 €000	Dec-19 €000	Jun-20 €000	Dec-19 €000
Total Assets	2,407,289	2,425,661	2,347,470	2,274,103	3,672,469	3,459,579	4,349,597	4,171,266	12,776,825	12,330,609
Total Liabilities	2,641,411	2,628,735	2,738,710	2,640,842	3,525,151	3,321,384	2,802,825	2,677,343	11,708,097	11,268,304

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 2019 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 €100 million recorded as at 31 December 2019 was retained as at 30 June 2020.

(b) Financial Guarantees and Loan Commitment Provisions

Refer to Note 9 for impact of expected credit losses on loan commitments and financial guarantee contracts during the six months to 30 June 2020.

5. Subordinated Liabilities

The €70 million 4.8% Euro subordinated bonds matured on 15 Mar 2020.

6. Fair value measurement

6.1 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.

6.2 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 2020				
Assets				
Treasury Bills	-	413,562	-	413,562
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	9,652	14	-	9,666
- equity and other non-fixed income instruments	568	10,808	14,371	25,747
- loans and advances	-	140,629	-	140,629
- derivative financial instruments	-	623	-	623
Investments				
Debt and other fixed income instruments				
- FVOCI	52,167	79,645	-	131,812
Equity and other non-fixed income instruments				
- FVOCI	16,094	8,013	-	24,107
	78,481	**653,294**	**14,371**	**746,146**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	12,222	-	12,222
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	19,608	-	19,608
	-	**31,830**	**-**	**31,830**

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2019				
Assets				
Treasury Bills		97,053		97,053
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	33,061	-	-	33,061
- equity and other non-fixed income instruments	4,487	10,758	16,136	31,381
- loans and advances	-	139,422	-	139,422
- derivative financial instruments	-	1,275	-	1,275
Investments				
Debt and other fixed income instruments				
- FVOCI	64,472	79,539	-	144,011
Equity and other non-fixed income instruments				
- FVOCI	15,306	8,484	-	23,790
	117,326	**336,531**	**16,136**	**469,993**
Liabilities				
Financial liabilities at fair value through profit or loss	-	10,907	-	10,907
Financial liabilities designated for hedge accounting	-	13,963	-	13,963
	-	**24,870**	**-**	**24,870**

6. Fair value measurement *(continued)*

6.3 Fair Value hierarchy of assets and liabilities 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 Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Carrying Amount €000
At 30 June 2020					
Investments at Amortised cost	2,783,851	417,243	-	3,201,094	3,153,713
Financial liabilities					
Subordinated liabilities	164,145	-	-	164,145	163,218
	164,145	-	-	164,145	163,218

	Fair value measurement Level 1 €000	Level 2 €000	Level 3 €000	Total €000	Carrying Amount €000
At 31 December 2019					
Investments at Amortised cost	2,426,519	522,029	-	2,948,548	2,903,359
Financial liabilities					
Subordinated liabilities	231,452	-	-	231,452	234,230
	231,452	-	-	231,452	234,230

The following are all other financial intruments 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. Their fair value measurement is a level 2 input.

(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. Their fair value measurement is a level 2 input.

(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 2019.

6. Fair value measurement (continued)

6.4 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	
	Equity and other non-fixed income instruments	Total
2020	**€000**	**€000**
Opening balance 1 January 2020	16,135	16,135
Net change in fair value	(955)	(955)
Purchases	29	29
Sales	(838)	(838)
Closing balance 30 June 2020	14,371	14,371

	Fair value through profit or loss	
	Equity and other non-fixed income instruments	Total
2019	**€000**	**€000**
Opening balance 1 January 2019	9,974	9,974
Net change in fair value	4,220	4,220
Purchases	36	36
Sales	(127)	(127)
Closing balance 30 June 2019	14,103	14,103

During the six months under review no change in levels was made in financial assets at fair value through profit or loss (June 2019: Nil) and financial assets classified as FVOCI (June 2019: Nil).

The realised and unrealised gains/losses on financial assets at fair value through profit or loss with a Level 3 input for the six month period ended 30 June 2020 amounted to (€0.95) million (June 2019: €4.22 million).

