Bank of Valletta
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BOV/409

COMPANY ANNOUNCEMENT

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

Quote

Reference is made to Company Announcement No. 408 issued earlier on today, 30 March 2021.

In this regard, the Annual Report and Audited Financial Statements for the year ended 31 December 2020 are being attached herewith and can also be viewed on the Bank's web portal: **https://www.bov.com/documents/annual-report-fy2020**

Unquote

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

30 March 2021

Bank of Valletta p.l.c.

Annual Report & Financial Statements

2020

Bank of Valletta

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Alfred Mifsud
Antonio Piras

COMPANY SECRETARY

Ruth Spiteri Longhurst

EXECUTIVE COMMITTEE
as at 31 December 2020

Rick Hunkin (Chief Executive Officer)
Ernest John Agius (Chief Operations Officer)
Joseph Agius (Chief Technology Officer)
Miguel Borg (Chief Risk Officer)
Kenneth Farrugia (Chief Retail Banking Officer)
Albert Frendo (Chief Business Banking Officer)
Elvia George (Chief Finance Officer)
Anthony Scicluna (Chief Officer Human Resources & Ethics)

Rudolph Gatt (Secretary)

AUDITORS

KPMG

LEGAL ADVISORS

Camilleri Preziosi

NOTICE OF MEETING

The Annual General Meeting of the Bank will be held on Thursday 20 May 2021. In view of the current COVID-19 scenario and in order for the Bank to safeguard the health and safety of its shareholders, employees and other stakeholders, the AGM is being convened remotely.

ADDRESS

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Triq il-Kanun,
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www.bov.com
E-mail: customercare@bov.com

Bank of Valletta p.l.c.
Registered Office:
58, Triq San Żakkarija,
Il-Belt Valletta VLT 1130
Malta
Registration Number: C 2833

Bank of Valletta p.l.c. is a public limited company licensed to carry out the business of banking and conduct investment services by the Malta Financial Services Authority.

Bank of Valletta p.l.c. is an enrollled tied insurance intermediary of MAPFRE MSV Life p.l.c. (MMSV). MMSV is authorised and regulated by the Malta Financial Services Authority to carry on long term business under the Insurance Business Act 1998.

Board of Directors and Group Company Secretary

Gordon Cordina
Chairman

CAFC NG NED *

Dr. Gordon Cordina is a leading economist in the Maltese Islands, with a professional experience spanning 25 years covering banking, policy-making, academia and private sector consultancy. He is a graduate of the University of Cambridge and the University of Malta. His main area of academic interest is the growth and macroeconomic dynamics facing economies that are prone to heightened risks.

Dr. Cordina has several years of Board and Risk Committee experience in major financial institutions in Malta, amongst which at Bank of Valletta. He served as Manager of the Research Department of the Central Bank of Malta, Director General of the National Statistics Office of Malta, Head of the Economics Department of the University of Malta and Economic Advisor to the Malta Council for Economic and Social Development. Through the private consultancy firm he co-founded in 2006, he is involved in a number of local and international research projects and consultancy assignments with institutions including the EU Commission, NGOs and private sector entities. Gordon is a visiting senior lecturer at the University of Malta.

Appointed to the Board in October 2020.

Stephen Agius
Director

NG RC NED *

Stephen Agius is currently a member of the Nominations and Governance Committee and of the Remuneration Committee. Mr. Agius works as Chief Operating Officer at Mater Dei Hospital where he is responsible for strategy formulation and execution; and the day to day operations of the hospital. For five years, Mr. Agius served as member of the board of directors of Enemalta p.l.c. Prior to his current role, Mr. Agius occupied various positions where he was responsible for a number of large scale projects, both locally and abroad, in areas related to enterprise resource planning, business intelligence, business transformation and process modelling. Mr. Agius is also a visiting senior lecturer at the University of Malta where he lectures Big Data Analytics. He studied computer science and information systems and gained an Honours Bachelor degree from the University of Greenwich (UK) followed by an MBA in e-Business from the University of Malta. He is currently pursuing a PhD in the use of data in strategic decision-making with the University of Malta in conjunction with Liverpool John Moores University.

Appointed to the Board in December 2016.

Taddeo Scerri
Chairman until May 2020

NED *

Taddeo Scerri was appointed Chairman of the Bank in December 2016 and held this position up until his resignation in May 2020. Mr Scerri had been serving as Director of the Bank as from April 2013. Mr. Scerri chaired the Bank's Audit Committee and was a member of the Bank's Remuneration Committee and of the Asset Liability Management Committee. He used to chair the Board's Nominations and Governance Committee. Until end 2019 he also used to chair the Remuneration Committee and the Credit Committee. Since 2018 he has been a director of MAPFRE Middlesea Insurance p.l.c. A qualified accountant by profession, Mr Scerri was the managing partner of RSM Malta until his retirement in 2015. He was also Chairman of the local UEFA Clubs Licensing Board and a member of the Malta Football Association's Finance Committee.

Miguel Borg
Director

ED

Miguel Borg was appointed to the Board of Directors as Executive Director in August 2017.

Mr. Borg is the Chief Risk Officer of Bank of Valletta p.l.c. He serves as the Deputy Chairman of the Executive Committee and chairs the Credit Committee, the Internal Control & Risk Management Committee and the Credit Sanctioning Committee of BOV. Mr. Borg is a Director of BOV Asset Management Ltd and chairs the Risk Committee of the company. He also chairs the Risk Committee of MAPFRE MSV Life p.l.c. Prior to joining the Bank, he worked at the Central Bank of Malta.

Mr. Borg holds a Masters in Economics and is a member of a number of international risk management associations. He serves as a member of the Ethics Committee of PRMIA (USA). He lectures at the University of Malta.

Diane Bugeja
Director

CAFC R NG NED*

Dr. Diane Bugeja currently chairs the Compliance and Anti-Financial Crime Committee and is a member of the Risk Committee and Nominations Committee. Dr. Bugeja is a lawyer by profession, practising primarily in financial services law, financial regulation and anti-financial crime compliance. She is currently a Senior Associate at Camilleri Preziosi Advocates. Prior to joining Camilleri Preziosi, Dr. Bugeja held the post of Senior Manager at a Big Four audit firm, working in Malta and in London, and subsequently joined the enforcement departments of the UK Financial Conduct Authority and the Malta Financial Services Authority.

Dr. Bugeja holds a Ph D in law from King's College London and an M Sc from the London School of Economics and Political Science. She is also a visiting lecturer at the University of Malta.

James Grech
Director
NED*

James Grech's career commenced as a management accountant with a local accounting firm. He later joined the Bank in 1998 and is currently the Executive Head of the Foreign Bank Relationships Department. He was appointed to the Board in 2004 till 2008 and re-appointed to the Board by the shareholders in the respective AGMs in December 2014 to date. Mr. Grech is also Chairman of Gozo Channel Holding Company Ltd and a director of other local companies. He is a recognised member of the Institute of Directors (UK) and holds an Honours Degree in Management and a Masters in Business Administration from Henley Management College (UK). His dissertation focused on the effectiveness of Board Performance and Corporate Governance. Mr. Grech has lectured on Financial Services at the Malta College of Arts, Science and Technology, and on Corporate Governance at the University of Malta.

Rick Hunkin
Director
ED

Appointed to the Board on 1 January 2020 as Executive Director. Mr. Hunkin is the Bank's Chief Executive Officer and is a vastly experienced financial services executive who has worked in all aspects of retail, commercial and corporate banking for over 35 years. Having started his career at NatWest and then LloydsTSB, he has since covered a wide span of organisations and held seats on the Boards of several UK financial services companies including Tesco Bank, Cheltenham and Gloucester, Goldfish Bank, GE Money and National Bank of New Zealand. Post the 2007/08 crisis Rick was one of a small senior group hired to resolve issues at Northern Rock and subsequently joined the Executive team leading the establishment of Williams & Glyn (part of the RBS EU remediation programme). Prior to joining BOV, he was Chief Risk Officer of Chetwood Financial.

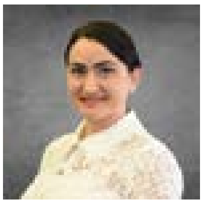
Mr. Hunkin chairs the BOV Executive Committee and the Asset Liability Management Committee and is also a member of various management committees. He is a director on the board of MAPFRE MSV Life p.l.c. and is currently Chairman of the Malta Bankers' Association.

Mr. Hunkin holds a Masters in Business Administration from Manchester University and a Financial Studies Diploma - a degree level qualification obtained via the Chartered Institute of Bankers and Sheffield Hallam University. He has been elected a Fellow of the Chartered Institute of Banking in both England and Scotland (FCIB, FCIBS) for services to Banking and Education.

Alfred Lupi
Director
A RC NED*

Alfred Lupi currently chairs the Audit Committee and is a member of the Remuneration Committee. An accountant by profession, with a university degree in economics, Mr. Lupi was the Chief Financial Officer of two major companies in Malta and the Executive Chairman of a supermarket group. He was also a director of the Central Bank of Malta, chairing its Audit Committee and also served as Acting Governor. For a number of years he chaired the Accountancy Board and was subsequently a member of its Quality Assurance Oversight Committee. Mr. Lupi has held a number of board appointments mainly in the financial sector.

Appointed to the Board in December 2015. Mr. Lupi was Interim Chairman of the Bank from May 2020 until October 2020.



Anita Mangion
Director
A NED*

Anita Mangion was appointed to the board in 2016 and for the first three years she was a member of the Remuneration Committee and Audit Committee. In 2019 she was appointed deputy chair of the Compliance and Crime Prevention Committee and in 2020 was reappointed member of the Audit Committee.

Ms. Mangion is an experienced Strategy and IT Consultant. She started her professional career at MFSA and the Malta Stock Exchange. Her area of specialisation is Strategy, Digital Transformation and Innovation. During the last eighteen years she consulted to such effect, diverse local and international entities, where she successfully implemented sustainable profitable frameworks. Ms. Mangion obtained an Executive MBA (eBusiness); B Com Management Hons and B Sc Business and Computing, from the University of Malta. Additionally, she studied Business and IT at Indiana University (USA), and Technology Entrepreneurship at the University of Malta in joint collaboration with Oxford University (UK). For four years, Ms. Mangion served as board director at Malta Industrial Parks Limited (MIP). At MIP she was also entrusted to oversee the Tenders Committee, was a member of the Audit Committee and chaired the ICT Steering Committee.

Appointed to the Board in December 2016.

Alfred Mifsud
Director

R RC NED*

Appointed to the Board in December 2019. From 2015 to 2017 Mr. Mifsud was Deputy Governor of the Central Bank of Malta, with main responsibilities of the monetary policy and banking operations. Prior to that, Mr. Mifsud was Chairman of Crystal Finance Investments Limited, a position he held for 15 years. From 1992 to 1996 he was a Governor on the Board of the Malta Financial Services Centre which now is the MFSA. From 1996 to 1998, Mr. Mifsud was Chairman of Mid-Med Bank. He holds a Masters in Business Administration from Sheffield Hallam University and a Financial Studies Diploma by the former Chartered Institute of Bankers. Mr. Mifsud presently chairs the Bank's Risk Management Committee and is a member of the Audit Committee and of the Compliance and Anti-Financial Crime Committee.

Ruth Spiteri Longhurst
Group Company Secretary

Dr. Ruth Spiteri Longhurst was appointed Group Company Secretary in April 2016. Previously she occupied the post of Executive Head of the Compliance Unit within the Bank. Dr. Spiteri Longhurst is also the Company Secretary of MAPFRE MSV Life p.l.c., BOV Asset Management Ltd and BOV Fund Services Ltd. Dr. Spiteri Longhurst graduated Doctor of Laws from the University of Malta in 2001 and obtained Master of Arts in Financial Services in 2004. Dr. Spiteri Longhurst has been employed with the Bank for the past 19 years.

Antonio Piras
Director

A CAFC R NED *

Antonio Piras currently chairs the Remuneration Committee and is a member of the Risk Committee. Mr. Piras occupies the role of deputy Chairman of the Board and the Chairman of the Remuneration Committee of Banca UBAE (Rome).

He was previously director of the board of Iacobucci Aerospace HF (Rome) and Vice Chairman of Eurofidi Soc. Consortile Garanzia Fidi s.c.a.r.l. (Turin). Until 2014, he was the CEO of Equitalia Centro S.p.A (Florence) and Chairman and CEO of other companies of Equitalia Group.

In 1971 he started his career at UniCredit Group, former Credito Italiano, holding various key roles in the Italian commercial network until 1997. Afterwards, Mr. Piras was appointed as CEO of UniCredit Factoring (Milan), Deputy General Manager of Banca dell'Umbria, Chairman and CEO of Pekao Leasing Sp.z.o.o (Warsaw) and Leasing Fabryczny Sp.z.o.o (Lublin), CEO of UniRiscossioni S.p.A. (Turin), all companies held by UniCredit, from where he ended his career as Senior Executive Vice President in 2009.

Appointed to the Board in December 2016.

A	Audit Committee
CAFC	Compliance and Anti Financial Crime Committee
NG	Nominations and Governance Committee
RC	Remuneration Committee
R	Risk Committee
ED	Executive Director
NED	Non-Executive Director
*	Independent

The marouflage ceiling decorations at the Chapel dedicated to St Paul in Birkirkara – Restoration project supported by BOV

Chairman’s Statement

Gordon Cordina

ECONOMIC OVERVIEW

Twenty-twenty has been a challenging year for Bank of Valletta, the Maltese economy, and the global markets at large. During the year, we have witnessed an unprecedented contraction in output volumes. In Malta, GDP declined by 7.0% in real terms[1]. In comparison, over the past two decades, the local economy experienced two contractions, with each of these being in the region of just 1.0%.

The Central Bank of Malta (CBM) is projecting an average baseline growth of 5.1% for the years 2021-2023[2]. This said, due weight must be given to potential downside risks to forecasts in view of the prevailing uncertainties.

The Bank is at the forefront in supporting local businesses and households during the pandemic, and intends to be equally at the forefront in helping businesses and the local economy at large to transition to a more sustainable business model.

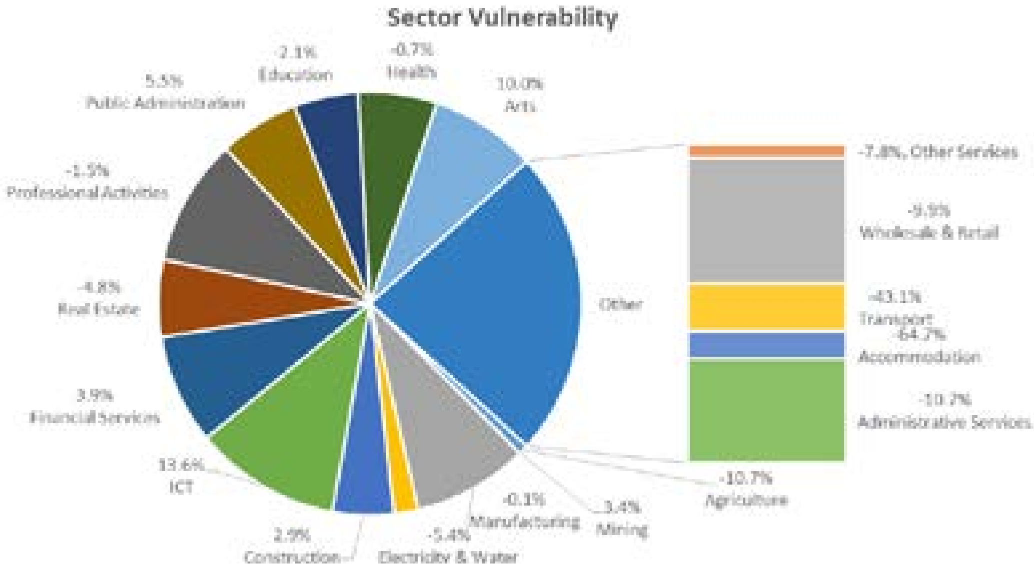
ECONOMIC VULNERABILITY AND THE EFFECT ON BANK LENDING

From a production perspective, the worst hit sectors, were unsurprisingly, those mainly reliant on tourist arrivals – namely, accommodation and food service activities (-64.7%), transportation and storage (-43.1%), and administrative and support services (-10.7%) – which also includes the rental and leasing of motor vehicles, which is heavily reliant on tourist arrivals. Wholesale and retail trade (-9.9%) and other service activities (-7.8%) experienced a decline in activity since non-essential outlets were shut down for a number of months.

Collectively, the most vulnerable sectors saw their direct share of Gross Value Added (GVA) contract from 30.0% in 2019 to 23.5% in 2020, as their aggregate output declined by 23.3% in real terms. These sectors are again expected to be the worst hit by the ongoing travel restrictions and the newly imposed closure of catering establishments and non-essential retail outlets.

1 National Statistics Office, News Release 040/2021 – Gross Domestic Product: 2020 dated 01 March 2021
2 Central Bank of Malta, Economic Projections 2020-2023 dated 2021:1

On the other hand, a number of sectors proved to be resilient to the pandemic. Notably, construction, arts and entertainment, which includes the i-gaming sector, information and communication services, financial services and public administration, witnessed an expansion in their collective contribution to GVA, from 37.5% in 2019 to 42.2% in 2020. Together, these sectors registered a growth in GVA of 8.0% in real terms.



The most vulnerable sectors are also notably amongst the Bank's most important sectors in terms of our credit lending portfolio. Loans and advances for accommodation and food service activities, transport and storage, wholesale and retail trade, administrative and support services and other service activities made up 36.3% [2019: 34.8%] of the Bank's lending to business customers or 18.4% [2019: 17.1%] of total loans and advances to customers as at the end of 2020.

On the other hand, the resilient sectors are either non-capital intensive sectors, which by their very nature do not require substantial banking finance, or sectors which are deemed outside the Bank's risk appetite.

PROVISIONING FOR COVID-19

The different financial support measures provided to enterprises by the government and the banking sector have helped support Maltese households and the business community and cushioned the negative effect caused by the pandemic.

The viability and solvency of Maltese businesses will be put further to the test once the loan moratoria are discontinued, and government support terminated. Nonetheless the full potential impact, in light of our current knowledge of the situation, has been factored into account for the purposes of estimating the Bank's expected credit loss (ECL). As a result, we witnessed an increase of €38.1 million in provisions predominantly related to COVID-19, and a further €39.8 million in relation to non-performing loans (NPLs) on aged non-performing debtors. The increase in impairment was the single, and most substantial, negative impact on the Bank's bottom line, leading to an unprecedented contraction in the Bank's profitability.

DIVIDENDS

The regulators are not recommending the distribution of dividends, so as to ensure that the Bank is well positioned to meet the high demand on capital and support the local economy till the end of the pandemic. As highlighted in last year's Annual General Meeting (AGM), the Bank's strategy aims to target the maximisation of shareholder value in the medium term, with a vision to restore the payment of dividends at levels that are adequate, stable and predictable. The resumption of a steady dividend policy thus requires clarity on the outcomes of the COVID-19 event and the major litigation case, coupled with the successful implementation of the transformation strategy to generate sustainable profitability going into the future.

HELPING MALTA RECOVER

Our Strategy for 2020 was focussed on sustaining the economy in these extenuating circumstances, continuing to provide financial services despite the challenges and supporting the Community

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Our Corporate Social Responsibility (CSR) played a crucial role throughout the pandemic. Adopting a two-pronged strategy, its focus was shifted also towards educating our customers to help them shift to our digital channels in order to avoid unnecessary visits to branches and offices and also enabling the continuous provision of a full range of financial services to the community with an emphasis on assisting our customers and the community at large. At the same time we kept a close relationship with our social partners as a key player within the communities in which we operate.