7. Investments in equity-accounted investees

A decrease of €7.2m in share of results of equity-accounted investees has been registered over same period last year. This decrease is mainly attributable to a downward movement in the valuation of the value-in-force business, which has been impacted by market volatility and lower yield returns as opposed to a strong performance in the six months to Jun 2019.

8. Earnings per share

The earnings per share was calculated on profit attributable to shareholders of the Group €10,080,000 (2019: €38,154,000) and the Bank €7,251,000 (2019: €50,146,000) divided by 583,849,270 shares outstanding as at 30 June 2020.

9. COVID-19 impact on Expected Credit Losses

9.1 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. 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.

As at June 2020, the IFRS 9 model was updated with the Central Bank of Malta, ('CBM') severe macro-economic forecasts instead of the model generated forecasts. This change was required to factor in future looking information reflecting the economic scenarios as impacted by the COVID-19 pandemic which triggered the partial lockdown in the local economy. Adopting the forecasts which reflects the national impact brought about by the pandemic is in line with recommendations issued by the European Central Bank ('ECB'), dated April 2020, 'IFRS9 in the context of the coronavirus (COVID-19) pandemic'.

The table below presents the difference in forecasts for the three main macro economic variables between that used by the model and those provided by the CBM, *source CBM Quarterly release, June 2020.*

	BOV IFRS9 Model		**Severe CBM Forecasts**		**Change**	
	2020	**2021**	**2020**	**2021**	**2020**	**2021**
Macrovariable	**%**	**%**	**%**	**%**	**%**	**%**
GDP	3.1	5.2	-8.3	6.8	-11.4	1.6
Inflation	2.4	1.4	0.5	0.6	-1.9	-0.8
Unemployment	3.2	3.1	6.1	5.7	2.9	2.6

Management also applied judgement to reflect the higher probability of default in respect of performing exposures operating in high risk sectors. At the reporting date the asset quality of such exposures remains sound and there is no evidence of significant increase in the credit risk of these exposures (see 9.2 below). However it was deemed appropriate to apply a higher sectorial probability of default as a management overlay since the circumstances relating to COVID-19 are difficult to predict.

As regards to property prices the Group has always taken a conservative view in determining the fair value of collateral and haircuts applied to arrive at the estimated recovery amount of property held as collateral.

The net impairment charge includes circa €10 million which is predominantly attributed to COVID-19.

9.2 Significant increase in credit risk 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, 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.

9.2 Significant increase in credit risk in a COVID-19 scenario *(continued)*

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.

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

	Jun-20		Dec-19
Industry Risk	**Total Balance**	***Balances on which COVID-19 measures were granted***	**Total Balance**
	€000	***€000***	**€000**
High	940,546	*398,307*	902,153
Medium	515,985	*87,646*	479,694
Home loans & other	3,333,439	*351,822*	3,311,708
Total	**4,789,970**	***837,775***	**4,693,555**

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.

9.3 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 2020 (and associated ECL changes) are presented in "transfers to/(from)", whereas subsequent changes in the staging allocation of new assets originated during the year 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 2020 and 2021 were replaced with those of the CBM, severe 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.

9.3 Reconciliation of ECL *(continued)*

Allowances on On-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total allowances at 1 January 2020	**9,145**	**19,405**	**79,771**	**108,321**
Transfer to/(from):				
Stage 1	(325)	4,349	3,498	**7,522**
Stage 2	183	(2,432)	4,360	**2,111**
Stage 3	38	837	(1,898)	**(1,023)**
New financial assets originated*	633	382	632	**1,647**
Financial assets that have been derecognised	(243)	(1,032)	(2,273)	**(3,548)**
Write-offs	-	-	(2,401)	**(2,401)**
Changes to model inputs and assumptions	3,640	1,567	8	**5,215**
Other movements	(366)	(4,977)	1,227	**(4,116)**
Total allowances at 30 June 2020	**12,705**	**18,099**	**82,924**	**113,728**

Provisions on Off-Balance Sheet Exposures	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total provisions at 1 January 2020	**3,536**	**3,095**	**9,171**	**15,802**
Transfer to/(from):				
Stage 1	(73)	1,084	732	**1,743**
Stage 2	26	(194)	848	**680**
Stage 3	2	303	(749)	**(444)**
New financial assets originated*	783	913	215	**1,911**
Financial assets that have been derecognised	(277)	(186)	(286)	**(749)**
Write-offs	-	-	(9)	**(9)**
Changes to model inputs and assumptions	4,469	290	-	**4,759**
Other movements	(979)	(1,663)	(298)	**(2,940)**
Total provisions at 30 June 2020	**7,487**	**3,642**	**9,624**	**20,753**