We introduced measures to safeguard the well-being of our staff members, encouraging where possible remote working for our employees and introduced measures, always guided by the health authorities, to protect our front-liners. Despite all the challenges we faced, through the excellent work of our Incident Management Team, we ensured the continuity of essential banking services provided through the majority of our branches. We also leveraged our digital capabilities to deploy educational drives and new initiatives that delivered services to customers from the safety of their homes.

Digitisation will simplify our front-to-back processes and free up our human resources to improve our service model.

A shift towards digital services, which offer a faster and more convenient alternative to conduct financial affairs.

Individuals and businesses who were badly impacted by the pandemic were supported with payment deferrals on their loan repayments, while the launch of the 'BOV-MDB COVID Assist', injected much-needed liquidity into both the economy and businesses, supporting them through these unprecedented times. As a side-effect of the pandemic, philanthropic organisations regrettably experienced a substantial decrease in donations received. At Bank of Valletta, we kept a close relationship with all our social partners ensuring their ability to continue providing their much needed services within the community.

We have also formulated a strategy that will build on our current community programme, while at the same time align our Corporate Social Responsibility approach to Environmental, Social and Governance (ESG) requirements. Our objective is to have a more measurable and sustainable CSR approach that can be embedded within an ESG framework by 2023, underpinned by a mechanism based on the United Nation's SDGs (Sustainable Development Goals).

More details about the Bank's involvement with the community in which we operate can be found in the Corporate Social Responsibility section of this report.

MALTA POST-COVID-19 STRATEGY

Government support to Maltese businesses and households was instrumental in supporting the economy. However, it has put a huge financial strain on government finances, potentially rendering additional future support unsustainable.

At this juncture, it is imperative to maintain the integrity of firms and households, while developing a post-pandemic long-term strategy. The main objective of this strategy should be to build a more sustainable economy, which has at its heart the physical and mental well-being of its citizens by promoting:

- Sustainable demographic development with a more selective approach to immigration based on higher value added skills.
- Sustainable tourism with increased niche market focus.
- Digitisation and greening across all sectors of the economy, especially mobility.
- The effective mobilisation of EU funds, in part to compensate for the loss of fiscal manoeuvrability going forward, which took place to remedy for the COVID-19 shock.

Over the coming five-year period, Malta is required to reassess its economic, demographic, social and environmental outlook, if it is to achieve sustainability in future years. As a country, we should be thinking about:

- Increasing our investment in green infrastructure, where aid would favour cleaner consumption and production, enable a transport modal shift and focus on regeneration rather than new building development, with the adoption of circular economy concepts for the construction industry.
- Exploiting the benefits of lessons learnt during the pandemic, particularly the advantages of remote working and commerce, including decreased commuting which ultimately leads to environmental and well-being benefits.
- Increasing investment in digitisation and build competitiveness in terms of new ways of working, marketing and selling, whilst exploiting new opportunities that are emerging on the market.
- Redirecting Malta`s product and brand towards a market niche focus.
- Enhancing the tourism sector through virtual and augmented experiences, possibly attracting higher spending niches and paving the way for the effective management of tourism capacity.
- Addressing persistent challenges in the educational sector including the high early school leaving rates, the low tertiary education rates and the need to enhance the skill-base of the workforce.

National objectives should translate into strategic priorities for business development to achieve environmental and resource amelioration, enhanced social fabric, and successful business.

BOV POST-COVID-19 STRATEGY

The Bank is at the forefront in supporting local businesses and households during the pandemic, and intends to be equally at the forefront in helping businesses and the local economy at large to transition towards a more sustainable business model.

As part of its Strategy 2023, the Bank seeks to be a key-player in the country's drive towards a more sustainable economy, not only by assisting businesses in their transition plans, but also through leading by example. The digitisation of our operating model is at the heart of our strategy. Digitisation will simplify our front-to-back processes and free up our human resources to improve our service model. We seek to rebalance our balance sheet, by increasing the penetration of our assets under management and increase the focus on one-to-one pricing. The Bank will also bring superior value to customers by offering new banking solutions and boost consumer finance.

BOV POST-COVID-19 STRATEGY

As part of its Strategy 2023, the Bank seeks to be a key-player in the country's drive towards a more sustainable economy, not only by assisting businesses in their transition plans, but also through leading by example.

INTEREST RATES

The European banking sector has become accustomed to the persistent low interest rate scenario, and Malta is no exception. Low interest rates make it difficult to attract an attractive return on deposits and investment products, for customers and banks alike. This challenges the traditional banking model and make past levels of profitability increasingly challenging. Thus, going forward the Bank will rely increasingly on pricing which reflects the cost of the associated service and digitisation to better manage its cost base.

FEES AND CHARGES

Going forward within a persisting low interest rate scenario, the provision of banking services will be increasingly dependent on the reliance on fees and charges on a number of services. This will lead to the attainment of a number of objectives, including a customer shift towards our digital services, which offer a faster and more convenient alternative to conduct financial affairs. Customers are for instance encouraged to set up standing orders through BOV Internet Banking or deposit funds in their accounts via our vast network of ATMs or Cheque Deposit Boxes – these services not only remain free of charge, but are also faster and safer for the customer, since they do not require the customer to visit our branches in person.

Charges also aim to encourage good financial behaviour and environmentally sustainable practices. The Bank has increased the fees in relation to cheque offences and unprocessed standing orders due to insufficient funds, so as to promote sound financial management. We have increased cheque related fees in order to discourage the use of cheques, since these are considered as one of the least secure forms of payment. Bank of Valletta p.l.c. is committed to promote sustainable customer behaviour and offers a digital and free alternative for every charge introduced – in fact, BOV Internet Banking access has been free as of July 2019, much earlier than the recent introduction of charges.

Digitisation will also allow the Bank to enhance its wide range of products and services, while supporting its front liners and maintaining its extensive branch network. We seek to undertake the journey towards digitisation together with our customer, to the mutual benefit of both parties.

LOOKING AHEAD

Twenty-twenty-one is shaping up to be another challenging year with the ongoing pandemic, once again, taking front and centre stage. Malta also awaits the outcome of the MONEYVAL assessment and the extent of Brexit on our economy, all against the persistent low interest rate scenario.

The Bank is committed to emerge from this episode in a position of strength and we are confident that our strategy will put us in the best position to do so. Our effort to increase the penetration of our assets-under-management products will offer our customers the opportunity to earn a better return on their funds. Our renewed focus on pricing aims to reflect the underlying risks and costs of the services we offer. Our new business banking and consumer finance solutions will bring superior value to customers. Finally, the transformation and digitisation of our operating model aims to bring everything together and place us nearer to our customers than ever before.

Banking is an essential service to the economy, and over the past year our front-liners have carried on with resilience and dedication, to ensure continuity of service to our customers. I would like to thank our staff across the Bank for their efforts. I also thank, the Executive team for their leadership, the Board, and all our shareholders and customers for their crucial support and look ahead to the path to recovery for the Bank and the economy at large.

Gordon Cordina

Chairman
30 March 2021

Bank of Valletta and the Manoel Theatre enjoy a long-term collaboration agreement on various Artistic and Cultural Initiatives

CEO's Commentary

Rick Hunkin

Financial results in 2020 were impacted by the COVID-19 pandemic, nevertheless underlying performance remained strong.

The global COVID-19 pandemic has defined a unique year, causing huge disruptions in the business world and in our day-to-day lives. The impact upon businesses most affected by the crisis, in sectors such as tourism, accommodation, restaurants etc., has been particularly hard felt and we can only hope for the earliest return to some degree of normality. It has also impacted the lives of so many individuals, as indeed the whole team at BOV felt with the extremely sad loss of a highly valued colleague through COVID-19.

Recognising the key role BOV plays in the Maltese economy and in the communities and customers we serve, we have provided significant and widespread support to our clients as they experienced financial strain and liquidity constraints, by providing extensive support by way of loan moratoria and through the Government/ Malta Development Bank supported scheme ('BOV MDB Covid-19 Assist'). Furthermore, we acted rapidly and decisively to adapt to new ways of working and maintained smooth operations while safeguarding the interests of employees, customers and the wider community.

As a direct consequence of the pandemic, our results have been severely impacted. Although our businesses and consumers are thus far proving remarkably resilient under such conditions, it is necessary for BOV to recognise provisions where significant increase in credit risk is considered to have occurred. Although the duration of COVID-19 impact remains uncertain, eventually returning to normality could result in potential releases of some of these provisions.

We have also seen reduction in normal business volumes, particularly around cards and foreign exchange income. Furthermore, we have also had to take a significant additional credit provision in respect of historic non-performing loans as their recovery may, in this environment, be prolonged. This is in line with recent regulatory changes and financial reporting standards. During 2020 we focused upon such long outstanding debts and have made some significant recoveries as a result as highlighted further below. This focus continues and again we anticipate seeing some future recovery in the short to medium term.

Our transformation programme continued into 2020 and we have invested further, albeit at a lower level than the previous year, in creating a lower risk profile with a significantly improving control environment. Our risk appetite now reflects a better balance of risk and reward and such investment is critical to a sustainable bank.

As a result of these combined factors, the bottom-line results for 2020 were significantly down on prior year. Adjusting for the direct impact of the pandemic and other one-off items, the underlying performance of the bank remained strong despite an interest rate environment which is creating persistent headwinds. Our new strategy is focused on ensuring that the bank is well positioned to deliver future growth and more consistent and sustainable performance once the operating environment stabilises.

GROUP 2020 HIGHLIGHTS

€15.2m

Reported Profit before tax

(2019: €89.2m)

€100.7m

Underlying profit before tax

Adjusting for specific items and COVID-19 ECL impact

66.8%

Cost : Income ratio

(2019: 55.7%)

20.9%

Common equity tier 1 capital ratio

(2019: 19.5%)

50%

Non-performing loans coverage ratio

(2019: 36.6%)

€79m

Deferred repayments for circa 3,000 customers

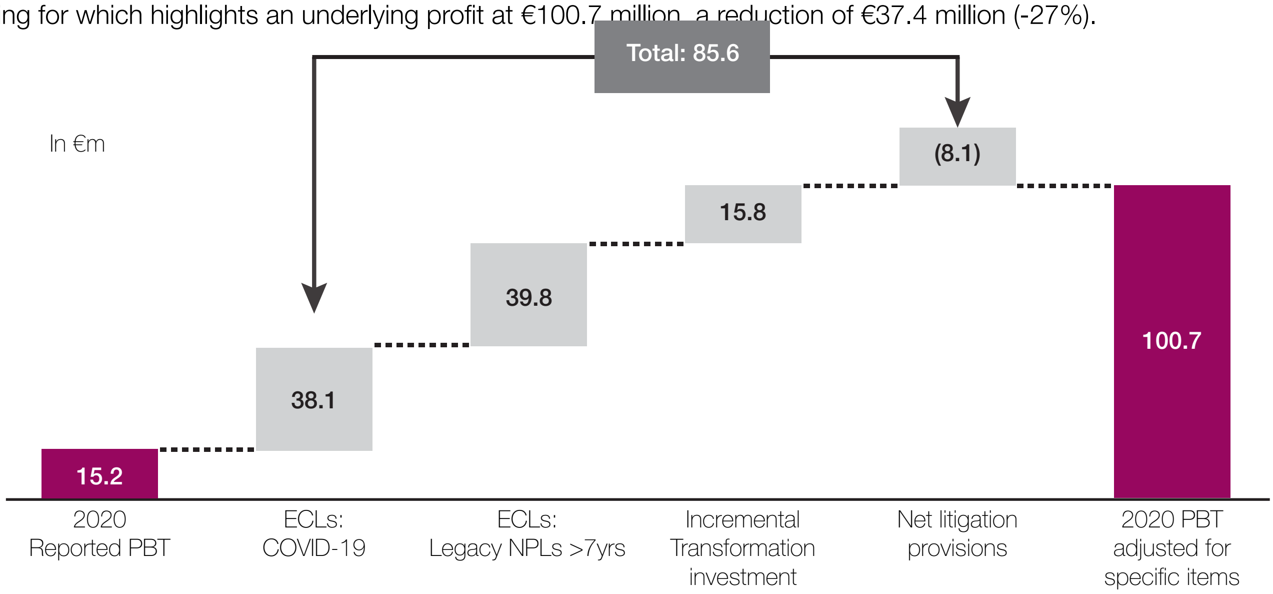
€280m

BOV-MDB COVID Assist: circa 400 customers

Amount approved, of which €193m withdrawn

FINANCIAL PERFORMANCE OF THE GROUP

Bank of Valletta Group reported a profit before tax of €15.2 million for the year ended 30 December 2020, a decrease of €74 million (or -83% when compared to prior year). This result reflects a number of specific items and direct impact on credit losses, adjusting for which highlights an underlying profit at €100.7 million, a reduction of €37.4 million (-27%).



Totals may not cast due to rounding

The most significant specific items relate to increases in credit provisions which amount to a net charge of €65.1 million (2019: €11.6 million provision release). This major increase is driven principally by two specific provision areas, offset by some recoveries of debts previously written off:

	In €m	2020	2019	△
1	ECLs: predominantly COVID-19	38.1	-	*38.1*
2	ECLs: Legacy NPLs > 7yrs	39.8	-	*39.8*
	Total specific impairments:	**77.9**	**-**	***77.9***
3	Non performing debt recovery	(9.6)	(8.0)	*(1.5)*
	Non performing debt write/offs and ECL model update	(3.2)	(3.6)	*0.4*
	Net impairment charge/(reversal)	**65.1**	**(11.6)**	***76.8***

1. Impairment charges predominantly attributed to COVID-19:
- Such credit losses are by their nature highly sensitive to judgements and assumptions and thus subject to a degree of inherent uncertainty.
- BOV have used Central bank economic forecasts in estimating the probability of defaults for the calculation of expected credit losses across the whole credit portfolio.
- Specific reviews of sectors and individually significant exposures more likely to be impacted by COVID-19 have been undertaken to determine any significant increase in credit risk profile.
- Further adjustments were recognised for non-individually significant exposures, which have not experienced asset deterioration, but are subject to a higher probability of default as these operate in the high and medium COVID-19 impacted sectors.

2. A charge taken in respect of non-performing loans outstanding for more than 7 years. This is driven by the Group's cautious view to better reflect the current economic circumstances guided by regulatory policy. The charge reflects the following:
- The long timeline associated with recovering non-performing loans potentially increases expected losses as ability to realise collateral values may be reduced. This may also be exacerbated in the current economic conditions.
- Under the different economic conditions of prior years, banks were able to demonstrate that capital was available to meet any shortfall on such loans, but from this year, a provision must be taken through P&L.
- Although actions are already underway to increase the likelihood of recoveries of a proportion of this during 2021/22, provisions are nonetheless required until such time as the probability of recovery improves.

3. A focus during 2020 on actively pursuing historic non-performing debt has led to exceptional recoveries of previously written off amounts.

Other specific items include a further €15.8 million investment in moving our de-risking programme toward the final phases. In 2020, we also developed and initiated our forward-looking growth strategy - BOV 2023, more details further below. As advised during the year, BOV was able to reach a settlement agreement in relation to litigation regarding the historic Swedish Pensions Agency (‘SPA’ or ‘Falcon Funds’), where a gross claim of €81 million was made. BOV worked constructively with the SPA to reach an agreement at €26.5 million and we were also able to agree an insurance recovery of €15 million, leaving a net settlement of €11.5 million. As €20 million had been provided, there is a net provision release of €8.1 million after legal costs. The reduction in the normalised operating profit was driven by lower net interest income, COVID-19 impacted Commissions and Trading revenues and higher operating costs.

The reduction in the normalised operating profit was driven by lower net interest income, COVID-19 impacted Commissions and Trading revenues and higher operating costs.

- Net interest income of €146.8 million, €6 million lower than prior period, remains the main revenue driver. Growth in deposits coupled with persistent negative interest rates continue to impact our net interest margin. Also, the redemption of securities previously generating positive returns had to be reinvested at lower or negative rates. The balance sheet growth in lending was mainly driven by home loans, which maintained steady growth, and in the second half through increased business and corporate loans issued in support of businesses under the BOV MDB Covid-19 Assist scheme. The decrease in interest revenue was partly offset by lower cost of funding as customers’ preference for short term deposits continued, despite lower rates, and some long-term wholesale funding matured in March 2020.

- Commission and Trading revenues of €78.8 million, down by €12.1 million year on year, were most severely impacted by the COVID-19 restrictions. Decreases in revenues were predominantly in the card business, where substantially lower card usage was recorded, and in the payments business, as economic activity slowed significantly - especially during the initial lock-down period. A slower trend was similarly noted in the foreign exchange business due to reduced foreign trade and travel, and to a smaller degree through the reduction in our appetite for higher risk business.

- Operating costs increased by €15.9 million or 11.5% to €154.6 million. This was mostly due to increased employee compensation, attributable to retirement benefits of €5.2 million paid under the Voluntary Early Retirement Scheme, as well as continuous investment in new skills and resources. In addition, the investment in our new IT core banking system implemented at the start of this year has led to increased amortisation cost of €4 million.

The insurance associates both reported a profit before tax for the year ended 2020. However, the Group’s share of results was €10.5 million, down €5.4 million on prior year, primarily attributable to the drop in the financial markets and further decline of the yield curve coupled with economic losses reflected in actuarial valuations.

BALANCE SHEET POSITION

Total assets of the Group reached €12.9 billion as at December 2020 which is 5% higher than last year. The funding of the bank is through customer deposits with more than half of these driven by retail deposits. Customer deposits grew by a further 6%, or €642 million, during the last year. 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. We also saw significant growth in business and corporate deposits.

The Bank has provided significant and widespread support to its clients as they experienced decreases in income levels and liquidity constraints, by relying on its strong capital base.

BUSINESS BANKING

€35m

BOV-MDB COVID Assist Fund

€35 million financing scheme assisting local businesses facing unprecedented disruptions through the COVID-19 Pandemic.

€20m

BOV Business Assist Fund

€20 million to provide direct working capital to support businesses with cash flow issues.

€12.9bn
+5%
TOTAL GROUP ASSETS

€4.7bn
+6.6%
TOTAL ADVANCES

€296m
NET LOAN & ADVANCES GROWTH

€11.3bn
+6%
CUSTOMER DEPOSITS

€642m
CUSTOMER DEPOSITS GROWTH

Despite continued momentum in the loan book, the liquidity position remained very strong with cash and short-term funds increasing by €106.6 million or 2.6% over the year. The Group liquidity ratio stands at 463% reflecting the extraordinary deposit growth that has outpaced loan demand. This excess liquidity, which continues to put pressure on the net interest margin, was partly mitigated by increased investment, of almost €400 million, in Treasury bills and Malta Government bonds. However, the overall financial investments portfolio decreased by 5.2% or €172 million year on year mainly driven by the redemption of foreign securities which were not replaced due to the lack of opportunities. The majority of treasury assets are measured at amortised cost reflecting the Bank's primary business model to hold securities until maturity with a view to 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.

Net loans and advances increased by €296 million during the year, a growth rate of 6.6%, and stand at €4.7 billion as at 31 December 2020. The Bank continues to support its customers, especially during these challenging times, through the payment moratoria, and the 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. A healthy growth in Home loans was again registered during the year as the Government scheme supporting first-time buyers continues and has also now been extended until the end of the first half of 2021. Also, the Bank is committed to continue improving its suite of lending products in 2021, with the latest addition to launch BOV Energy Business Loan earmarked to provide easier financing for clients seeking to invest in Energy Efficiency and Renewable Energy projects.

The Group's capital position remained comfortably above regulatory requirements, with the CET 1 ratio increasing from 19.5% to 20.9%, and the total capital ratio improving from 23.1% to 24.5% as at end of December 2020. In the light of the COVID-19 circumstances, lower profitability means capital growth was less than anticipated. With the Deiulermar claim still outstanding, the Board has committed to maintain strong capital reserves and, in line with ECB guidance, has responsibly decided not to declare any dividend for year 2020.