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 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Gross Carrying Amount as at 1 January 2020	**4,127,997**	**347,610**	**217,948**	**4,693,555**
Transfer to/(from):				
Stage 1	(66,522)	54,611	12,286	**375**
Stage 2	64,805	(87,440)	17,120	**(5,515)**
Stage 3	1,599	6,630	(3,146)	**5,083**
New financial assets originated*	107,987	10,044	848	**118,879**
Financial assets that have been derecognised	(79,017)	(11,550)	(6,736)	**(97,303)**
Write-offs	-	-	(3,050)	**(3,050)**
Other movements	97,821	(4,059)	(15,816)	**77,946**
Total Gross Carrying Amount as at 30 June 2020	**4,254,670**	**315,846**	**219,454**	**4,789,970**
Less Allowances	(12,705)	(18,099)	(82,924)	(113,728)
Net Loans and Advances to customers	**4,241,965**	**297,747**	**136,530**	**4,676,242**

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.

* Originated loans during the period include the following:
i) Originated credit impaired assets which relate to new facilities granted to counterparties in default as part of existing commitments,
ii) Assets that have been originated to counterparties and still subject to the Bank's cure/probation criteria.

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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 Interim Financial Statements') which comprise the condensed statements of financial position as at 30 June 2020, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended and a summary of significant accounting policies and other explanatory notes. 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.

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Independent Auditors' Report on review of condensed interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Statements for the period ended 30 June 2020 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

31 July 2020

Overview

The period under review experienced unprecedented events brought about by the COVID-19 pandemic. This has impacted not only the performance of our business but also the way we have operated and adapted to the circumstances. The island's economy, which is heavily dependent on tourism and the wholesale and retail sectors has endured an unexpected blow that caused a far-reaching ripple effect for the subsequent months. The Bank immediately took steps to support its employees, its customers and the community at large in line with the guidance provided by the regulators and the national health authorities.

Financial performance of the Group

Bank of Valletta Group is reporting a profit before tax of €13.8 million for the six months ended 30 June 2020, representing an annualised return on equity (pre-tax) of 2.6%. For the comparative period, the Group registered a pre-tax profit of €54.3 million. Results for the first half of FY2020 inevitably include the negative effect of COVID-19 which has influenced a number of line items. More than half of the drop in profit is predominantly attributed, directly or indirectly, to the impact of the pandemic. The results for the period under review were also influenced by other factors, including increased depreciation from new IT investments, staff costs due to strengthening of risk and compliance resources and reduction in foreign exchange and commission income, in line with expectations, resulting from the derisking initiatives which have been carried out over the recent months.

The Board of Directors, following supervisory guidance, had postponed the payment of the final proposed dividend for FY2019. It has also resolved not to declare an interim dividend for June 2020. Any recommendation for a final cash dividend for FY2020 will be revisited at the end of the financial year in line with developments in the second half of the year.

Operating profit

The half-yearly results are summarised in the following table:

	Jun-20	**Jun-19**	***Change***	
	€ million	**€ million**	***€ million***	**%**
Net interest income	72.3	77.6	*(5.3)*	(7)
Net commission and trading profits	37.0	45.8	*(8.8)*	(19)
Costs	(89.5)	(81.3)	*(8.2)*	10
Impairment charge	(7.5)	(0.9)	*(6.5)*	697
Operating profit	**12.4**	**41.2**	***(28.8)***	**(70)**
Fair value movement	(0.7)	3.9	*(4.6)*	(118)
Share of profit from associates	2.1	9.2	*(7.2)*	(77)
Profit before tax	**13.8**	**54.3**	***(40.5)***	**(75)**

Operating profit amounts to €12.4 million and is 70% below the €41.2 million for the corresponding period. Revenue is down across all streams, as the unprecedented outbreak of COVID-19 adversely impacted most of the revenue generating areas coupled with the effect of derisking as the Bank exited business lines/customers outside the revised risk appetite. During the period, costs have increased and a higher charge for impairment is also being reported.