LITIGATION AND CORRESPONDENT BANKING UPDATE

Although having successfully addressed two of the historic litigation claims long outstanding against the Group, the Deiulemar claim remains outstanding and continues to be significant. The Group is adamant, 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. The bank has been making concerted efforts on all fronts to ensure a fair and independent hearing which we have no doubt would reject this claim. The issue is being complicated by the fact the case is being heard in the Tribunal of Torre Annunziata, amidst significant local pressures that serve to deflect proper legal proceedings. The bank continues to explore every legal and other proper available avenue at its disposal to bring about a change in the judicial process and deliver a fair outcome. Until the bank is successful it needs to demonstrate that, however unlikely, it has sufficient capital resources to withstand any possible adverse outcome. Such surplus capital carries a cost for the bank, more so if additional capital were to be required, and as such the Board considered that it makes commercial sense for the Group to seek to resolve this claim at a level not exceeding the potential cost impact. For this reason, the bank has made a settlement offer to the counterparty (the offer was not accepted), without prejudice and with no admission of liability, in an effort to close out this litigation once and for all. No additional provision for litigation over that taken in the last two years is considered necessary and we will exhibit strong resolve until this issue is closed.

To address the issue of correspondent banking relationships in US Dollars, the Bank has developed solutions to be implemented by March 31st, 2021, to ensure continuity of US Dollars payments post May 31st, 2021 – the effective exit date with Raiffeisen Bank International. Furthermore, we are developing supplemental avenues to ensure we have suitable contingency measures to safeguard US Dollar payment capabilities.

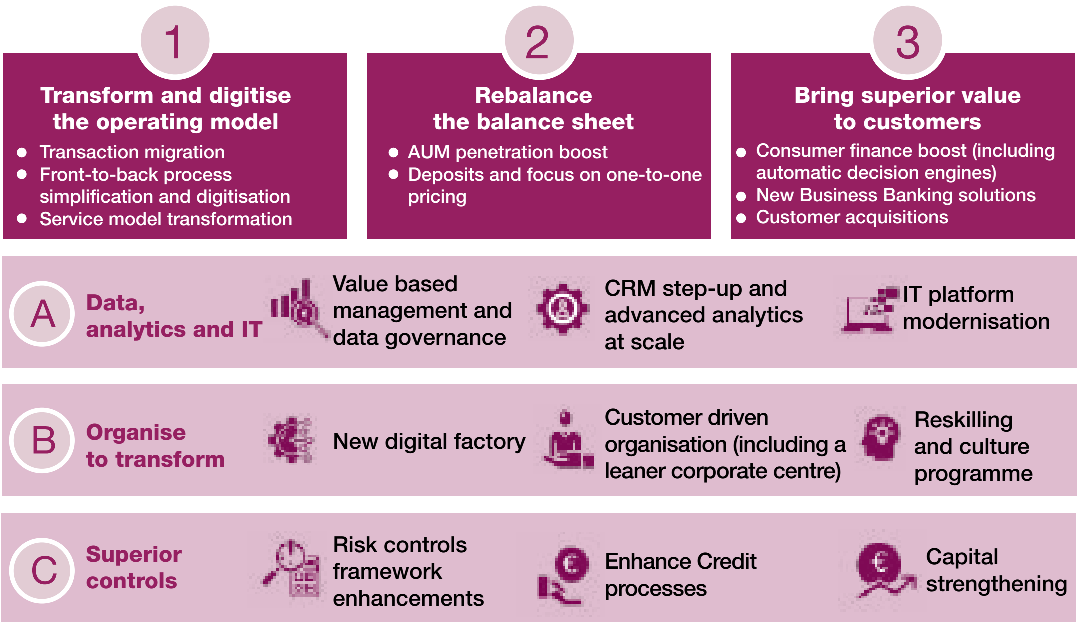
Financial year 2020 was an incredibly challenging year, but one where the benefits of strong capital and liquidity buffers were soundly demonstrated. Downside risks remain due to COVID-19 uncertainty and the remote Deiulemar risks, however there are several recent factors that present very real potential upsides as we look ahead to the recovery in the medium and longer term.

UPDATE ON THE STRATEGIC PLAN - BOV 2023

One of my first priorities as CEO was to engage the Executive Committee and the Board to create a forward-looking strategy for the BOV Group. We have put our hearts and minds into this major strategic review and left no stone unturned to ensure that the Group now has the best possible plan of action for its long-term sustainability.

The retail banking business model is changing rapidly as the record low interest rates continue to exert pressure on the net interest margin, the largest share of income. Technological innovation across most business lines and steep regulatory demands for systemic banks such as Bank of Valletta, are changing the traditional banking landscape. We must not only accept these changes but use them as catalysts for a major shift from the use of cash and cheques to the use of electronic banking channels. BOV 2023 places a challenge on all of us to address areas of inefficiency, dramatically improve customer service and focus on generating value for both our customers and the Bank. I am excited to be driving this intensive transformation programme that will see Bank of Valletta become a more efficient, more digital and more customer-oriented bank.

We have set up a multi-skilled strategy implementation team tasked with co-ordinating the multiple work streams within the extensive programme of initiatives that will be undertaken. The first wave is being implemented and further projects will be embarked upon as the recruitment process in the new organisational structure is finalised. I would like to take this opportunity to highlight the main strategic thrusts underpinning the corporate strategy and the ongoing projects.



1. ***Transformation and Digitisation of the Operating model***
   Our customers are increasingly expecting straight-forward, contactless, digital banking services available round the clock and with multi-channel access. We have set up a Digital Factory, bringing together our Business and IT arms to leverage best-of-breed technology and provide straight-forward, efficient banking services to our customers. We are also working to significantly reduce customer reliance on basic 'in-branch' transactions to afford more time to properly developing customer relationships. These initiatives will improve the customer journey, across all banking channels and portfolio of services.

2. ***Rebalancing the Balance Sheet***
   In the current low interest environment, the additional liquidity that we're carrying is driving considerable cost for the Bank. We will be taking action to achieve a better loans-to-deposits ratio in the longer-term. We are restructuring our Wealth Management arm and strengthening the customer proposition for customers to grow their wealth in line with their expectations and risk tolerance. We will also be placing more emphasis on growing our loan book by offering high-value and innovative products to our personal customers and SMEs.

3. Superior value to Customers

We will be developing our internal data capabilities around our customer base, our products and the resultant value generation. An early priority under this strategic thrust is to streamline our decision making processes delivering a much smoother and faster customer journey for personal lending. In the medium term we will deliver data-driven propositions which provide an even closer fit to customer needs and provide mutual value to our customers and the Bank.

Strategy Enablers

a. Data Analytics and IT

The strategic thrust which underpins most other strategic projects is the leveraging of modern IT solutions and the implementation of a robust and extensive data layer. Over the years, the Bank has under-invested in technology and we will be building on the new Core Banking System to upgrade our IT platforms in line with international standards. Strong data governance structures and extensive data platforms have become a mandatory cornerstone for business intelligence reporting, nurturing of customer relationships and management of business operations. The new data management capabilities that we plan to implement over the coming months will give us the capability to manage our customer relationships better and monitor the customer journey across the multitude of channels, products and services that we offer.

b. Our People

Our employees are the principal enablers of the strategy - the champions at the core of this exciting transformation. We are making sure that our employees fully understand and support the strategy, and we are empowering them to drive the change and mentoring them along the way. In the first quarter of 2021 I have communicated the new organisational structure, as approved by the Board, emphasising a much flatter structure and which can offer enhanced career opportunities based upon a meritocratic assessment of capabilities and potential. We are moving towards a 'target organisation', which aligns our people and resources under three business operating pillars: Retail, Business and Investments. In these business units and operational areas which support them, we are continuing to bring in new talent to help us learn and grow. I am fully confident that this exercise will bring about a positive cultural change, fostering stronger synergies between employees and embedding key shared corporate objectives.

c. Strengthening Governance and Risk

Over the past year we have maintained momentum on the de-risking programme, and are now at the tail end with very few residual issues that are beyond our direct control. We have now shed most of the risk that falls outside the boundaries of our Risk Appetite Framework and we have made the Bank much safer and stronger.

The new organisational structure lays down a solid foundation for strengthening our Risk, Compliance and Audit functions, resourcing them with the necessary manpower and giving them effective tools and training to perform at their best. We are achieving tighter synergies between the business generating functions and the backend governance structures by cascading relative responsibilities and assigning ownership of risks across the Bank. Lastly, as part of the commitments made to the ECB and local regulator, the Bank's AFC Transformation will have materially concluded all of its commitments by the end of Q2 2021.

CLOSING STATEMENT

I thank all our employees wholeheartedly for adapting to the situation and walking the extra mile to provide uninterrupted services to our customers. Special appreciation goes to our front liners, our heroes who have manned our face-to-face channels providing personalised services to customers who required their assistance. 2020 will go down in history as one of the most turbulent years of our times but it has also been a remarkable year for climate change, medicine and alternative energy. Adapting to change is far from easy but it is the only way forward. I am confident that the ambitious strategic plan BOV 2023 we have embarked on will deliver marked improvements in the ways we operate and in the quality of service that we offer to our customers. I encourage all our employees, customers, shareholders to embrace the inevitable change that we are facing and pull together, each in their own way, so that in a few years we will look back with pride to have transformed Malta's largest bank into a simpler, straightforward and long term sustainable bank.

Rick Hunkin

Chief Executive Officer
30 March 2021

BOV's response to COVID-19

Our continued investment in electronic banking channels over the years permitted a quick adaptation when the pandemic struck.

TECHNOLOGY & BOV DIGITAL CHANNELS

The introduction of new BOV Mobile functionality along with the increasing of transaction limits enabled the Bank to register a record number of digital transactions across all e-channels.

More than 60% of employees were able to work safely and securely from remote locations and simultaneously offer a seamless customer service.

Our continued investment in electronic banking channels over the years permitted a quick adaptation when the pandemic struck. The collaborative effort demonstrated by multiple units across the Bank have enabled a smooth transition to a new way of doing things, a distributed workflow which keeps customers at the focus of our operations.

EMPLOYEES
AND BRANCHES

When the pandemic reached our shores in March, the Bank reacted promptly by taking all necessary measures to ensure the safety of its customers and employees. A multi-disciplinary Incident Management Team (IMT), has been carrying out regular assessments of the situation and implementing necessary preventive and corrective actions throughout. The Team's remit will remain convened for as long as necessary until we return to normality.

Customer-facing areas were all equipped with protective screens, sanitising stations and controlled queueing systems that largely reduce the possibility of the transmission of the virus. We have stepped up the sanitisation of public spaces, offices, air-conditioners and ATMs, enforced a clean desk policy and stopped queuing within branches. We have implemented strict social distancing and protective policies for our employees, stopped all social activities and instructed our people to self-isolate if they experience any symptoms or have any kind of doubt that they have been exposed to the virus.

Multiple educational campaigns have been successfully launched to encourage our customers to use BOV electronic channels, leaving branch visits as a last resort and preferably with an appointment. A dedicated BOV Assist Team was launched and a number of banking services were offered through email, video-conferencing and phone calls.

Remote working capabilities were provided to employees, enabling vulnerable staff to work from the safety of their home, parents to take care for their children and others to keep safe while keeping connected with their workplace. Flexible working arrangements are still in place, enabling the business operations to continue uninterrupted while protecting our staff and customers from exposure to the virus.

CUSTOMERS

As expected, we have seen a dramatic shift from manual, face-to-face transactions to electronic payments and e-channels, with mobile banking being our customers' preferred channel. We have adapted our operations to accelerate the processing of applications for digital channels and increased the limits for daily payments.

BOV MDB COVID-19 ASSIST

€280m	400	€193m
TOTAL SANCTIONED AMOUNTS	**BUSINESSES GRANTED FINANCE**	**AMOUNT WITHDRAWN IN 2020**

The effects of the pandemic reached all segments of customers and the Bank supported its customers by financing working capital needs for businesses which faced liquidity shortages and helping the most affected households to maintain an adequate disposable income. In total, the Bank provided moratoria (payment holidays) to more than 3,000 customers, deferring collections in excess of €79 million. The assistance reached all sectors of the economy, with the most predominant sectors being accommodation and food, wholesale and retail, transport, and entertainment services.

The BOV MDB COVID-19 ASSIST scheme, which was first launched by the Bank in April 2020, also proved to be an effective lifeline for businesses to shore up their liquidity and make up for the sudden loss of income. Around 400 customers have been granted finance under this scheme for total sanctioned amounts of circa €280 million, of which €193 million was withdrawn in 2020.

TECHNOLOGY
& BOV DIGITAL CHANNELS

In response to the pandemic, Bank's IT arm has dramatically accelerated its efforts to safeguard employees' health and fully support operations within the guidelines issued by the health authorities. More than 60% of employees were able to work safely and securely from remote locations and simultaneously offer a seamless customer service. Over the year, the Bank kept on investing in such facilities to implement a modern workplace that covers the whole supply chain - employees, customers, partners and suppliers.

The introduction of new BOV Mobile functionality along with the increasing of transaction limits enabled the Bank to register a record number of digital transactions across all e-channels. We will continue to encourage this shift through substantial investment in technology and incentivising online customer transactions. With the implementation of BOV Strategy 2023 in the coming months, Bank of Valletta will see a substantial additional investment in technology to modernise its technology stack as well as introducing new technologies to improve customer experience through digitalisation of its service as well as more efficient internal services and straight-through-processing.

SUPPORT
TO THE COMMUNITY

As the effects of the pandemic penetrated all segments of society, the Bank's Community Programme was adjusted to alleviate the hardship of the most vulnerable and instil a sense of support across the community at large. The Executive Team will continue to fully support the Chairman to implement his vision of a renewed Corporate Social Responsibility Programme aligned to international ESG standards and aimed towards the long-term development of society and protection of the environment.

Executive Committee

Rick Hunkin
Chief Executive Officer

Mr. Rick Hunkin was appointed as the Bank's Chief Executive Officer on 1 January 2020. He is a vastly experienced financial services executive who has worked in all aspects of retail, commercial and corporate banking for over 35 years. Having started his career at NatWest and then Lloyds TSB, he has since covered a wide span of organisations and held seats on the Boards of several UK financial services companies including Tesco Bank, Cheltenham and Gloucester, Goldfish Bank, GE Money and National Bank of New Zealand. Post the 2007/08 crisis Mr. Hunkin was one of a small senior group hired to resolve issues at Northern Rock and subsequently joined the Executive team leading the establishment of Williams & Glyn (part of the RBS EU remediation programme). Prior to joining Bank of Valletta, he was Chief Risk Officer of Chetwood Financial.

Mr. Hunkin sits on the Bank's Board of Directors as an Executive Director and he is a director on the board of MAPFRE MSV Life p.l.c. He chairs the BOV Executive Committee and the Asset Liability Management Committee and is also a member of various management committees. Mr. Hunkin is currently Chairman of the Malta Bankers' Association.

Mr. Hunkin holds a Masters in Business Administration from Manchester University and a Financial Studies Diploma - a degree level qualification obtained via the Chartered Institute of Bankers and Sheffield Hallam University. He has been elected a Fellow of the Chartered Institute of Banking in both England and Scotland (FCIB, FCIBS) for services to Banking and Education.

Joe Agius
Chief Technology Officer

Mr. Joseph Agius was appointed Chief Technology Officer in October 2014 and became a member of the Bank of Valletta Executive Committee in October 2016.

Since joining the Bank in 1985, Mr. Agius has garnered over thirty years' experience in IT and Financial Services. In this time, he has been actively involved in the implementation of various mission critical projects, including the recent Core Banking Transformation. In his role as Chief Technology Officer, Mr. Agius is responsible for driving the Bank's IT strategy. He is a strong proponent for modernisation in IT, digitisation and running IT as a business with its inherent business value.

Mr. Agius holds an Honours degree in Computer Science from the University of Reading and an MBA in eBusiness from Grenoble Graduate School of Business. He is also a Chartered Engineer and member of the British Computer Society.

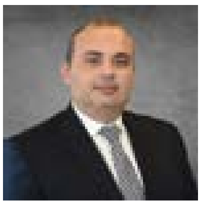
Ernest Agius
Chief Operations Officer

Mr. Ernest John Agius was appointed BOV's Chief Operations Officer in May 2016. He is responsible for Change Management, the Bank's Administration Function including Facilities, Security and Health & Safety, Procurement, the Architect's Unit, the Transaction Monitoring Function, Investment & Custody Operations, Centralised Operations including, Cash, Cheque, ATM and Safe Deposit Lockers Management, SWIFT & SEPA Payments Processing and Reconciliations, Customer On-Boarding including Account Opening and the Customer Lifecycle Management unit.

Mr. Agius joined Bank of Valletta in 2015 as Change Management Executive with the specific target of setting up a Change Management Function aiming to implement the Core Banking System in 2019.

Mr. Agius's career in the financial services sector spans more than thirty-four years during which he has held a number of senior executive positions within the business, migrating customers to digital channels and IT. He has vast experience in the banking operations, financial crime compliance, and has led major transformation projects involving complex technology, automation and de-risking.

He has been a member of the Executive Committee since June 2016, member of the Change Management Committee, the Internal Control and Risk Management Committee and the Incident Management Team, since January 2020.



Miguel Borg
Chief Risk Officer

Mr. Miguel Borg was appointed as the Bank's Chief Risk Officer in November 2014.

He serves as the Deputy Chairman of the Executive Committee and chairs the Credit Committee, the Internal Control & Risk Management Committee and the Credit Sanctioning Committee of BOV. Mr. Borg was appointed to the Board as Executive Director in August 2017. He is a Director of BOV Asset Management Ltd and chairs the Risk Committee of the company. He also chairs the Risk Committee of MAPFRE MSV Life p.l.c. Prior to joining the Bank, he worked at the Central Bank of Malta.

Mr. Borg holds a Masters in Economics and is a member of a number of international risk management associations. He serves as a member of the Ethics Committee of PRMIA (USA). He lectures at the University of Malta.

Kenneth Farrugia
Chief Retail Banking Officer

Mr. Kenneth Farrugia joined the Bank in 1985 and has since occupied various positions within the Group. Mr. Farrugia currently holds the post of Chief Retail Banking Officer and sits on the Executive Committee.

Mr. Farrugia is amongst others responsible for the improvement of the Bank's market position, as well as the achievement of financial growth and long-term strategic business goals. He currently sits on the Board of Directors of BOV Asset Management Ltd and is also a director on the board of the Vilhena Funds SICAV p.l.c. Mr. Farrugia is a Fellow of the Institute of Sales and Marketing Management in the UK.

Elvia George
Chief Finance Officer

Ms. Elvia George was the Chief Finance Officer of the Group, a post she has occupied since May 2008. In this role she was responsible for all the core areas of Finance, Management Reporting and the published Group Financial Statements as well as other areas within the Group. Ms. George resigned from the Bank on the 5 January 2021.

Ms. George was a member of various committees and boards within and outside the Group including voluntary organisations. She is a certified public accountant, graduating with first class honours in accountancy from the University of Malta and a Fellow of the Malta Institute of Accountants. Besides lecturing at the University of Malta, where her area of expertise is accounting for financial institutions, she also supervises a number of students in their dissertation during their final year of the professional degree of the Masters in Accountancy or for an MA in Financial Services. Ms. George is involved with the Malta University Examination Panel and has also served as a member of the Accountancy Board for a number of years.

Following the retirement of Ms. George from Chief Financial Officer of the Bank, with effect from 5 January 2021, Ms. Marisa Abdilla was appointed interim Chief Finance Officer, with effect from same date and pending the appointment of a permanent Chief Financial Officer. On the 1st March 2021, Ms. Izabela Banas was appointed as the new Chief Finance Officer of the Bank, subject to regulatory approval.