Net interest income of €72.3 million is €5.3 million lower than that earned for H1 2019 and remains the main revenue driver. The persistently low to negative interest rate environment, coupled with a conservative risk appetite limiting investment opportunities in respect of the proprietary portfolio and increased levels of liquidity, which attract negative interest, resulted in a decrease in interest earned on the treasury assets. As the economic outlook deteriorated in the first half of the year due to the COVID-19 pandemic, demand for credit was primarily required to support temporary liquidity needs rather than for investment purposes. Home loans grew at a much slower pace when compared to previous periods. The decrease in interest revenue was partly offset by lower cost of funding as customers preference for call deposits continued and long term borrowing matured in March 2020.

Commission and trading profits amount to €37.0 million, 19% less than the €45.8 million reported for the comparative period. The COVID-19 had an adverse and direct effect on commissions especially those relating to the card business, where substantially lower card usage was recorded; the payments business, as economic activity slowed down significantly; and investment related products as lower demand reflected the subdued economic environment. Lower revenues, in line with expectations, were also recorded in those line items affected by the derisking exercise. The latter was one of the factors leading to a decrease in exchange earnings which was also impacted by lower volumes due to COVID-19.

Total costs for the first half of the year have increased by €8.2 million and amount to €89.5 million. The increase is mainly attributed to higher employee and IT costs. The Bank went live with the new core banking system at the start of 2020. Operating costs for these six months include the amortisation and higher maintenance fees relating to this new system as well as other IT investments. Costs relating to insurance and regulatory contributions have also increased. In 2019 the Bank embarked on a transformation programme covering various initiatives aimed to lower the Bank's risk profile while ensuring long term sustainability, stability and profitability. The transformation and derisking programmes continue to reduce risks and enhance controls resulting in a more resilient institution. This has enabled the Bank to embark on an ambitious strategic journey to grow in the more profitable segments with fewer risks and better controls.

In assessing the impairment charge for the six months under review due consideration was given to the expected impact related to COVID-19, especially in the formulation of forward looking scenarios and expected credit losses relating to exposures in high risk sectors. Expected credit losses are highly sensitive to judgements and assumptions and, as with any economic forecast, subject to a degree of inherent uncertainty which has been augmented in the current circumstances which remain fluid and undefined.

As at June 2020, the Bank's IFRS 9 model was updated with the severe macro-economic factors published by the CBM. Judgement was also applied in assessing the probability of default of performing exposures operating in high risk sectors. The asset quality of such exposures remains sound and there is no significant increase in the credit risk of these exposures at the reporting date. The Group retained its cautious view towards impairment and the charge for the period includes a higher sectorial PD as a management overlay on the highly impacted sectors. The net impairment charge to June 2020 is stated net of recoveries in respect of debt which had previously been written off.

The results for the period were also influenced by the share of profit from associates which at €2.1 million represent a reduction of 77% attributable primarily to losses from actuarial valuations.

Financial position

The Group remains highly liquid with cash and short term funds increasing by €178.3 million (4.3%) since December 2019. The excess liquidity, which continues to put pressure on the net interest margin, was partly mitigated by increased investment of over €500 million, comprising Treasury bills and Malta Government bonds. The majority of treasury assets are measured at amortised cost category reflecting the Bank's primary business model of 'hold to collect'. The asset quality of the Bank's portfolio remains high with more than 90% in A- or higher.

Net loans and advances increased by €91 million since December 2019, an annualised growth rate of 4%, and stand at €4.7 billion at 30 June 2020. Demand for new mortgages slowed down significantly and growth in this sector was almost half that experienced in other periods. The slowdown is largely attributed to changed behaviour influenced by the various measures implemented by the health authorities to address the pandemic. The Bank supported its customers through this trying period and by the reporting date had provided more than €800 million through the granting of moratoria and the sanctioning of new loans to ease temporary liquidity constraints. Deferred payments were granted to both business and personal customers who met the eligibility criteria of the CBM Directive 18. Government guaranteed facilities under the BOV MDB COVID Assist product aimed to support the economy during these unprecedented times were also sanctioned.