Albert Frendo
Chief Business Banking Officer

Mr. Albert Frendo is an accountant by profession and is responsible for the stewardship of the Credit Function. His career at the Bank spans over thirty years with wide ranging experience in cost management and financial reporting, risk management and credit finance. For twelve years, he headed the Bank's Risk Function and was later assigned with the management of the Bank's overall Credit Portfolio, responsible for a number of key credit areas including Corporate, SME, Consumer and Trade Finance, Collections and Collateral Management. He was entrusted to launch Risk Sharing Instruments in Malta aimed at SMEs including JEREMIE, CIP, SMEG, SME Initiative (JAIME) and SME Invest.

Mr. Frendo is a member of the Bank's Executive Committee and a number of management committees. He holds a degree in Accountancy from University of Malta and a Masters in Business Administration, with specialisation in Management Consulting, from Grenoble Graduate School of Business in France.

Anthony Scicluna
Chief Officer Human Resources & Ethics

Mr. Anthony Scicluna was appointed as Chief Officer Human Resources and Ethics Development in 2016 and became a member of the Executive Committee in November 2019. As Chief Officer Human Resources and Ethics, Mr. Scicluna is responsible for the Group's human resources, training, ethics and employee professional development.

Mr. Scicluna joined the Bank in 1984 and mainly held positions within the Bank's branch network, finance and internal audit. Between 2005 and 2013 he was responsible for the Bank's Group Internal Audit. Mr. Scicluna is a certified public accountant and holds a practicing certificate in auditing. He is a Fellow of the Malta Institute of Accountants and also holds an honours degree in Business Management from the University of Malta.

Corporate Social Responsibility (CSR)

COVID-19 turned our operations upside down. As an organisation that has been practicing Corporate Social Responsibility (CSR) for years, we had to strike a balance between pandemic-related initiatives and social and community initiatives.

While adapting our vision and mission for CSR initiatives during the pandemic, we did not let our original goals for the Community fall within the cracks and continued to allocate the necessary resources in these extenuating circumstances

OUR STAFF

As a Bank woven into the social fabric of the Maltese Community with a presence in almost every town or village in Malta, we strongly believe that our organisation and also our workforce are essential in making a positive impact on the communities in which we operate.

2020 was indeed very challenging, with human interaction highly reduced due to the pandemic. This did not deter the Bank's staff members from making their positive contribution.

BOVFun@home was an initiative based on the Bank's website launched when schools were closed in March, where staff members created interesting content such as craft-making and drawing initiatives, fitness sessions and simple cooking. We also shared educational material from the Bank's partners within the community covering diverse topics such as the environment, history and music.

Despite the situation, numerous staff members volunteered to donate blood during 3 blood donation drives organised by the Bank for its staff members. A Bank wide food donation drive to aid Food Bank Lifeline and the St Jeanne Antide Foundation yielded tons of food during the Christmas Period.

A special commendation goes to our front-liners and support services who worked around the clock to ensure that we could continue to deliver the much required uninterrupted banking services throughout the ongoing pandemic, and to improve our service offering and promote safe ways for conducting one's banking.

OUR CUSTOMERS

The Bank continued to enhance its digital channels to assist customers obtain the services required without having to physically go to the Bank. Specific supporting measures were introduced for vulnerable individuals to ensure that they could continue fulfilling their banking requirements, various services were offered through email, video-conferencing and phone calls. A dedicated BOV Assist Team was launched to help customers and an appointment-based strategy minimised waiting time at branches when no alternative was possible.

Flexible moratoria on loans provided a lifeline for people whose income was impacted, with temporary increases in overdraft and credit card limits providing short-term financial respite at no extra charges. Various fees were also waived to decrease the burden on customers going through difficult times due to the COVID-19 situation.

THE COMMUNITY

ARTS & CULTURE

During February the Bank held the 27th edition of its Retrospective Art Exhibition celebrating the works of Celia Borg Cardona and her bold, vigorous and expressive brushworks at the Gran Salon at the Auberge de Provence, currently being meticulously restored through the support of Bank of Valletta. The exhibition was curated by Francesca Balzan and inaugurated by H.E. George Vella, President of Malta.

The Bank 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 Manoel Theatre and The Malta Philharmonic Orchestra continued to enjoy the Bank’s support, delivering online performances for the entetainment of the Community throughout the restrictions. The Bank also supported the The Malta Together Festival of Gratitude and Inspiration during May 2020, a concert aired on television and online aimed at providing an evening of entertainment to everyone while staying indoors and to show the nation’s gratitude to all the front-liners battling COVID-19.

HERITAGE

The 3-year restoration project of the small church dedicated to St. Paul in Triq il-Wied, Birkirkara was completed in January 2020. The marouflage painted ceiling by Prof Giuseppe Briffa and decorations were extensively conserved and restored through Bank of Valletta’s support. The ceiling of the church is dedicated to the conversion of St. Paul, and the restoration works were entrusted to Atelier Del Restauro.

Another two major restoration projects were completed during 2020. The restoration and conservation works on an 18th Century painting and crucifix forming the Golgotha Group at the Siggiewi Parish Church and the restoration of ‘The Return of the Holy Family from Egypt’, were both supported by the Bank. We are also very pleased to note significant progress in the restoration project of the Gran Salon at the National Museum of Archaeology in Valletta.

SOCIAL

During the first quarter of the year, the Bank organised a number of campaigns aimed at raising awareness towards various core social issues such as Organ Donation, Blood Donation and Obesity Week. The 'Be a Lifesaver this Valentines' Day' campaign, saw over 350 employees and customers register their wish to donate their organs upon their demise. 'Project Health@BOV' a campaign based on information, activities and nutrition, aimed at encouraging staff members to embrace a healthy lifestyle was awarded 1st place in the Workplace Health Initiative Competition 2020 in the Large Business Category, organised by the Health Promotion and Disease Prevention Directorate.

With gatherings prohibited and lunches cancelled, Bank of Valletta decided to uplift the mood on Mother's Day and organised a surprise for some of its customers. Mothers of the 'Send a Message to Your Mum' Contest participants received a home baked cake and a hand made card containing the message of appreciation sent by their children.

Bank of Valletta and The Marigold Foundation (BOV in the Community) supported Caritas in the full refurbishment of The San Blas Male Quarters. These quarters provide a safe and secure environment for individuals following residential drug rehabilitation. Works on St Michael Hospice, the first State-of-the-Art palliative care complex in Malta continued throughout 2020. Bank of Valletta partnered with Hospice Malta on this ambitious project.

School-children managed to surprise us through the L-Istrina BOV Piggy Bank Campaign, collecting more funds than the previous year. The funds, including a generous donation by the Bank were presented to the Malta Community Chest fund Foundation during the live broadcast of L-Istrina.

SPORTS

Sports was one of the sectors that was hard hit by the pandemic and the resulting restrictions. The BOV MFA Football Leagues had to end prematurely, with champions from the various divisions being crowned later in the year. The BOV Basketball Competitions for 2019/2020 were cancelled, while the BOV Water Polo Summer Championships were one of the first sports competitions to be completed during this particular year.

The traditional BOV Gozo Sailing Regatta was this year transferred to Malta's coastal waters to reduce the possibility of contagion and was welcomed by the participants while the 'BOV Tazza l-Kbira', the most prestigious race in Malta's trotting calendar was held late in the year.

The Bank maintained its full support of its partner organisations, despite the lack of competitive action, to continue to assist them to build up for upcoming initiatives.

Bank of Valletta

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

Directors' report as at 31 December 2020

The Directors present their 47th Annual Report, together with the audited financial statements of the Bank of Valletta Group (the Group) and the Bank for the Financial Year (FY) ended 31 December 2020.

Principal Activities

The Bank of Valletta Group comprises Bank of Valletta p.l.c. (the Bank) and two subsidiary companies namely BOV Asset Management Limited (BOV AM) and BOV Fund Services Limited (BOV FS). The Group also has two equity-accounted investee companies, MAPFRE Middlesea p.l.c. and MAPFRE MSV Life p.l.c. The Group's principal activities are set out below.

The Group offers banking, financial and investment services and connected activities within the domestic Maltese market. The principal activities of the Bank comprise the following:

1) The receipt and acceptance of customers' monies for deposit in current, savings and term accounts which may be denominated in Euro and other major currencies,
2) The provision of loans and advances to a wide array of customers, and
3) The provision of investment services, covering a comprehensive suite of investment products and services that meet the customers' needs throughout their lifecycle, including stockbroking, advisory and discretionary portfolio management services.

The Group also provides a number of other services, including, bancassurance, corporate advisory, fund management, fund administration, and other services, such as 24-hour internet banking service, issuance of major credit cards, night safe facilities, automated teller machines, foreign exchange transactions, and outward and inward payment transfers.

The Parent Company

Bank of Valletta p.l.c. is licensed to carry out the business of banking and investment services in terms of the Banking Act,1994 (Chapter 371, Laws of Malta) and the Investment Services Act,1994 (Chapter 370, Laws of Malta). The Bank is an enrolled tied insurance intermediary of MAPFRE MSV Life p.l.c. under the Insurance Intermediaries Act, 2006 (Chapter 487, Laws of Malta).

The Bank offers the entire range of retail banking services as well as the sale of financial products such as units in collective investment schemes. The Bank also offers investment banking services, including underwriting and management of Initial Public Offerings (IPOs).

The Subsidiaries

BOV AM provides management services for collective investment schemes and portfolio management services for institutional clients. BOV AM is a fully owned subsidiary of the Bank and has three regulatory functions: Asset Management, Risk Management and Compliance.

BOV FS is also a fully owned subsidiary of the Bank and is recognised as a fund administrator and licensed as a Company Services Provider by the Malta Financial Services Authority. BOV FS provides a comprehensive suite of services to fund managers and fund promoters, as well as a full suite of fund administration including fund accounting, shareholder registry services, regulatory reporting and corporate services.

Equity-Accounted Investees

MAPFRE MSV Life p.l.c. operates as a life assurance company licensed under the Insurance Business Act, 1998 (Chapter 403, Laws of Malta). MAPFRE Middlesea p.l.c. is engaged in the business of insurance, including group life assurance.

The Bank's Strategic Plan – BOV 2023

During the first half of FY 2020 the CEO and the Board of Directors developed a comprehensive strategic plan, entitled BOV 2023. The overarching strategic ambition is to transform Bank of Valletta into a more efficient, more digital and more customer-oriented organisation whilst continuing to strengthen the control functions. The long-term sustainability of the Bank and its support to the local economy is being ensured through a number of initiatives.

Directors' report as at 31 December 2020 (continued)

The Strategic Plan is based on 3 key strategic pillars as follows:

1) Transform and digitise the operating model

2) Rebalance the balance sheet

3) Bring superior value to customers

The Bank's strategy has been defined within the Risk Appetite Framework (RAF) and approved by the Board during the year under review. More information on the Bank's Strategic Plan – BOV 2023 is found in the CEO's Commentary.

Principal Risks and Uncertainties pursuant to Article 177 of the Companies Act, 1995 (Chapter 386, Laws of Malta)

The Directors are aware of the various risks faced by the Group as a result of its involvement in different business lines and operations. A number of measures are in place to ensure that such risks and uncertainties are maintained at acceptable levels and are in line with the Group's risk appetite and strategy of sustainable, long-term growth and profitability. In line with the Bank's Policy, the Risk Appetite Statement and Framework was reviewed and approved by the Board of Directors in September 2020. The document lays out the responsibilities of various stakeholders, including the Board of Directors and Senior Management, and establishes a number of qualitative and quantitative parameters for acceptable risk taking.

In line with the provisions of the Risk Appetite Statement and Framework, Senior Management is responsible for the day-to-day monitoring and control of risk taking, subject to the regular oversight of the Board of Directors through the Risk Management Committee. The overall structure is aimed at ensuring a sound risk culture supported by a performance management system that discourages excessive risk taking.

The key risks faced by the Group include credit risk, market risk, operational risk and liquidity risk. These, and other risks and uncertainties inherent in the business, require sound capital management to ensure adequacy against regulatory requirements and adverse events. With this in mind, the Group regularly sets out and reviews capital targets in line with actual and forecast business levels and monitors performance against such targets on a regular basis. A more detailed explanation of key risks and capital management is included within the Pillar 3 Disclosures Report available on the Bank's website, as well as Note 39 to the Financial Statements.

The Directors also recognize the fact that the Group may be subject to reputation and litigation risk as a result of its actions and operations. Conscious of the serious repercussions such risks may have on the Group's and the various stakeholders' wellbeing, both the Board of Directors and Senior Management exercise zero tolerance to conduct risk and aim to instil the highest levels of ethical behaviour through a number of appropriate policies, procedures and controls.

Operational Overview

A review of the business of the Group for the period ended 31 December 2020 and an indication of future developments are provided in the Chairman's Statement and the Chief Executive Officer's Commentary, which can be found in the front section of this Annual Report.

Directors' report as at 31 December 2020 (continued)

Dividends

The Board has taken note of the ECB's recommendations of the 27 March 2020, 31 July 2020 and subsequent recommendation of 15 December 2020, on the dividend distribution during the COVID-19 pandemic – ECB/2020/62. The ECB recommends that significant credit institutions exercise extreme prudence when deciding on paying out dividend, to enable banks to continue to fulfil all requirements and outcomes of the SREP even in the case of deteriorated economic and financial conditions.

In view of the above, the Board has resolved not to declare an interim dividend and does not intend to recommend a final dividend for Financial Year 2020.

Board of Directors

The following Directors served on the Board during FY 2020:

Gordon Cordina (Chairman - appointed on 13 October 2020)
Stephen Agius
Paul V Azzopardi (resigned 15 February 2020)
Miguel Borg
Diane Bugeja
James Grech
Rick Hunkin
Alfred Lupi (Interim Chairman between 16 May 2020 and 12 October 2020)
Anita Mangion
Alfred Mifsud
Antonio Piras
Taddeo Scerri (Ex-Chairman, resigned on 15 May 2020)

Directors' Responsibilities

The Directors are required by the Companies Act, 1995 (Chapter 386, Laws of Malta) to prepare financial statements in accordance with International Financial Reporting Standards as adopted by the EU which give a true and fair view of the state of affairs of the Group and the Bank as at the end of the financial year and of the profit or loss of the Group and the Bank for the year then ended.

In preparing the financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Bank will continue in business as a going concern.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Group and the Bank, and which enable the Directors to ensure that the financial statements comply with the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta) and with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU. This responsibility includes designing, implementing and maintaining such internal controls as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. The Directors are also responsible for safeguarding the assets of the Group and the Bank, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

After reviewing the Group's plans for the coming financial years, the Directors are satisfied that at the time of approving these financial statements, it is appropriate to continue adopting the going concern basis in preparing these financial statements.

Auditors

A resolution to re-appoint KPMG Malta jointly with KPMG LLP (United Kingdom) as statutory auditors of the Bank will be proposed at the forthcoming Annual General Meeting (AGM). KPMG Malta and KPMG LLP (United Kingdom) have expressed their willingness to remain in office.

Directors' report as at 31 December 2020 (continued)

Going concern – Listing Rule 5.62

The financial statements are prepared on a going concern basis. The Directors regard that pursuant to Listing Rule 5.62, this is appropriate, after due consideration of the Bank's profitability, liquidity, the statement of financial position, capital adequacy and solvency. Specifically, the Directors have prepared financial and capital plans for the next three years which show that the Bank is in a position to continue operating as a going concern for the foreseeable future. These plans take into account risks facing the Bank, including but not limited to, the potential crystallisation of known contingent liabilities.

Information Pursuant to Listing Rule 5.64

Authorised Share Capital

The Bank has an authorised share capital of €1,000 million divided into 1,000 million ordinary shares with a nominal value of €1.00 each.

Issued Share Capital

The issued shares of the Bank consist of one class of ordinary shares with equal voting rights attached.

The Bank has an issued and fully paid up share capital of €583,849,270 divided into 583,849,270 shares with a nominal value of €1.00 each. There were no changes to the issued share capital during FY 2020.

Shareholding Structure

Clause 4.3 of the Bank's Memorandum of Association provides that, with the exception of existing large shareholders, presently the Government of Malta and UniCredit S.p.A., no person may at any time, whether directly or indirectly and in any manner whatsoever, acquire such number of shares in the Bank, as would in aggregate be in excess of 5% of the issued share capital of the Bank.

As at 31 December 2020, Malta Government Investments Limited had a shareholding in the Bank of 0.48% and National Development and Social Fund (NDSF) had a shareholding in the Bank of 2.88%. Both entities are fully owned by the Government.

Any shareholder holding in excess of 50% of the issued share capital of the Bank or if no such shareholder exists, the shareholder holding the highest number of shares not being less than 25% of the issued share capital, may appoint the Chairman. Qualifying Shareholders with 10% or more of the shares in issue are entitled to recommend one Director for every 10% holding.

The Directors confirm that as at 31 December 2020, shareholding in excess of 5% of the issued share capital of the Bank was held directly by:

Government of Malta	25.0%
UniCredit S.p.A.	10.2%

Appointment of Directors

The rules governing the appointment and replacement of the Bank's Directors are contained in Articles 24 to 31 of the Bank's Articles of Association. More details on the appointment and rotation process of Directors is found under the Corporate Governance Statement of Compliance, under principle 3.

An extraordinary resolution approved by the shareholders in general meeting is required to amend the Memorandum and Articles of Association.

Powers of Directors

The Board of Directors has the power to transact all business of whatever nature, not expressly reserved by the Memorandum and Articles of Association of the Bank, to be exercised by the Bank in general meeting or by any provisions contained in any applicable laws.

The shareholders in general meeting authorised the Board to exercise during the Prescribed Period, all the powers of the Bank to issue and allot shares up to an aggregate nominal amount equal to the Prescribed Amount. The Prescribed Period refers to a term of five years approved during an Extraordinary General Meeting held on 27 July 2017 and which term expires on the 26 July 2022.

This authority is renewable for further periods of five years each.

Directors’ report as at 31 December 2020 (continued)

Directors’ Service Contracts

The Directors have service contracts with the Bank. More information on the Directors’ service contracts can be found under the Remuneration Report.

Collective Agreements

The relative Collective Agreements regulate the compensation payable to employees in case of resignation, redundancy or termination of employment for other reasons. More information relating to Collective Agreements is found further below under the section entitled Non-Financial Disclosures.

Employee Share Scheme

During the 46th Annual General Meeting held on the 26 November 2020, the general meeting approved the rules of the Bank of Valletta Variable Remuneration Share Plan (“Plan”), and the Board of Directors was authorised to (i) establish the Plan and to do all such acts and things as may be necessary or expedient to give effect to the Plan; and (ii) issue up to and including 14,596,232 shares from the authorised share capital of the Bank for the purpose of satisfying the obligations of the Bank that will ensue from the operation of the Plan, without first offering the same to shareholders in proportion to their then existing holdings.

It is hereby declared that as at 31 December 2020, information required under Listing Rules 5.64.7 and 5.64.10 was not applicable to the Bank.

Amendments to the Articles of Association

A new clause 19.15 was introduced in the Bank’s Articles of Association of the Company, following Shareholders approval during the Annual General Meeting held on 26 November 2020. The inclusion of this new article, will permit the Directors to convene and conduct meetings of shareholders, remotely through electronic means. This includes both annual and extraordinary general meetings. It is not the intention of the Directors to cease conducting physical meetings of shareholders as they have been traditionally known, but this article was introduced to rather allow those shareholders who may not be able to attend a meeting physically, to attend remotely (and therefore not necessarily to give a proxy). The article provides that the notice convening the meetings shall have to state how the meeting shall be conducted, and the Directors shall be required in line with the new amendment to provide for shareholders’ attendance, participation and voting by electronic means at the meeting. The Directors were also delegated the authority to make regulations, not inconsistent with the provisions of the Articles of Association, for the proper conduct of remote meetings by electronic means.