Customer deposits increased by just over €500 million since the start of the financial year and reached €11.1 billion at end June 2020. Customer preferences remain predominantly for demand deposits. The growth is wholly attributable to local customers, both retail and business. During the period further reductions in deposits held by international corporate customers continued in line with the derisking exercise. Long term debt at the reporting date reflects the repayment of the €70 million 4.8% subordinated bonds which matured on 15 March 2020.

Equity as at end June 2020 is marginally higher than December 2019 and stands at €1.1 billion. The Group's capital position remains strong, with a CET 1 ratio as at the end of June 2020 of 19.8%, in line with the Group's risk appetite and comfortably above the minimum regulatory requirements. In light of the COVID-19 pandemic the Bank has followed the ECB guidance and postponed the final dividend for FY 2019 and will make the final payment conditional on a reassessment of the situation, taking into account the possible consequences of COVID-19. The Group is closely monitoring the situation and constantly assessing the impact of the COVID-19 pandemic. The capital plan shows that the capital ratios are expected to remain strong in the coming years both under the business as usual scenario, taking into consideration the COVID-19 impact, and also under severe stressed scenarios.

Bank's response to COVID-19

Employees and Branches

The Bank responded proactively by implementing safeguards for customers and employees by fully adopting the recommendations issued by the Superintendence of Public Health in Malta. A multi-disciplinary Incident Management Team (IMT), was tasked with carrying out regular assessments of the situation and implementing necessary preventive and corrective actions as the pandemic evolved and will remain active until normality is restored.

Sanitising of public spaces, offices, air-conditioners and ATMs was immediately stepped up and protective screens were installed in customer-facing areas. An internal campaign was launched to raise awareness and encourage staff to take all possible measures to minimise the possibility of contracting and spreading the virus. Personal protective equipment was distributed to staff as necessary for their role, while queueing was disallowed within branches.

The Bank's Business Continuity Plans were put to practice, splitting critical functions into separate geographical locations, restricting face-to-face meetings to those which were strictly necessary, empowering our people to work from behind closed doors and from home and the introduction of rosters where on-site presence was required.

A dedicated BOV Assist Team was launched and a number of banking services were being offered through email, video-conferencing and phone calls. For branch visits, customers were urged to set up an appointment in order to minimise waiting times.

Remote working capabilities were provided to employees, enabling vulnerable staff to work from the safety of their home, parents to care for their children and others to keep safe while keeping connected with their workplace. As our staff gradually returned to their workplaces, the Bank reinforced the preventive measures in place.

Customers

COVID-19 has propelled a dramatic shift in personal customer behaviours and it hit the multiple sectors of the Maltese economy to varying degrees as businesses experienced a shortage in liquidity. As a systemic bank and Malta's largest, this turn of events has placed an extraordinary responsibility on Bank of Valletta to support impacted businesses and the general economy.

Moratoria on loans provided breathing space to customers experiencing liquidity challenges, with temporary increases in overdraft and credit card limits providing short-term financial respite at no extra charges. Various fees were also waived to ease the burden on customers going through difficult times due to the COVID-19 situation.

The Bank deferred a total of €60 million in loan repayments across more than 2,900 customers, 70% of whom being retail customers. BOV was also the first Bank to launch the COVID Assist scheme which was made available at very attractive interest rates and which is accessible to all local businesses facing liquidity shortages. The Bank's attractive offering already ensured that a high number of companies were able to access such assistance, with more than €140 million being committed to nearly 200 customers.
In addition the Bank has introduced various measures to ensure that its banking services remain accessible to the wider community.

Technology and BOV Digital Channels

BOV's current suite of electronic channels were instrumental during the COVID-19 pandemic, handling the spike in digital transactions as an increasing number of customers made use of BOV Mobile, BOV Internet Banking, Cards and ATMs. A significant increase was registered in the value and volume of contactless payments on BOV pay and wearables such as watches. This trend was supported by the Bank by increasing transaction limits. Furthermore, at the peak of the pandemic, more than half the workforce was able to work safely from remote locations, thanks to the swift and timely support of the Bank's IT arm. This implementation was instrumental for the continued operation of the Bank and an uninterrupted delivery of service to our customers.

The continuous modernisation of digital channels ranks highly on the Bank's agenda and over the first two months more than ten ATMs have been replaced by newer models supporting additional services, such as cash and cheques. In our endeavour to reduce environmental impact, we discontinued the printing and mailing of thousands of statements as these are available for customers on internet banking 24x7. Thousands of customers make regular use of BOV electronic channels and the Bank has committed to invest further into the development of its e-channels, moving ahead to enable seamless customer services across different channels.

During the first half of the year, customers and employees got more accustomed to the new core banking system, Flexcube, successfully implemented at the end of 2019. This transformation brought about various changes in processes, technology together with a shift in people's attitudes. This major IT implementation was the cornerstone that paves the way for the implementation of a comprehensive digitalisation strategy.

Support to the Community

At the height of the pandemic the Bank launched the BOV Safe@home initiative on its website and social media. The initiative provideed educational and fun material mainly aimed to assist parents to entertain their children during the stay-at-home periods. This was later broadened to provide activities to a wider segment of the population who were staying at home. The Bank reached out to its staff members and Social Partners to provide artistic content such as drawings and crafts, educational material especially in the field of history and the environment and fun activities such as fitness workouts and creative baking. These can be found at - https://bov.com/content/bov-safe-at-home.

Bank of Valletta was presented with the 'Promuturi fl-Arti' award during the third edition of 'Il-Premju għall-Arti', the national arts awards that celebrates the achievements of the cultural and creative sectors. The award was received on account of the Bank's significant support to the development of the Maltese community through its Corporate Social Responsibility programme that encompasses a wide range of areas that receive the Bank's support. The award was virtually presented to ex-BOV Chairman Deo Scerri during a live-streaming event.

Looking ahead - BOV Strategy 2023

The CEO, together with the Executive Committee and the Board, have been working for the past months on the Group's strategy for a future-proof bank. The Group now has a definite and comprehensive plan of action, based on in-depth 360 degree analysis and ideal future positioning. The overarching objective of the strategy is to achieve more sustainable returns by minimising risk, growing core business lines and keeping costs under close watch. It is a pleasure to share herewith the main themes underpinning the strategy and some of the decisions that we will start implementing over the coming months.

Accelerating Digitalisation and Process Simplification

We will be investing considerably to build the infrastructure, implement processes and train our people to deliver the best possible service for our customers. We will be upgrading our electronic channels to offer increased convenience and additional services for our customers without the need to go to the branch. Simultaneously, we will be rebalancing the branch network and adapting work practices to ensure that our face-to-face outlets are optimised for a value adding and personalised service. We will also be changing our branch service model to offer an enhanced customer experience, with particular emphasis on high net worth customers and SMEs.

Boosting Interest Income

We will continue to grow our lending portfolio, supporting our personal customers to reach their life goals and improving access to finance to SMEs. We will be consolidating our leading position by offering favourable lending products, tailored around the needs of our customers.

The cost of deposits has been rising steadily over the years and investment opportunities have become extremely limited. We will help our customers to adjust to this new reality by providing guidance on how to manage their assets better and offer them opportunities to diversify their portfolio beyond short-term savings.

Empowering our People

We will be engaging our workforce to embrace the strategy and empowering them with the necessary tools and skills to implement the desired changes. We will be aligning the collective skills of our workforce with those of benchmark European banks, offering ample learning opportunities and clear expectations and directions. We will mobilise employees to focus on delivering a straight-forward and personalised service to our customers, streamlining internal processes and maximising efficiencies.

Strengthening Governance and Risk

Later this year we will approach the tail end of the de-risking programme, a massive undertaking that will put the Bank in a much safer and stronger position. Over the coming years we will continue to strengthen our risk governance structures by engaging further skilled people in the main three lines of defence.

Closing statement

We are convinced that the new strategy is the best way forward for Bank of Valletta and very excited to communicate further initiatives and specific decisions as we implement the strategy over the coming months. The road ahead will be bumpy as uncertainty looms over how long the economic recovery will take, and whether we will be met with further economic shocks in the future. The uncertain circumstances brought about by the COVID-19 pandemic are likely to influence the performance for the coming months. Although some early signs of recovery have been evident during these last two months, it is not yet clear whether this will be sustained. We remain cautious about the future impact of COVID-19 as the outlook, at this stage, is still uncertain. The Bank remains committed to support the local economy through the provision of funds and other measures that may be required to assist their temporary liquidity needs.

By Order of the Board

31 July 2020