Information pursuant to Listing Rule 5.70.1

There were no material contracts to which the Bank, or any one of its subsidiaries, was a party and in which anyone of the Bank’s Directors was directly or indirectly interested.

Declaration pursuant to Investment Services Rule R4-5.3.5

Pursuant to the Malta Financial Services Authority (MFSA) Investment Services Rule R4-5.3.5 for Investment Services Providers and Standard Licence Conditions (SLCs) SLC 2.30, it is hereby declared that during the reporting period, there were no breaches of the MFSA Investment Services Rules, Standard Licence Conditions or other regulatory requirements which were subject to an administrative penalty or other regulatory sanction.

Directors' report as at 31 December 2020 (continued)

Whistleblowing

The Bank has in place a Whistleblowing Policy aimed to encourage reporting of improper practices and suspected wrongdoing in a controlled manner which safeguards the confidentiality of the whistleblower. The nature of the disclosures made through the Whistleblowing process are reported to the Audit Committee.

Information pursuant to the Sixth Schedule of the Companies Act, 1995 (Chapter 386, Laws of Malta)

Branches, Agencies and Centres

The Bank has the following Branches, Agencies and Centres around Malta and Gozo:

- 36 Branches offering both deposit taking and lending services
- 5 Business Centres
- 6 Investment Centres
- 4 Agencies offering deposit services only
- 1 Sub-Agency/Satellite Branch offering both deposit and lending services which reports to the "parent" branch

Besides the above local Branches, the Bank has four Representative Offices, one in Milan which was opened in 1996, one in Libya (temporarily closed) which was opened in 2002, one in Brussels, opened in 2012 and another one in London which was opened in 2018.

During the period under review, a number of Branches, Agencies and Centres around Malta and Gozo were constrained to close up temporarily, for a day or two or as the circumstances necessitated, due to the COVID-19 pandemic situation. Following sanitization as per Health Authority recommendations, the above mentioned Bank's premises were re-opened and resumed business.

Research and Development

In light of the business sector in which it operates, the Bank does not consider research and development as a main area of activity.

Events occurring after the end of the accounting period

On the 25 March 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 from the Bank). MMSV's other shareholder, MAPFRE Middlesea p.l.c., has made a similar €20 million capital injection into MMSV. Following this capital injection, the Bank continues retaining its 50% shareholding in MMSV and therefore, the Bank retains the same influence within MMSV.

The capital injection of €20 million is a material related party transaction for the Bank. Audit Committee and Board approval and the necessary regulatory no objection were all sought and obtained.

Non-Financial Disclosures

The following disclosures are made pursuant to Directive 2014/95/EU:

1. Business Model

Bank of Valletta's business model is underpinned by a retail as well as corporate funding strategy. This strategy has over the years enabled the Bank to provide its personal and business customers with a wide array of consumer and business financing products. Moreover, the Bank's customer service proposition revolves around the provision of a comprehensive suite of products and services that have been developed to address the fast changing requirements of our clients as they progress through the different stages of their life-cycle. In reaching its customers, the Bank's distribution strategy revolves around a blend of physical and digital channels to allow the Bank to service its customers in a flexible manner and at the same time provide ease of access for our clients to the Bank.

The Bank's strong branch network plays an important role in this model and remains a critical service touchpoint for an array of basic banking services albeit the development of the Bank's internet and mobile banking as well as BOV Pay, the Bank's payment app, has brought about a significant transaction migration to these channels. Insofar as specialised investment services are concerned, a number of Investment Centres and a specialised Wealth Management Unit provide our customers with convenient, professional and dedicated investment management and advisory services. On the other hand, through the Bank's Corporate Centre, as well as a number of Business Centres, the Bank attends to the bespoke financing requirements of its business customers.

Directors' report as at 31 December 2020 (continued)

The onset of the COVID 19 pandemic has impacted the Bank's business and operational model in a number of ways and these had to be adapted to meet the limitations imposed by the current environment. The drive to reduce customer footfall in the branch network to minimise the incidence of the viral contagion did see a shift of a significant number of over the counter transactions and traditional cheque and cash based payment methods to alternative channels/payment mechanisms such as ATMs, debit and credit cards, internet and mobile banking and the Bank's digital wallet. Equally so, the Bank has made use of digital media channels to communicate with customers to attend to their investment and general banking financial requirements as against the traditional face to face meetings at the Bank's branches and other customer facing touchpoints. Nonetheless, the Bank still facilitated the use of its branch network by introducing a number of health and safety measures such as perspex screens, sanitisers and social distancing policies to enable its clients to utilise these channels in a relatively safe environment.

On the credit financing side, the Bank has worked closely with the Malta Development Bank through the launch of MDB COVID-19 guarantee scheme to provide access to finance for all types of local businesses, facing COVID-19 related challenges. This has enabled the Bank's customers to meet working capital requirements as well as other running costs that are critical for the smooth running of the business.

2. Environmental Friendly Measures

Bank of Valletta prides itself on being an instrumental player in Malta's sustainable development, responsible and caring towards the communities it operates in. As a result of its strong Corporate Social Responsibility (CSR) ethos, the Bank has had in place an extensive Community Programme for the past 15 years. The Programme operates under a seven-pillar structure; one of the said pillars is 'Environment'. Other pillars include climate change and related risks, social and cultural matters. The proposed way forward is for the Bank to adopt a measurable and sustainable CSR approach that is aligned with environmental, social, and governance (ESG) requirements and can be embedded within an ESG framework by 2023. The plan was drafted during the reporting period. Its implementation has commenced in 2021 and is split into three phases. Example of such include the 2021 BOV initiatives relating to Blood Drive, Women's Day, and Requests for Sponsorships, which are now evaluated in alignment with the requirements and parameters set by the said CSR Framework. The ultimate aim is to integrate the CSR approach within a wider and cohesive ESG framework and ensure bank-wide commitment.

During recent years, the Bank has actively participated in various environmental related initiatives. Inter alia these included an ongoing commitment to promote green practices within the community and a drive to reduce the carbon footprint through various green initiatives. Specifically, this involved installations of modern, energy efficient heating ventilation and air conditioning (HVAC) systems, continuous disinfection and cleaning of ducting systems at various branches and departments, replacement of lights to energy efficient light emitting diodes (LED) light fittings, increased use of hybrid vehicles and installations of photovoltaic cells which generate electrical energy and which result in lower electricity consumption costs. The Bank also participates in the annual global initiative Earth Hour by switching off the BOV Centre and Legal Office façade lights during the hour indicated with the aim of reducing electricity consumption. The Bank also takes part in the European Week for Waste Reduction. Waste separation and recycling of electronic waste was ongoing throughout the reporting period and beyond.

During the reporting period, disinfection and cleaning of Bank premises assumed added significance as a risk control measure against the spread of the coronavirus. Another worthy initiative intended to help customers become more environmentally friendly is the 'BOV Personal Energy Loan'. This new product was developed in collaboration with the European Investment Fund; it provides very competitive and favourable terms to assist customers in financing energy efficiency and renewable energy (EERE) projects in their households. Most product development activity was undertaken in the reporting period such that official product launch could be made in January 2021.

Climate change and related risks

This is a newly emerging risk cluster falling under the 'Environment' pillar of the Group's Community Programme. During 2020, the Market and Non-traded Risks Unit within the Financial Risk Management Department, was entrusted with proposing, formalizing, and developing the Bank's risk response to this emerging risk. A tentative climate change risk management framework was drafted; such was originally intended to be in place by the end of 2020. However, it was clear that the European Central Bank (ECB) was in the process of issuing a regulatory dictum inter alia setting out authoritative definitions and, most importantly, supervisory expectations. Taking a prudent approach, it made sense to await issuance of supervisory guidance before proceeding with formalization; this was intended to ensure that the Bank's climate and related risks management framework be fully compliant with, and aligned to, the direction set by the ECB. In November 2020, the ECB launched the 'Guide on climate-related and environmental risks - supervisory expectations relating to risk management and disclosure'.

Directors' report as at 31 December 2020 (continued)

The Bank's plan for its climate and related risks response should be formalized during the first half of 2021. This will be effected in line with the requirements of the regulatory authorities as clearly stated in the said Guide: "The ECB acknowledges that the management and disclosure of climate-related and environmental risks, and also the methodologies and tools to address them, are currently evolving and are expected to mature over time". The said framework and plan are being enhanced to, within a reasonable timeframe, achieve compliance with the aforementioned ECB guide including the setting and monitoring of Key Performance Indicators (KPIs). The latter would be set judiciously and also include non-financial indicators. An example of what would be considered for inclusion is the following: 'environmental matters - waste management' e.g. recycling rates.

In line with regulatory thrust – European Securities and Market Authority (ESMA) October 2020 public statement and MFSA November 2020 circular – disclosures are required relating to these risks. The following excerpt from the ESMA statement is relevant:

"… to disclose, where material, both physical and transition risks related to climate change as well as any measures put in place to prevent such risks from materializing and to mitigate their effects. In their planning processes, issuers should consider how risks and opportunities connected to climate change may evolve".

Within this context, it is important to understand that the institution and maintenance of a climate and related risks management framework is a process that needs to be planned, discussed and agreed across the institution, implemented, monitored, reported, and revised from time to time in line with endogenous as well as exogenous developments and outlook.

During 2020, the BOV Group was in the early stages of such process in laying the foundations of the Group's risk response. This is not to say that the Group was complacent, but that the work was conducted backstage and should start yielding fruit as from 2021. The following initiatives are hereby highlighted:

- Risk definitions: this is crucial towards risk identification and subsequent measurement, reporting, and follow-up action. The following sub-risks are considered at the present time:

    - *Physical risk*: this includes the economic costs and financial losses resulting from the increased severity and frequency of extreme weather phenomena triggered by climate change (heat waves, landslides, floods, fires, storms, etc.) and from gradual long-term climate changes (changes in rainfall, extreme, weather variability, ocean acidification, rising sea levels and average temperatures, etc.). Physical risk may be further subdivided into 'acute risks' and 'chronic risks';

    - *Transition risk:* the impacts of this sub-risk are related to the process of adjusting to a low-greenhouse gases emissions economy. Emissions must achieve carbon neutrality to prevent climate change from getting worse. The emissions reduction process is liable to have a material impact on all sectors of the economy by affecting the value of certain financial assets and the profit margins of certain companies. It is possible to further segment transition risk as follows: political and legal risks, technological risks, market risks, reputational risks;

    - *Liability risks* can also arise from both of the above-listed sub-risks. They include the damages and interest a legal entity would have to pay if found liable for contributing to climate change or for failing to anticipate its effects as it could and should have done. In keeping with international efforts, and especially those of the Network of Central Banks and Supervisors for the Greening of the Financial System (NGFS), the risks associated with the advent of climate-related court proceedings for corporates and investors, for example liability risks, may be deemed to constitute a subset of physical and transition risks.

- Risk awareness: climate change risk was and remains within the radar of the Group's Financial Risk Management Department (FRM) and a climate change risk management framework was drafted in 2020.

- Environmental scanning: FRM officials monitored the ongoing developments during 2020. No major physical risk was detected in the reporting period although this is expected to change in the medium and long term as the effects of climate change gather pace over time. In the case of transition risk, this is per se of a longer term nature but one which will be fully factored in the framework, once formalized.

- Bank initiatives: as disclosed under 'Environmental friendly measures', the Group took affirmative action on various counts such as in reducing its carbon footprint and, through the 'BOV Personal Energy Loan' contributed to reducing that of customers.

- Engagement with the regulatory authorities: close to the end of the financial year, the Bank responded to an ECB questionnaire on climate change and related risks and will further update the regulatory authorities with the plan of action by mid-May 2021.

- Inclusion in the Internal Capital Adequacy Assessment Process (ICAAP): The 2021 ICAAP (reference date: 31.12.2020), will feature a section relating to climate change and related risks.

Directors' report as at 31 December 2020 (continued)

- Action plan: Based on the foundations laid in 2020, by mid-2021 a plan will be formalized laying out the Group's risk response to climate change and related risks. The said plan will be fully aligned to the ECB Guide on Climate Change and Related Risks. It will also be inspired by the four pillars included in the recommendations of the Task Force on Climate Related Financial Disclosures viz.:
  - *Governance around climate change risks and opportunities;*
  - *Strategy in zooming on any material climate-related risks and opportunities relating to the Group's business arms, strategy, and financial planning;*
  - *Risk management: identification, assessment, and management of climate-related risks;*
  - *Metrics and targets: disclosure of metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material*

In summary, most of the work done in the reporting period was conducted quietly and behind the scenes but it is expected that this will bear fruit as from 2021 and beyond.

3. Social Matters

a) Trade Unions:

A substantial number of the employees within the Bank are members of a trade union. The two main trade unions within the Bank are MUBE and GWU with the latter currently being the recognised union. The Bank's relationship with both unions is very good and is characterised by unilateral communication and healthy discussions. This is proven by the fact that the Bank did not experience any industrial actions in years.

b) Community Relations:

Bank of Valletta is indeed woven into the social fabric of the Maltese Community with a presence in almost every town or village in Malta. Besides donating a percentage of the previous year's profits to worthy causes and projects, the Bank believes that its workforce is essential in making a positive impact on the Community in which we operate.

2020 was indeed very challenging in this aspect, with human interaction highly reduced due to the COVID-19 pandemic. This did not deter the Bank's staff members from making their positive contribution.

BOV Fun@home was a website based initiative, launched when schools were closed, where staff members created short video clips with craft-making for kids, fitness sessions and artistic initiatives.

Three blood donation drives for BOV Staff members were organised, respecting Health Authority protocols while a Bank wide food donation to aid FoodBank Lifeline and the St Jeanne Antide Foundation yielded tonnes of food for such a noble cause.

These initiatives complement the Bank's Corporate Social Responsibility as described in further detail under Principle 12 within the Corporate Governance Statement of Compliance within this Annual Report.

c) Consumer Relationships

The Bank dynamically engages with its customers and the wider society. Various initiatives are undertaken to improve the way customers interact with the Bank across both the physical and digital customer touchpoints. The initiatives include amongst others the deployment of new digital functionalities and tools to strengthen the accessibility of its products and services to its customers and the re-engineering of its processes to improve the customer experience. The customers' experience is thereon measured through the periodic surveys aiming to use the outcome of these surveys continue to improve the way the Bank's products and services are delivered to the Bank's customers. The financial well-being of its clients is also of paramount importance for the Bank. In its governance framework, the Bank's processes ensure that proper guidance is provided to customers in terms of appropriateness and suitability of the Bank's products and services particularly those concerning investments and lending products. More topically, the onset of the corona virus pandemic has spurred the Bank to introduce a number of measures to safeguard the health and safety of its customers and employees alike.

Directors' report as at 31 December 2020 (continued)

4. Employee Matters

The Bank is covered by a Collective Agreement which binds the relationship between the organisation and its employees. The prevailing Collective Agreement includes a number of Family Friendly measures ensuring employee matters are looked after, including but not limited to Flexible Work Arrangements, Adoption/Fostering Leave, Bereavement Leave, Community Work Leave, Employee Welfare and an Employee Wellness Allowance. During the past year, a new set of guidelines were published by the Human Resources Department, introducing a new working arrangement, giving access to employees for remote working. The initiative was derived from a business exigency, taking into account the effects of Covid-19 during the past year, while offering more flexibility to employees.

Moreover, the Bank has in place a number of policies ensuring respect for human rights including a Bullying Policy, a Sexual Harassment Policy, a Code of Ethics, an Employee Grievance Policy and an Equality Policy. Related to the latter, the Bank has been awarded the Equality Mark, in recognition of the Bank's non-discriminatory approach to its workforce. Indeed, Bank of Valletta employs over the requested quota for employees with special needs and last year received an award for the most company operating in an inclusive manner - 'Premju Socjeta Gusta'.

Employee Assistance Programme – This programme assists employees resolve personal or work related problems that hinder their ability to carry out responsibilities at work. The Bank, in conjunction with the Richmond Foundation, also offers its staff members free Mental Health Care related services. The Bank receives annual feedback from Richmond Foundation regarding the number of employees making use of these services, which information confirms that employees are well informed about these services and make use thereof when necessary. The Bank also holds a Mental Health Policy.

The Bank uses various tools for screening new employees as part of its due diligence process, including Police Conduct, Safe Watch and Credit Info screening, reference letters and others, as the case may be, whilst remaining within the ambit of the GDPR requirements. The due diligence process in respect to recruitment and resourcing is laid down in the Bank's Resourcing Policy, which was recently reviewed and updated. During the course of employment, employees are also expected to abide with other policies and guidelines, mainly the Code of Conduct and Ethics Policy, the Conflict of Interest Policy, Fraud Prevention Policy as well as other, role specific policies to ensure that staff members abide with regulatory requirements. Compliance is ensured through regular internal and external audits and audit trails. Non-compliance and breaches of the above, as well as other policies, may lead to sanctions as contemplated in the Discipline Section of the collective agreement.

As part of its people strategy, the Bank gives significant importance to Human Rights matters in various ways, as follows:

Grievances - The Bank is highly committed in ensuring that all employees are given the opportunity to voice their personal and/or collective grievance without any fear, hesitation or doubt that this will have a negative impact on their employment and career. To this effect, the Bank has a grievance policy in place to regulate and facilitate the process of addressing grievances. This involves the setup of an independent board, who has knowledge of the Bank's Collective Agreement, to hear and evaluate the grievance eventually leading to a decision on the remedy to the case. During FY 2020 the Bank did not register any official claim under the Grievance Policy.

Ad Hoc Boards - In those instances where HR is notified of any situation/s either by employees of third parties which might be adversely affect one or more aspects of the Bank's daily operations, HR may also appoint an ad-hoc independent board to investigate the matter and its veracity, and propose a suitable action and way forward. There were no such instances in FY 2020.

Discipline - The Bank requires all its employees to comply to its Code of Conduct and with proper standards of performance and behaviour, and to maintain the highest level of integrity both inside and outside the Bank. In the case of breaches of these standards, the Bank takes the appropriate disciplinary action regulated by a Discipline clause within its Collective Agreement. There were no such cases which were initiated in FY 2020.

Bullying Policy - The Bank considers any unwelcome physical, verbal or nonverbal behaviour which denigrates, ridicules, or intimidates individuals as unacceptable. Through this policy, the Bank wants to ensure that its employees are treated with respect and dignity, and that their rights are safeguarded at all times. Moreover, the objective of this policy is to raise organisation-wide awareness on the impact of bullying on fellow colleagues as well as the implications and consequences of such inappropriate behaviour. There were no cases of bullying in FY 2020.

Sexual Harassment Policy - The Bank is committed to provide a professional work environment for every individual that comes into contact with the organisation. The Bank does not tolerate, condone or allow sexual harassment (verbal or physical) whether engaged in by fellow employees, management, associates and partners or by outside clients or other non-employees who conduct business with the Bank. The Policy also acknowledges that the victim of sexual harassment may experience emotional stress, physical stress and/or a negative change in job performance. Therefore necessary support through the Staff and Organisation Support Programme will be made available. There were no cases of sexual harassment in FY 2020.

Directors' report as at 31 December 2020 (continued)

KPIs - The Bank has designed a mechanism whereby employees who, following discussions with their respective line managers, fail to agree with the feedback given on their KPIs, can notify HR to kick-start a process aimed at resolving possible misunderstanding between the employees and their line manager.

5. Anti-Corruption and Bribery Matters

The Bank remains committed to high standards of ethical behaviour and has zero tolerance towards bribery and corruption. Following the setting up of a dedicated Anti-Bribery and Corruption Function within the AFC/MLRO Department and the introduction of a new Anti-Bribery and Corruption Policy, as reported in 2019, the Bank has continued its efforts to increase controls in this area, thereby minimising risks to stakeholders, the economy and society in general, through the setting up of procedures aligned to the policy requirements, which are also supported by the bank-wide training programme.

The Bank requires that all employees, including the Board of Directors and Associated Persons, are to comply with the principles in the policy, in the performance of their services for or on behalf of the Bank. The policy requires all BoV entities and individuals to apply controls in order to protect against bribery and corruption risks particularly in relation to Employee, Third Party and Customer Risks. In support of this, the bank will be introducing new specific procedures and systems to manage Anti-Bribery and Corruption risks covering these areas. These controls will enhance checks performed for employees as part of the recruitment process and the due diligence process covering third party relationships with the enhancement of the screening requirements. Monthly controls will be in place to review position and escalate any issues as part of the governance committees' reporting.

All BOV employees are to undergo mandatory annual Anti-Bribery and Corruption training, with additional specific training to be targeted to staff within areas of higher risk to the Bank being planned.

6. Identification and Management of Principal Risks

In conducting its day-to-day business activities, the Bank is exposed to different risk types. The sound management and control of such risks is important to ensure that the relative probability of risk event materialization is minimized to the greatest extent possible in the interest of institutional stakeholders.

Risk management and control is practiced under the following configuration:

i) Top-level corporate governance: Board of Directors, various Board Committees such as the Risk Committee, Executive Committee, and other management committees such as the Asset and Liability Management Committee (ALCO);

ii) First line: revenue-generating business units – such ingrain frontline risk management internal control measures;

iii) Second line: this comprises various second-tier risk control and oversight functions such as Financial Risk Management, Credit Risk Management, Operational Risk Management, Compliance, Anti-Financial Crime, Financial Control, and other back office support functions (e.g. quality control);

iv) Third line: independent assurance and constructive challenge by the Group Internal Audit;

The main risk types are outlined hereunder:

a) Credit Risk:

The risk of loss arising from default or credit quality deterioration of a customer or other counterparty to whom the Bank has either directly provided credit or in respect of whom it has assumed a contractual obligation.

This risk is managed and controlled in various ways such as through the regular review of risk-averse credit policies, credit scoring systems, an internal risk rating system supplemented by an Early Warning System, a forward-looking expected loss model for quantifying provisions compliant with the IFRS 9 accounting regime, stress testing relating to credit risk, and various other measures. Examples of the latter include a four-eye approach in the sanctioning of business credit facilities and retail facilities of significant magnitude, policies relating to forbearance and nonperforming loans, credit risk-related Key Risk Indicators in the Bank's Risk Appetite Framework, internal limits relating to single-name and sectoral concentration risk, and various other mitigants. A risk-based pricing model has been implemented and is currently in the process of being enhanced.

Directors' report as at 31 December 2020 (continued)

b) Operational Risk:

The Group defines operational risk (OR), in line with the Basel framework, as the risk of losses arising from defects or failures in its internal processes, people, systems or external events, covering risk categories such as fraud, technological, cyber-risk, legal and conduct risk.

Operational risk is inherent in all products, activities, processes and systems and is generated in all business and support areas. For this reason, all employees are responsible for managing and controlling the operational risks generated by their activities. The Group's goal in terms of operational risk management and control is focused on identifying, evaluating, and mitigating sources of risk, regardless of whether they have materialized or not. The analysis of exposure to operational risk helps determine the actions which should be taken to minimize the frequency and impact.

The Group's overall operational risk appetite is low; and this aims to protect the Bank's franchise, to support its strategic objectives, and ensure availability of services to support the local economy.

In 2020 the Bank has taken concrete measures to strengthen the Operational Risk Management Framework and Corporate Control Governance. A number of Operational Risk policies and procedures have been revamped and a new Executive Committee with primarily responsibility to undertake risk and control oversight has been established and is fully functional.

The Group has invested as well in its technical and human resources to meet and comply with the increased regulatory expectations and to ensure that it has solid foundations to facilitate timely, accurate and meaningful operational risk reporting which is required in order to monitor and take remedial action to address existing and emerging risks.

The Group is now able to leverage on a dedicated IT solution which fully integrates the core elements of operational risk thus having one single repository containing an inventory of key risks and controls including the functionality of action management and risk event management.

c) Market Risk:

In the main, market risk is the risk incurred as a result of changes in market factors that affect the value of positions mainly in the investment portfolio (comprising securities managed by Treasury Department in line with the overall direction provided by ALCO). The Bank has its own Interest Rate Risk in the Banking Book (IRRBB) model to quantify risk arising under different shocks as prescribed by applicable regulatory dicta and which is premised on two approaches: the Economic Value of Equity approach and the Earnings Based approach. A robust and prudent Treasury Management Policy ensures that responsible and well-informed risk-taking is practised by the Treasury function (first line of Defence function) and submitted to ALCO and the Risk Management Committee from time to time. Inter alia, other important processes include the analysis of counterparty credit risk, credit valuation adjustment, and the development of a methodology to quantify position risk on the part of the investment portfolio which is reported in the audited accounts at fair value (i.e. on a mark-to-market basis).

d) Liquidity Risk:

The risk that the BOV Group does not have the liquid financial resources to meet its obligations when they fall due, or can only obtain them at an unreasonably high cost.

Various liquidity risk management tools are used such as maturity ladder gap analysis and the regular updating of key metrics. Inter alia, these include the Liquidity Coverage Ratio, the Net Stable Funding Ratio, the Loans-to-Deposit Ratio, the Maturity Transformation Metric and various others. Furthermore, over and above the Internal Liquidity Adequacy Assessment Process (ILAAP) which is thoroughly reviewed every year, the Bank conducts robust stress testing on liquidity in line with the Stress testing programme which is reviewed on an annual basis and which are supplemented by sensitivity analysis exercises from time to time. Other important elements within the liquidity risk management toolkit include the Contingency Funding Plan which is regularly updated and tested by means of simulation exercise and a prudent Liquidity Risk Policy which is also updated periodically.

e) Solvency Risk:

The risk of having insufficient capital to absorb unexpected losses and/or exceptional losses as a result of stress events. As part of the Internal Capital Adequacy Process (ICAAP) the Bank monitors the capital position on a regular basis and updates its Capital Plan to ensure that there is enough capital not only to meet Pillar 1 risks – credit, operational, and market – but also other Pillar 2 risks such as IRRBB, concentration risk, equity risk, and others.

Stress testing which is performed on a quarterly basis, aims to ensure that the Bank's capital position is able to withstand severe macro-economic downturns in terms of Common Equity Tier 1 capital and total Capital Adequacy Ratio.

Directors' report as at 31 December 2020 (continued)

f) Regulatory Compliance Risk:

The risk of non-compliance with legal and regulatory requirements as well as supervisory expectations which may result in administrative or disciplinary sanctions, or of material financial loss, due to failure to comply with the provisions governing the Group's activities. By ensuring that these rules are observed, the Group works to protect its customers, shareholders, counterparties and employees.

This is conducted in alignment with the Group strategy as operating a business model based on prudence and sound governance, and to continue strengthening the corporate ethos based on integrity, fairness and transparency.

(i) Financial Crime Compliance

The BOV group is committed to fight against financial crime and to set up and implement a programme to identify, understand and mitigate the financial crime risk. The financial crime risk encompasses:
a) money laundering and terrorist financing,
b) breaches of sanctions, and
c) bribery and corruption.

The Bank maintains a thorough AFC risk assessment in order to identify, understand, manage and mitigate inherent AFC risks. Risk mitigations measures are designed and implemented to control adequately and effectively those inherent risks. Inherent and residual risks are managed in line with the Bank's risk appetite.

BOV remains committed to implement a robust financial crime compliance programme.

(ii) Regulatory Compliance

Complying with the regulatory obligations is not only the responsibility of the Compliance Department, but of all Group employees who must demonstrate compliance and integrity in their daily tasks. The management of compliance risks is based on a shared responsibility binding all business functions, the subsidiary companies and employees with in the internal control functions of the Group. All functions must integrate compliance with laws and regulations, the rules of good professional conduct and the Group's internal rules into their daily work. This consists of two main pillars:

a) Advisory and Regulatory Change function – monitor regulatory developments, analyse the legislations that impact the Group, communicate the regulatory requirements to the impacted functions and provide guidance during implementation, and

b) Oversight function - carry out independent product and function controls testing on a risk-based compliance monitoring plan.

Group Compliance is an independent risk control function headed by the Group Chief Compliance Officer and constitutes the second line of defence for compliance risk. The Group Chief Compliance Officer reports to the Chief Executive Officer and has a direct escalation line to the Compliance and Anti Financial Crime Committee, which is a Board Committee. The Bank's Money Laundering Reporting Officer and a Group Data Protection Officer report to the Group Chief Compliance Officer.

g) Key Performance Indicators (KPIs)

The Group has in place a set of key performance indicators (KPIs) that are quantifiable measures which ensure that material risks are kept within defined thresholds as formalized in the Risk Appetite Framework. A selection of key metrics is tabulated hereunder.

	CET1	20.9%
Solvency	CAR	24.5%
	LCR	462.8%
Liquidity	NSFR	161.5%
Profitability	ROE*	1.3%

*Post Tax

Various non-financial KPIs enable the Directors also to evaluate the risk profile exhibited on other risks such as reputational, compliance, anti-financial crime, operational, and risk culture.

The KPIs are reported on a regular basis in the Risk Dashboard which includes targets set to facilitate comparison between progress achieved towards attainment of strategic objectives and the actual risk profile exhibited viz.: 'within target', 'within tolerance', 'limit'.

Other than as disclosed in note 43 to the financial statements, there were no subsequent events which would have otherwise warranted an adjustment to or disclosure in these financial statements.

Directors' report as at 31 December 2020 (continued)

8. COVID-19

The Covid-19 pandemic has brought economic and social impact on a substantial number of our customers. The wide ranging effects of the pandemic are multifaceted and they are redefining the business model of a number of our business customers and the life style and social dynamics of our personal customers. As the largest bank in Malta, Bank of Valletta has been a protagonist in taking immediate and wide ranging actions to ensure business continuity to the commercial customers and the least personal economic hardship possible to its retail ones. More information on the effects of COVID-19 and BOV's response thereto is included in the section entitled "COVID-19 BOV Response" within the Annual Report.

Statement of Responsibility by the Directors pursuant to Listing Rule 5.68

We, the undersigned, declare that to the best of our knowledge, the financial statements prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries included in the consolidation taken as a whole, and that this report includes a fair review of the performance of the business and the position of the Bank and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board of Directors and authorised for issue on 30 March 2021 and signed on its behalf by:

Dr Gordon Cordina
Chairman

Mr Rick Hunkin
Director and Chief Executive Officer

Corporate governance statement of compliance

A. INTRODUCTION

Pursuant to the Listing Authority Listing Rules, Bank of Valletta p.l.c. (the Bank) as a company whose equity securities are listed on a regulated market, should endeavour to adopt the Code of Principles of Good Corporate Governance (the Code) contained in Appendix 5.1 to Chapter 5 of the Listing Rules. In terms of Listing Rule 5.94, the Bank is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Listing Rules, the Bank is hereby reporting on the extent of its adoption of the Code.

The Board of Directors (the Board) is committed to the values of truth, transparency, honesty and integrity in all its actions. The Board strongly believes that the Bank benefits from having in place more transparent governance structures and from improved relations with the market which enhance market integrity and confidence. The Board acknowledges that the Code recommends principles for the Board and the Bank's management to pursue objectives that are in the interest of the Bank and its shareholders.

Good Corporate Governance is the responsibility of the Board, and in this regard the Board has adopted a corporate decision-making and supervisory structure that is tailored to suit the requirements of the Bank's constitutional documents as well as its size, nature and operational needs. In addition, while the structure provides flexibility and an efficient decentralisation of selective decision-making, it concurrently provides a system of checks and balances. The Board believes that any structure which is adopted must be geared to meet the necessary standards of accountability and probity, and considers that the structure which it has adopted does so.

As demonstrated by the information set out in this Statement, together with the information contained in the Report of the Remuneration Committee and in the Nominations Report, the Bank believes that it has, save as indicated herein, in the section entitled Non-Compliance with the Code, throughout the accounting period under review, applied the principles and complied with the provisions of the Code. In the Non-Compliance section, the Board indicates and explains the instances where it has departed from or where it has not applied the Code.

B. COMPLIANCE WITH THE CODE

Principle 1: The Board

The Board's role and responsibility is to provide the necessary leadership, to set strategy and to exercise good oversight and stewardship. The Board is composed of a Chairman, two Executive Directors and seven Non-Executive Directors. This mix of Executive and Non-Executive Directors on the Board enables the Non-Executive Directors to exercise their monitoring function over the management and the executive arm of the Board at the level of the Board. Moreover, the fact that the Chief Executive Officer (CEO) is also an Executive Director on the Board, enables the Board to be in receipt of timely and appropriate information in relation to the business of the Bank and Management's performance. As a result, the Board can contribute effectively to the decision-making process, whilst at the same time exercising prudent and effective controls.

The Board delegates specific responsibilities to a number of Committees, notably the Audit Committee, the Risk Committee, the Compliance and Anti-Financial Crime Committee, the Remuneration Committee and the Nominations and Governance Committee, each of which operates under formal Terms of Reference approved by the Board.

Further details in relation to the Committees and the responsibilities of the Board is found under Principles 4 and 5 of this Statement.

Principle 2: Chairman and Chief Executive Officer (CEO)

The Bank's current organisational structure incorporates the position of a CEO. The position of the Chairman and that of the CEO are occupied by different individuals. Their respective positions have been defined with specific roles rendering these positions completely separate from one another. These specific roles are identified within the Board Terms of Reference and in their contract of engagement. This separation of roles of the Chairman and the CEO avoids concentration of authority and power in one individual.

The Chairman is responsible to lead the Board and to set its agenda. The Chairman ensures that the Board's discussions on any issue put before it go into adequate depth, that the opinions of all the Directors are taken into account and that all the Board's decisions are supported by adequate and timely information. The Chairman ensures that the CEO develops a strategy which is agreed to by the Board.

On the other hand, the CEO, besides being an Executive Director, leads the Bank's Executive Committee, which is the highest executive decision-making body within the Bank.

More information on the Bank's Executive Committee can be found under the section entitled Executive Committees, within this Statement.

Principle 3: Composition of the Board

The Board considers that during the year under review the size of the Board, whilst not being too large as to be unwieldy, was appropriate, taking into account the size of the Bank and its operations. The combined and varied knowledge, experience and skills of the Board members provided a balance of competences that are required and add value to the proper functioning of the Board.

Corporate governance statement of compliance (continued)

Independence of Directors

During Financial Year 2020, the Board consisted of the following Independent Non-Executive Directors:

- Between 1 January and 15 February 2020 there were eight (8) Independent Non-Executive Directors.
- Between 16 February and 15 May 2020 there were seven (7) Independent Non-Executive Directors.
- Between 16 May and 12 October 2020, there were six (6) Independent Non-Executive Directors.
- From 13 October till end December 2020, there were seven (7) Independent Non-Executive Directors.

During the year under review, the Board included also one Non-Independent Non-Executive Director (as indicated on pages (ii) and (iii) of the Annual Report) and two Executive Directors. In determining the independence or otherwise of its Directors, the Board has considered, amongst others, the notion of independence as contained in the Code, the Bank's own practice as well as general good practice principles. Moreover, the Non-Executive Directors have to prepare a written annual declaration of their independence to the Board. The Board believes that, by definition, employment with the Bank rendered Director James Grech as Non-Independent from the Institution. However, this should not, in any manner, detract from the said Non-Independent Director's ability to maintain independence of analysis, decision and action at all times. Moreover, having considered Mr Grech's role and duties within the Bank as a Bank employee, the Bank deemed Mr Grech to be a Non-Executive Director.

Appointment of Executive Directors

The appointment of Executive Directors is regulated by article 24 of the Articles of Association. In accordance with the said article, the CEO of the Bank shall ex officio become an Executive Director by virtue of his office and shall remain in office until the tenure of office as CEO.

The Non-Executive Directors shall appoint at least one other Executive Director on the Board from amongst the Senior Management and may also appoint a third Executive Director if the Non-Executive Directors consider it in the best interest of the collective knowledge and competence of the Board to do so. To date one additional Executive Director has been appointed and that position is held by the Chief Risk Officer, which is in line with the Bank's strategic initiatives to highlight risk management even at Board level.

Appointment of Non-Executive Directors

Article 23.3 of the Bank's Articles of Association specifies that the Board of Directors shall consist of a maximum of three (3) Executive Directors and a maximum of nine (9) Non-Executive Directors. In the event of the co-option to the Board, pursuant to article 27A, of a maximum 2 additional Non-Executive Directors, the maximum number of Non-Executive Directors shall be eleven (11).

The appointment of the Non-Executive Directors is governed by articles 25 and 27A of the Articles of Association and appointments may be made as follows:

(a) By Qualifying Shareholders – namely members holding at least 10% of the issued share capital of the Bank having voting rights, that are entitled to nominate, for the approval of the Nominations and Governance Committee, one person for each 10% voting shares held; and

(b) By Non-Qualifying Shareholders not having a Qualifying Shareholding, but who individually or in aggregate hold not less than €50,000 in nominal value of shares having voting rights in the Bank and who are entitled to make recommendations for the approval of the Nominations and Governance Committee; or

(c) By the Nominations and Governance Committee itself seeking the recruitment of fit and proper persons having the right attributes that can add value to the Board of Directors.

(d) By the Non-Executive Directors pursuant to Article 27A of the Articles of Association as explained in further detail below.

Save for the provisions in para (d) above, all Non-Executive Directors are appointed by the Bank's shareholders during the Annual General Meeting.

Appointment of Additional Non-Executive Directors by Co-Option

Article 27A of the Bank's Articles of Association provides for the additional appointment of Non-Executive Directors by Co-Option. This article was introduced in the Articles of Association and approved during the Annual General Meeting held on 9 May 2019.

Corporate governance statement of compliance (continued)

The objective of this article was to address situations where, notwithstanding the efforts that may be made by the Nominations and Governance Committee to ensure that the Board of Directors of the Bank had the necessary mix of skills and experience, there could arise situations where those efforts could not yield the appropriate mix and combination of skills, or where the regulator could require certain skills which may not be present on the Board. In these situations, the Board would need to react in a relatively short time to ensure that the composition of the Board fulfils its ultimate aim. Accordingly, this Article empowers the Board of Directors (specifically, the Non-Executive Directors) to co-opt up to a maximum of additional two Non-Executive Directors to sit on the Board of Directors of the Bank, only in those instances where the nine Non-Executive Director positions were already filled, but the then current Board complement did not have the composition required by regulation or in the opinion of the Nominations and Governance Committee, the Board still did not have the appropriate mix of collective skills, knowledge and experience. Such co-opted Non-Executive Directors would be appointed for a three (3) year term with eligibility for re-appointment.

Nominations and Governance Committee

All Directors, irrespective of the manner in which they are proposed, can only take office following the approval of their nomination by the Nominations and Governance Committee. In this context, the Nominations and Governance Committee is the organ that, after having scrutinised the list of candidates to ensure that the Board will have the appropriate collective knowledge, experience and competence, will then place the list of approved candidates for election at the Annual General Meeting. More information on the Nominations and Governance Committee is found under the Nominations Report.

The appointment of all Directors is subject to regulatory approval.

Rotation of Directors

The Bank has a system of rotation of Directors aimed at ensuring a certain level of continuity within the Board of Directors. The system of rotation of Directors contemplates the retirement of one-third of the Non-Executive Directors in each year, with the remaining two-thirds of the Board retaining office. This is aimed at providing stability of policy-making and implementation by retaining a majority of the Board in place for a period of at least three years at any time. Those Directors whose turn it is to retire from office, pursuant to the rotation system, will be eligible for reappointment, subject to approval by the Nominations and Governance Committee. The Directors to retire first shall be determined as follows:

a) Those Non-Executive Directors who wish to retire and who do not seek reappointment prior to the full term of their appointment; otherwise,

b) To the extent that there are no Non-Executive Directors who wish to retire and who do not seek reappointment prior to the full term of their appointment, those who retire first shall be the Non-Executive Directors who have been longest in office, including by virtue of re-election, since their first election, but as between persons who became Directors on the same day or in the event that the duration in office cannot be properly determined those to retire shall (unless they otherwise agree among themselves) be determined by lot.

A retiring Director shall only be eligible for re-election provided that such person did not occupy the office of Non-Executive Director for an aggregate period of more than 12 years in any period of 15 years.

Pursuant to Article 28.2 of the Bank's Articles of Association, one-third of the Bank's Non-Executive Directors shall retire at the Annual General Meeting (AGM). However, since there were three (3) resignations of Non-Executive Directors during FY 2019 and during the first quarter of FY 2020, no rotation of directors was necessary during the 2020 AGM held on the 26 November 2020. Consequently, three vacancies for Non-Executive Directors arose, and following an application for nomination of Non-Executive Directors, the Bank received four (4) nominations from the Non-Qualifying Shareholders. Subsequently two (2) candidates withdrew their nomination due to personal reasons. The Nominations and Governance Committee deemed the other two (2) candidates not to satisfy the Bank's suitability criteria to act as Non-Executive Directors of the Bank. Therefore, all three (3) vacancies remained vacant during the 2020 AGM.

During 2021 the three most senior Directors who have been longest in office, including persons who became Directors on the same day, due to retire during the 2021 AGM are Mr Alfred Lupi (appointed on the Board in December 2015) and two (2) from Ms Anita Mangion, Mr Antonio Piras and Mr Steve Agius, all three (3) of whom were appointed on the same day (16 December 2016). Pursuant to Article 25 of the Bank's Articles of Association it was determined by lot that Directors Anita Mangion and Antonio Piras shall retire during the 2021 AGM. Directors Alfred Lupi, Anita Mangion and Antonio Piras are all eligible for re-appointment on the Board.

Therefore, the Bank has six vacancies for Non-Executive Directors to be filled during the 2021 AGM, two of which shall be appointed by the 2 Qualifying Shareholders of the Bank. Insofar as the four (4) other vacancies were concerned, on the 26 January 2021, the Bank issued a call for interested persons who would like to submit their nomination for appointment as Non-Executive Directors on the Board pursuant to Article 25 of its Articles of Association. The Bank received nominations from 6 individuals. The 2 Qualifying Shareholders, namely the Government of Malta and UniCredit S.p.A have confirmed the incumbent appointments on the Board for another period of 3 years, that is, Anita Mangion (appointed by the Government of Malta) and Antonio Piras (appointed by UniCredit S.p.A). An assessment of each nomination will be carried out by the Nominations and Governance Committee.

Corporate governance statement of compliance (continued)

Number of directorships held by members of the Board of Directors as at end December 2020, including the appointment on the Board of Bank of Valletta p.l.c.

Name	Number of Directorships held – Executive Director (ED) and Non-Executive Director (NED)
Gordon Cordina	1 NED + 1 ED
Stephen Agius	1 NED
Miguel Borg	1 NED + 1 ED
Diane Bugeja	1 NED
James Grech	2 NED
Rick Hunkin	1 ED
Alfred Lupi	3 NED
Anita Mangion	1 NED
Alfred Mifsud	1 NED + 1ED
Antonio Piras	2 NED

Gordon Cordina and Anita Mangion are not subject to the provisions of Article 91 of the CRD IV and Article 14 (3) (a) of the Banking Act, 1994 (Chapter 371, Laws of Malta) as regards the number of directorships held by them in view of their appointment in a national representative capacity.

Principles 4 and 5: The Responsibilities of the Board and Board Meetings

The Board meets approximately once a month, unless further meetings are required for the Board to discharge its duties effectively. The Board discusses and decides upon matters relating to the Bank's business. During the financial year under review, the Board met twenty (20) times.

The Board regularly reviews and evaluates corporate strategy, major operational and financial plans, risk policies, performance objectives which are benchmarked against industry norms and business alternatives. The strategy, processes and policies adopted for implementation are regularly reviewed by the Board so that corrective measures can be taken to address any deficiencies and ensure the future sustainability of the enterprise. The Board also monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice. The Board has a formal schedule of matters reserved for its decision and also delegates specific responsibilities to Board Committees.

The Board ensures that it has the appropriate policies and procedures in place which guarantee that the Bank and its employees maintain the highest standards of corporate conduct, including compliance with applicable laws, regulations, business and ethical standards.

Notice of the dates of upcoming meetings, together with supporting material, are circulated well in advance to Directors to allow ample time to appropriately consider the information prior to the next board meeting. Furthermore, advance notice is also provided of ad hoc meetings to allow sufficient time to re-arrange commitments.

After each Board meeting, minutes that faithfully record attendance, matters discussed and decisions taken, are prepared and circulated to all Directors as soon as practicable after the meeting.

Members of Senior Management attend Board Meetings by invitation on a regular basis.

Members	Independent & Non Independent / Executive & Non-Executive Directors	Meetings Held: 20 Meetings attended by member
Gordon Cordina (Chairman) (appointed 13 October 2020)	Independent NED	6 (out of 6)
Stephen Agius	Independent NED	18
Paul V Azzopardi (resigned 15 February 2020)	Independent NED	2 (out of 2)
Miguel Borg	ED	20
Diane Bugeja	Independent NED	16
James Grech	Non-Independent NED	20
Rick Hunkin	ED	20
Alfred Lupi (served as Interim Chairman between 16 May 2020 and 12 October 2020)	Independent NED	20
Anita Mangion	Independent NED	20
Alfred Mifsud	Independent NED	20
Antonio Piras	Independent NED	20
Taddeo Scerri (Ex-Chairman) (resigned 15 May 2020)	Independent NED	8 (out of 8)

Corporate governance statement of compliance (continued)

In view of the COVID-19 pandemic situation, and as a measure to safeguard the health and safety of Board members and other participants, most Board of Directors meetings held during Financial Year 2020 were held via video conferencing. Accordingly, the attendance and participation of Directors as enlisted above during Board of Directors meetings, was via video conferencing.

Board Committees

The Board also delegates specific responsibilities to Committees, which operate under their respective formal Terms of Reference. In this respect, the Board has established the following Committees:

The Audit Committee

The Audit Committee's Terms of Reference include the monitoring of the financial reporting process, the effectiveness of the Bank's internal control, internal audit and risk management systems and the audit of the Bank's annual and consolidated accounts. The Audit Committee is also responsible to oversee the establishment of accounting policies by the Bank. The primary purpose of the Audit Committee is to protect the interests of the Bank's shareholders and assist the Directors in conducting their role effectively so that the Bank's decision-making capability and the accuracy of its reporting and financial results are maintained at high level at all times. The Audit Committee has established internal procedures and monitors these on a regular basis. The Audit Committee also scrutinizes and approves related party transactions in line with the Related Party Transaction Policy. The Audit Committee considers the materiality and the nature of the related party transactions carried out by the Bank to ensure that the arms' length principle is adhered to at all times. The Audit Committee, in line with the Listing Rules, is involved in and monitors the external audit processes, performs oversight on the internal audit function and facilitates communication between the two.

During the period under review, the Committee has conducted its annual self-assessment, confirming its effectiveness in adding significant value to the oversight function of the Board.

In terms of Listing Rules 5.117, 5.118 and 5.118A, the Audit Committee is composed of the following three Non-Executive Directors, all of whom are considered as independent of the Bank, since they are free from any business, family or other relationship with the Bank or its management that may create a conflict of interest such as to impair their judgement:

Alfred Lupi FCCA, FIA, BSc Econ is a professional accountant with an economics degree and is currently engaged in consultancy services. He is appointed Chairman of the Audit Committee by the Board and is the Director whom the Bank considers as competent in accounting. Alfred Lupi is independent of the Bank.

Anita Mangion is an experienced Business and IT Consultant and her area of expertise is Technology Intrapreneurship. During her career she successfully drove critical projects to completion and implemented sustainable profitable frameworks. Ms Mangion was also a Board Director of Malta Industrial Parks and a member of their Audit Committee. More detail on her brief resume is found on pages (ii) to (iv) of the Annual Report. Ms Mangion is independent of the Bank and is considered as competent to be a member of the Audit Committee.

Alfred Mifsud has occupied various senior positions during his career. Mr Mifsud was the Deputy Governor of the Central Bank of Malta, Chairman of Crystal Finance Investments Limited, Governor on the Board of Malta Financial Services Centre (which is now the MFSA) and Chairman of Mid-Med Bank. More detail on his brief resume is found on pages (ii) to (iv) of the Annual Report. Mr Mifsud is independent of the Bank and is considered as competent to be a member of the Audit Committee.

In view of the diverse skills and professional experience of each of the Audit Committee Members, the Bank considers the Audit Committee as a whole to have the adequate competence and to meet the independence criteria as required by Listing Rule 5.118.

	Meetings Held: 12
Members	Meetings attended by member
Alfred Lupi (Chairman)	12
Anita Mangion	12
Alfred Mifsud	11

In view of the COVID-19 pandemic situation, and as a measure to safeguard the health and safety of Committee members and other participants, most Audit Committee meetings held during Financial Year 2020 were held via video conferencing. Accordingly, the attendance and participation of Members as enlisted above, during Audit Committee meetings was via video conferencing.

The CEO, the Chief Risk Officer and the Chief Group Internal Auditor attend Audit Committee meetings. The Chief Financial Officer, the Executive Risk Management and a representative of the External Auditors attend the Audit Committee meetings by invitation. KPMG Malta are the Group's statutory auditors. A designated person from the Office of the Company Secretary acts as Secretary to the Audit Committee.

The Remuneration Committee – This is considered under the Report of the Remuneration Committee.

The Nominations and Governance Committee – This is considered under the Nominations Report.

Corporate governance statement of compliance (continued)

The Risk Committee

The Risk Committee assists the Board in assessing the different types of risks to which the organisation is exposed. This Committee is responsible for the proper implementation and review of the Group's risk policies related mainly, but not restricted to, Credit, Market and Operational Risks. It reports to the Board on the adequacy, or otherwise, of such policies. The Committee is also responsible to review delegated limits, together with an oversight of the Group's monitoring and reporting systems, to ensure regular and appropriate monitoring and reporting on the Group's risk positions.

During the period under review, the Risk Committee self-assessed its operation against the recently published Risk Coalition Voluntary Code and determined that the Committee materially meets the 54 guidelines covering the 8 Principles.

Members	Meetings Held: 14 Meetings attended by member
Alfred Mifsud (Chairman)	14
Diane Bugeja	12
Antonio Piras	14

In view of the COVID-19 pandemic situation, and as a measure to safeguard the health and safety of Committee members and other participants, most Risk Committee meetings held during Financial Year 2020 were held via video conferencing. Accordingly, the attendance and participation of Members as enlisted above, during Risk Committee meetings was via video conferencing.

The CEO and the Chief Risk Officer attend Risk Committee meetings. The Executive Risk Management and the Head Regulatory and Economic Capital Unit attend the Risk Committee meetings by invitation. A designated person from the Office of the Company Secretary acts as Secretary to the Risk Management Committee.

As at date of publication of this Annual Report, the Risk Committee is composed of the following members: Alfred Mifsud (Chairman), Dr Diane Bugeja and Antonio Piras.

The above information on the Risk Committee, together with the information contained in the Pillar 3 disclosures which are available on the Bank's website, is also to be considered as a disclosure for the purposes of Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The Compliance and Anti-Financial Crime Committee

The primary objective of the Compliance and Anti-Financial Crime Committee is to assist and guide the Board of Directors in the discharge of their obligations imposed from time to time by regulation in the area of financial services and in light of the Bank acting as a credit and financial institution licensed to provide services under different laws and within the framework of the Compliance Function as defined in the Compliance Charter and as approved by the Board of Directors. The Committee is also responsible to assist the Bank in combatting financial crime and money laundering activities.

Members	Meetings Held: 6 Meetings attended by member
Diane Bugeja (Chairperson)	6
Alfred Mifsud	6
Gordon Cordina	1 (of 1)

In view of the COVID-19 pandemic situation, and as a measure to safeguard the health and safety of Committee members and other participants, most Compliance and Anti-Financial Crime Committee meetings held during Financial Year 2020 were held via video conferencing. Accordingly, the attendance and participation of Members as enlisted above during Compliance and Anti-Financial Crime Committee meetings, was via video conferencing.

The CEO, the Chief Risk Officer, the Chief Officer Group Compliance and the Money Laundering Reporting Officer attend the Compliance and Anti-Financial Crime Committee meetings. A designated person from the Office of the Company Secretary acts as Secretary to the Compliance and Crime Prevention Committee.

Board Committees which have been wound up during Financial Year 2020

During Financial Year 2020 the following Board Committees, which were specifically set up on a temporary basis, were wound down, following completion of assigned objectives:

The **Ethics Committee** was set up temporarily to work and develop a BOV Group Ethics Policy. Following completion thereof, the strategy, policy, procedures and processes relating to ethical behavior were assumed by the Audit Committee, Nominations and Governance Committee and Board of Directors. The Ethics Committee was then dissolved during Q1 FY 2020.

Corporate governance statement of compliance (continued)

The **Business Restructuring Action Committee (BRAC)** was set up temporarily to oversee and monitor the implementation process of the Business Restructuring Plan in line with the Bank's Strategy. Following Business Restructuring, the final tasks relating to the BRAC were completed by the Transformation Committee (details on which, will be found further below) and hence the BRAC was dissolved accordingly.

The **IT Oversight Committee** was set up temporarily to assist the Board of Directors in fulfilling its oversight responsibilities in relation to the digital ecosystem including cyber security, the Core Banking Transformation (CBT) programme, and innovative technologies. Post CBT implementation, the IT Oversight Committee was tasked to conclude a post-implementation review of the CBT implementation exercise and was then subsequently wound down.

The **Transformation Committee** was temporarily set up to address the Bank's remediation programme, with responsibilities for the oversight and coordination of risk, compliance and anti-financial crime projects and initiatives across the Group. In August 2020 the Transformation Committee was wound down and its responsibilities were delegated to the Transformation Office within Management.

Suitability Policy

The Bank's Suitability Policy is applicable to all Directors, Executive Committee Members and Key Function Holders within the BOV Group (collectively termed as "Subject Persons"). The aim of the Suitability Policy is to ensure the suitability of the members of the Management Body and Key Function Holders, not just at the inception of their appointment but also throughout the duration of their appointment. In this context, suitability refers to the ability of all Subject Persons to ensure, at all times, a sound and prudent management of the financial institution, viewing, in particular, the safeguarding of the financial system and the interests of respective clients, depositors, investors and other creditors. Subject Persons must comply with requirements of fitness and appropriateness, professional qualification, independence and time-commitment (availability).

The Bank's **Diversity Policy** is embedded within the Suitability Policy, and aims to ensure diversity amongst the members of the Executive Committee and Board of Directors (the "Management Body"). When approving members for the Management Body, the Nominations and Governance Committee is to engage a broad set of qualities and competences. The diversity in educational and professional background, gender and age provide for divergent views and experiences thus facilitating independent opinions and sound decision-making within the Management Body. With respect to the composition of the BOV Group, the Nominations and Governance Committee will strive to increase diversity in the Board composition of the Bank, as well as its subsidiary and associate companies.

The Nominations and Governance Committee will continue to exercise best endeavours to determine ways by which diversity within the Board of Directors of the Bank is also increased, whilst remaining cognisant that directors' appointment on the Board is subject to shareholders vote. Towards this end, as part of the nomination process of Non-Executive Directors to be appointed on the Board of Directors during the 2021 AGM, the Bank made available to prospective candidates a Non-Executive Directors Job Profile, in which the Bank highlighted the areas of expertise and skills which Non-Executive Directors on the Board should ideally have. The Bank also emphasised that in the light of its current composition of the Board, the Bank seeks to enhance gender diversification and bring different skills to the Board such as specific banking background, international experience, legal, compliance and conduct and people and culture.

Whilst recognising that in the Maltese environment, it is difficult to ensure gender diversity, the Bank is committed to reasonably dedicate best efforts to increase gender representation in the coming years. In terms of equal treatment, the Bank aims to provide an inclusive environment which promotes equality, values diversity and maintains a working environment where the rights and dignity of all employees are respected.

The Suitability Policy also provides for a **Training Policy** through which the Bank commits the necessary resources and time to ensure continuous training to broaden the knowledge and skills required for a suitable performance of the functions assigned to subject persons. Prior to assuming their role, Subject Persons will be provided with key information including a description of the role and responsibilities of the particular appointment. This also applies to Directors being appointed as Chair or Members of Board Committees. The Bank is committed to provide newly appointed Subject Persons with an induction course within the first few months of their taking up the position, taking into account the strategy of the Bank, the risk and compliance framework and other key matters on the Bank and in the banking and financial area. The Training Policy also provides for the continuous training of subject persons, wherein the latter are expected to possess the experience and professional qualifications necessary to perform their function, taking into account the responsibilities conferred to them, the complexity of the activity and the need to ensure sound and prudent management.

Suitability of Board of Directors, Executive Committee Members and Key Function Holders

The Nominations and Governance Committee undertakes a suitability assessment of members proposed to the Executive Committee, which assessment is based on such individual's knowledge, skills and expertise. Following such suitability assessment, the Nominations and Governance Committee then nominates and recommends for Board Approval, members of the Executive Committee. Members of the Executive Committee also require regulatory approval before being appointed on the Executive Committee.

For the Financial Year 2020, the Bank, through its Nominations and Governance Committee engaged in a suitability assessment of the fitness and properness of members of the Board of Directors, Executive Committee and Key Function Holders. The objective of this suitability assessment was to determine the individual and collective suitability of Subject Persons. From this assessment it emerged that all members on its Board of Directors, Executive Committee and Key Function Holders are deemed to be suitable both individually and collectively.

Corporate governance statement of compliance (continued)

Executive Committee

The Executive Committee, previously known as the Management Board, is entrusted with the overall responsibility for monitoring and managing the Bank's financial and operational performance, overseeing the execution of the Bank's strategy, monitoring customer experience and taking the necessary decisions so as to ensure that the Bank is operating with the applicable rules and regulations.

As part of the strengthening of the Bank's governance framework to improve efficiency and effectiveness of committees, during the first quarter of Financial Year 2020, the Bank effected a number of changes at Executive Committee level and at Executive Sub-Committees level. The Executive Committee may delegate part of its objectives to individuals or sub-committees as may be established from time to time.

With expertise in accountancy, risk, economics, business and IT, the Members of the Executive Committee are deemed to have the necessary collective knowledge, skills and competence to manage the business of the Group, exert oversight of the Group's operations, recommend and follow a strategic plan for the Bank, oversee the Group's financial, business and operational performance, establish and maintain a risk appetite framework, organised the allocation and adequacy of the Group's human resources and ensure that the Bank has a reliable and sustainable IT infrastructure, amongst other functions.

The Bank's Executive Committee meets at least on a monthly basis. It is chaired by the Chief Executive Officer and the Chief Risk Officer acts as Deputy Chair. The other members of the Committee are:

- Chief Finance Officer
- Chief Operations Officer
- Chief Retail Banking Officer
- Chief Credit Officer
- Chief Technology Officer
- Chief Officer Human Resources & Ethics

The Group Chief Compliance Officer attends Executive Committee Meetings.

Other Chief Officers and Bank Executives attend Executive Committee Meetings by invitation.

More detail on the Executive Committee members and their experience is found in their brief CV on page xvi of this Annual Report.

Executive Committees

As from Financial Year 2020 the Executive Committees were re-structured as follows:

- Asset and Liability Management Committee (ALCO)
- Internal Control and Risk Management Committee
- Credit Committee (previously a Board Committee)
- Product Governance and Pricing Committee
- Change Management Committee

More detail on each of these Executive Committees is found below.

The **Asset Liability Management Committee (ALCO)** is an integral part of the Bank. The Committee takes an integrated view in managing the Group's assets and liabilities to achieve an optimal balance between risk and return. ALCO evaluates the asset and liability cash flows, and the management of integrated exposures at a consolidated level, to enable it to give strategic direction to the business. Consideration is given, inter alia, to the funding and investment strategy, solvency, liquidity and interest rate risks. ALCO monitors the liquidity and capital position of the Group on a continuous basis, making use of forecasts to ensure that business and regulatory requirements are met. Additionally, the Committee ensures that the investment of the Bank's funds is conducted in accordance with the approved investment strategy and exercises executive authority in the area of interest rate management by setting the interest rates payable on deposit products. The Committee further serves as a Steering Committee for the Bank's Recovery and Resolution Plan. ALCO meets at least once a month to analyse financial information and to ensure prudent management of balance sheet and market risks. The Committee is chaired by the CEO and is composed of members of Senior Management.

The **Internal Control and Risk Management Committee (ICRM)** was set up with the responsibility for the oversight and coordination of risk management, internal controls, compliance and AML/CFT across the BOV group. The ICRM was set up in February 2020 and is an amalgamation of the Group Risk Compliance Committee and the Anti-Money Laundering Committee.

The ICRM committee is responsible for the proper implementation and review of the Group's risk and internal control policies. It reports to the Board on the adequacy, or otherwise, of such policies. The Committee is also responsible to advise and support the Executive Committee in the formulation of the Bank's risk appetite and to advice and support in the monitoring of the Group's actual and future risks. ICRM meets at least once a month to advise and support the Board in assessing the different types of risks to which the Group is exposed. The Committee is also responsible to review and discuss issues raised by the control functions on the effectiveness of the internal control systems. The Committee is there to provide effective management oversight over the Group's main Risk, AML and Compliance initiatives.

Corporate governance statement of compliance (continued)

The **Credit Committee** was previously a Board Committee. During the period under review, it was however re-structured and now falls within the remit of the Executive Committee. In particular, it is responsible for assisting the Executive Committee in implementing and monitoring the credit strategy, NPL strategy, level of credit provisioning and debt management. It advises and supports the Executive Committee in the formulation of the Bank's risk appetite and strategy on credit and also approves policies in relation to credit in line with the Policy Governance Framework. The Credit Committee is chaired by the Chief Risk Officer and the Chief Executive Officer acts as a Deputy Chair. The other members of the Committee are the Chief Credit Officer, Chief Corporate Officer, and Executive Credit Underwriting. The Chief Financial Officer attends the Committee and other senior executives attend the Committee by invitation.

The **Product Governance and Pricing Committee** is a sub-committee of the Executive Committee and is entrusted with ensuring that the Bank has in place a product governance and pricing framework:
- a product approval matrix inclusive of delegated authority outline;
- a periodic review program of all products and services;
- assessment of product/service pricing and approval of changes in fees and charges.

In discharging its responsibilities, the Committee will ensure that both existing and new products are analysed in terms of target market, appropriateness, testing validation of methodologies have been considered, appropriateness of distribution channels for the target market, that any potential conflicts of interest are managed and that pricing adequately covers the risk and costs involved.

The Committee is composed of the Chief Executive Officer, Chief Finance Officer, the Chief Retail Banking Officer, Chief Risk Officer, Group Chief Compliance Officer and the Chief Credit Officer.

The **Change Management Committee (CMC)** is a subcommittee of the Executive Committee. The primary role of this Committee is to develop, oversee and direct the Bank's major change programmes in order to fulfil the strategic objectives. This includes reviewing, prioritising, establishing, resourcing, allocating capital investment and monitoring all the Bank's major strategic initiatives. It amalgamates responsibilities previously carried out by the IT Steering and Procurement Committees.

These responsibilities are achieved by ensuring alignment and support of all selected initiatives with the major goals, strategy and overall direction of the Bank. In addition to this, the CMC ensures that all initiatives currently in execution are well-optimised and provides good value and return on investment. Apart from maintaining continual oversight of in-flight programmes, the Change Management Committee resolves resource conflicts as well as redundancies between or among potential new investment and continuing initiatives.

The Committee, which meets on a monthly basis, is chaired by the Chief Executive Officer and is composed of members of the Executive Committee and other Senior Management.

Principle 6: Information and Professional Development

The CEO is appointed by the Board and is inter alia responsible for the recruitment and selection of Senior Management and consults with the Nominations and Governance Committee and with the Board on the appointment of Senior Management. Training of management and employees is a priority and internal and external training is provided by the Bank's Training Centre specifically set up for this purpose. The Bank also has a system in place which monitors management and staff morale.

On joining the Board, a Non-Executive Director is provided with briefings by the CEO and Chief Officers on the activities of the Bank. All Directors are provided with appropriate induction training and a dossier that, apart from incorporating relevant information on the Bank, also includes the Bank's Policy documents.

Moreover, during the reporting year, the Bank launched the Board Governance Manual which aims to provide a clear overview of the Governance arrangements in place for the BOV Board of Directors. It also has the objective of showing how various key elements of Governance, oversight, risk management and control link together and serves as a useful reference point for existing Directors and an induction manual for Directors newly appointed to the Board.

Directors may, where they judge it necessary to discharge their duties as Directors, take independent professional advice on any matter at the Bank's expense. Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring adherence to Board procedures as well as good information flows within the Board and its Committees.

In addition, the Company Secretary directs members of the Board to seminars or conferences which serve as professional development for Directors in the discharge of their functions on the Board and on the Committees. During the reporting year some of the directors attended training on Board performance, AML and financial crime, ethics and compliance and banking in the digital age. Due to COVID-19 pandemic, training initiatives which were being planned by the Bank for the reporting year, had to be postponed to 2021. Indeed, one of the areas for improvement which emerged from the Evaluation of the Board's Performance (more information in Principle 7 below) was the need for more directors' training, both at induction stage, as well as on an ongoing basis. In order to address this finding, during Quarter 1 of 2021, the Office of the Company Secretary, in conjunction with Training Centre, developed a Training Plan for directors which plan shall be implemented throughout 2021.

Corporate governance statement of compliance (continued)

Principle 7: Evaluation of the Board's Performance

During the period under review, the Nominations and Governance Committee undertook an evaluation of the performance of the Board, the Chairman and the Board Committees. The evaluation exercise was conducted through a Board Effectiveness Questionnaire (the "Questionnaire") prepared by the Nominations and Governance Committee. All directors, including the Executive Directors, responded to this Questionnaire. The result of the Questionnaire was subsequently analysed by the Nominations and Governance Committee and discussed at Board level.

The outcome result of the Board Effectiveness Questionnaire was a positive one, highlighting the need for improvement in the following areas:
- Quality and timeliness of information
- Induction and training (including ongoing training)
- Succession planning for Key Senior Executives

Principle 8: Committees

The **Remuneration Committee** is dealt with under the Report of the Remuneration Committee, which also includes the Remuneration Statement of Compliance in terms of Code Provisions 8.A.3 and 8.A.4.

The **Nominations and Governance Committee** is dealt with under the Nominations Report as per Listing Rule 8.B.7.

Principles 9 and 10: Relations with Shareholders and with the Market and Institutional Shareholders

The Bank recognises the importance of maintaining a dialogue with its shareholders and of keeping the market informed to ensure that its strategies and performance are well understood.

The Board is of the view that during the year under review the Bank has communicated effectively with the market through a number of company announcements and press releases.

The Bank also communicates with its shareholders through the Bank's Annual General Meeting (AGM) (further detail is provided under the section entitled General Meetings). During 2020, the COVID-19 pandemic situation did not permit the holding of the AGM in the usual manner. Following health authority guidelines on the prohibition of mass gatherings, the AGM held on 26 November 2020 was held remotely and was streamed live on the Bank's website. Albeit the shareholders could not physically attend the AGM, shareholders could participate during the AGM by appointing the Chairman as their proxy and indicating their voting preferences. Moreover, shareholders had the right to ask questions, ahead of the AGM and to have such questions answered by the Directors during the AGM. A full report of the Meeting, including answers to shareholders questions, was uploaded on the Company's website within 48 hours from termination of the meeting.

The Chairman and the CEO also ensure that sufficient contact is maintained with major shareholders to understand issues and concerns. During these meetings no market sensitive information is disclosed.

Apart from the AGM, the Bank communicates with its shareholders by way of the Annual Report and Financial Statements, by publishing its results on a six-monthly basis and through a bi-annual newsletter to shareholders. The Bank also issues the Interim Directors' Statement for Quarter 1 and Quarter 3 of its financial year. In addition, the Bank's website (www.bov.com) contains information about the Bank and its business, including an Investor Relations Section.

Furthermore, the Bank holds a meeting for stockbrokers and financial intermediaries, usually twice a year, to coincide with the publication of its Financial Statements. Other meetings with stockbrokers and financial intermediaries are held as necessary. From time to time, the Bank also holds meetings with the Malta Association of Small Shareholders. In view of the COVID-19 pandemic situation, these meetings were held online via video conference.

The Office of the Company Secretary maintains two-way communication between the Bank and its investors. Individual shareholders can raise matters relating to their shareholdings and the business of the Group at any time throughout the financial year and are given the opportunity to ask questions at the AGM or submit written questions in advance. In terms of Article 18.3 of the Articles of Association of the Bank and Article 129 of the Companies Act,1995 (Chapter 386, Laws of Malta), the Directors may call an Extraordinary General Meeting on the requisition of shareholders holding not less than one-tenth of the paid up share capital of the Company.

Principle 11: Conflicts of Interest

Should an actual or potential conflict arise during the tenure of a directorship, a director must disclose and record the conflict in full and in time to the Board. A director shall not participate in a discussion concerning matters in which he has a conflict of interest unless the Board finds no objection to the presence of such director. In any event, the director shall refrain from voting on the matter.

A director having a continuing material interest that conflicts with the interests of the Group, should take effective steps to eliminate the grounds of conflict. Each director should declare to the Group his or her interest in the share capital of the Group and should only deal in such shares as allowed by law and in accordance with internal policies.

Directors' interest in the share capital of the Bank as at 31 December 2020 was as follows:

Corporate governance statement of compliance (continued)

	Beneficial Interest*
Paul V Azzopardi (resigned on 15 February 2020)	10,068 shares
Miguel Borg	7,635 shares
Diane Bugeja	29,310 shares
Alfred Lupi	34,204 shares

**Includes any shares held by spouses or partners*

No Director has any other benefit or non-beneficial interest in the share capital of the Bank.

Principle 12: Corporate Social Responsibility

2020 has been a truly extraordinary year for everyone, a year that started in the same way as any other year and quickly turned into a memorable year, maybe not for all the right reasons. Just like this year brought back memories of the 1918 Pandemic, 2020 will be remembered as the year of the Coronavirus and all the implications it brought about for years to come.

The COVID-19 pandemic disrupted our lives in so many ways, but in true spirit to the resilience that Malta has been renowned for, the Island rose up to the challenge to contain the spread while continuing to look forward, progress and improve through the process.

Bank of Valletta has continued to emphasise on its role as Malta's Community Bank supporting both Malta's economy through high-quality banking services, providing much needed assistance to those who found themselves in financial difficulties through the impact of the pandemic, as well as continuing to invest in the Community in which it operates - making a difference where and when it matters.

This support is provided through the BOV Community Programme – a vehicle through which we work very closely with several stakeholders, including Government, non-governmental and non-profit organisations, charities and other local businesses to support projects and initiatives that add value to the community. The highlights for financial year 2020 are the following:

Arts & Culture

During February the Bank held the 27th edition of its Retrospective Art Exhibition celebrating the works of Celia Borg Cardona and her bold, vigorous and expressive brushworks at the Gran Salon at the Auberge de Provence, currently being meticulously restored through the support of Bank of Valletta. The exhibition was curated by Francesca Balzan and inaugurated by H.E. George Vella, President of Malta.

The Bank 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.

Heritage

Our Heritage is a constant in this time of uncertainty. Three major restoration projects that received BOV's support were completed during this turbulent year. The 3-year restoration project of Marouflage painted ceiling by Prof Giuseppe Briffa was the first and was inaugurated in January 2020.

The Return of the Holy Family from Egypt, the titular painting at the Comino Chapel was back in its unique and rightful place, restored to its former glory and The 17th Century titular painting and Crucifix, collectively known as the 'Golgotha Group' were also successfully restored through the Bank's support.

The Bank also supported the restoration of important financial documents found at the Notarial Archives, that included the original deed of the formation of the Anglo-Maltese Bank in 1810. The Anglo Maltese Bank was one of four banks that merged into the National Bank of Malta, the predecessor to Bank of Valletta.

Environment

BOV is also making crucial contributions to the local environment. Saving Malta's national fish, the endemic Bużaqq (killifish) featured high on this year's agenda. This multi-year project driven by Nature Trust reached a major milestone this year when the first fish were introduced at 'il-Magħluq' in Marsaskala, a site that received major upgrading specifically for this project. The fish are now numbering in the thousands and are expected to be re-introduced to other brackish water environments in Malta.

The Bank also signed an operational agreement with the European Investment Bank (EIB) and the European Investment Fund (EIF) to launch a clean energy financing product that benefits from a guarantee and interest rate subsidy financed by the European Regional Development Fund (ERDF). This is the first financial instrument using structural funds that targets projects related to energy efficiency and renewable energy.

Corporate governance statement of compliance (continued)

Social

The refurbishment works of the male quarters at the San Blas Therapeutic Community Centre were inaugurated in March. The quarters, which provide a safe and secure environment for individuals following residential drug rehabilitation, underwent a complete transformation through the support of Bank of Valletta and 'The Marigold Foundation - BOV in the Community'.

BOV undertook an extensive campaign to help people pay safe by utilising contactless payments, utilising card payments for delivery orders to minimise contact while increasing payment limits to cater for this unprecedented situation. The Bank also offered moratoria on loans to people who found themselves in financial difficulties due to the pandemic, launched initiatives to help senior citizens and vulnerable individuals and also launched the BOV Safe@home campaign, a series of educational and fun initiatives through the Bank's website to entertain kids during their 'stay at home' period.

Other initiatives included 3 blood donation drives, a campaign with the Transplant Support Group to encourage people to register as organ donors, staff initiatives in aid of the St Jeanne Antide Foundation and the Malta Foodbank as well as the L-Istrina BOV Piggy Bank Campaign, through which the sum collected exceeded the previous year's despite the COVID-19 situation.

Sports

Sports were hit very hard by the pandemic, with all activities grinding to a halt. The Bank kept close contact with its sports partners who invested their time in improving their facilities, motivating their athletes to continue their training individually and making preparations for the upcoming sports seasons.

It is with pleasure that we see most local competitions back on track, albeit behind closed doors and we commend the associations who upgraded their facilities to enable their fans to enjoy the games through the relative associations' websites and social media platforms.

Football, Basketball, Water Polo, Horse Racing, Bowling, Sailing, Tennis and Golf were among the disciplines that received the Bank's support as well as young athletes through the Youth Development Scheme in collaboration with SportMalta.

Education

Bank of Valletta's partnership with 'Read With Me', the project that promotes shared reading experiences, focusing on early literacy and parental education, thrived through social media. Read with Me's experienced tutors took to the digital world filming the sessions and making them available through social media channels so that children could follow them from the safety of their home.

The Bank embarked on an extensive educational campaign to help people move away from cash and cheque payments to COVID friendly online and contactless payments. The Bank used its online channels, through webinars, video clips, articles and news items to promote the safer and more efficient methods of payments using Internet and Mobile banking as well as cards.

The Bank also launched a series of free webinars - The BOV COVID Webinars to help consumers and businesses stay connected and up-to-date with the latest developments, insights and best practices on various topics such as economy, business finance, stress management, investment management, payments and cybersecurity.

Business

The Business Community was very deeply affected by the COVID-19 pandemic and Bank of Valletta proved to be a driving catalyst in the assistance it provided to local businesses and the Maltese economy. The Bank immediately established a dedicated fund to help businesses and subsequently launched the 'BOV-MDB COVID Assist' – a financing scheme, in collaboration with the Malta Development Bank to inject liquidity in local businesses facing unprecedented disruptions brought about by the COVID-19 pandemic. The Bank paid special attention to micro and small SMEs as these proved to be highly vulnerable and were finding it particularly challenging to provide the extent of soft collateral being requested by banks. The Bank together with MDB further facilitated access to finance by requesting significantly lower personal guarantees and other soft collateral from such entities.

The Bank also introduced various measures to support its business customers such as charging interest at later dates, capital repayment holidays, ease of trade finance services via internet banking at no additional costs and provision of working capital for customers facing short term cash flow issues.

C. NON-COMPLIANCE WITH THE CODE

Principle 4 (Code Provision 4.2.7)

The Code recommends "the development of a succession policy for the future composition of the Board of Directors and particularly the executive component thereof, for which the Chairman should hold key responsibility". Although the Bank does not have a Succession Policy per se, the concept of Rotation of Directors (as further explained under Principle 3 above) was introduced to ensure continuity at Board level and is embedded within the Bank's Memorandum and Articles of Association.

Corporate governance statement of compliance (continued)

Principle 6 (Code Provision 6.4.4)

During the financial year under review the Bank did not have a system in place to establish a succession plan for Senior Management. This notwithstanding, the Bank has always been successful in appointing suitable individuals internally and externally. Moreover, succession planning for key senior executives is an integral part of the process for the organisational design and change management exercise being carried out as part of the BOV 2023 Strategy. It is expected that the new organisation structure will be in place by first half of FY 2021. Once all the structures, functions and leadership roles are finalised and approved, with all business leaders aligned on business strategy, the next step will be the design of a robust succession plan.

Besides the finalisation and approval of the Succession Policy document, the process will also include:

i) Defining list of critical leadership roles;
ii) Executive succession planning;
iii) Non-executive succession planning;
iv) Individual professional and development planning, coaching and mentoring;
v) Identifying and managing high potentials; and
vi) Managing leadership re-deployment.

Principle 9 (Code Provision 9.3 and 9.4)

Code Provision 9.3 requires the Bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Code Provision 9.4 requires that minority shareholders should be allowed to formally present an issue to the Board of Directors. Both Code Provisions were not necessary to the Bank during the financial year.

D. INTERNAL CONTROL

Authority to manage the activities of the Bank is delegated to the CEO within the limits set by the Board.

The Board is ultimately responsible for the Bank's systems of internal control and for reviewing their effectiveness. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable as opposed to absolute assurance against material misstatement or loss. Through the Audit Committee, the Risk Committee and the Compliance and Anti Financial Crime Committee, the Board reviews the process and procedures to ensure the effectiveness of the Group's systems of internal control, which are monitored by the Group Internal Audit Department.

The key features of the Group's systems of internal control are as follows:

Organisation

The Group operates through the Board of Directors of subsidiary companies and equity-accounted investee companies with clear reporting lines and delegation of powers.

Control Environment

The Group is committed to the highest standards of business conduct and seeks to maintain these standards across all of its operations. Group policies and employee procedures are in place for the reporting and resolution of fraudulent activities. The Group has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve Group objectives.

Risk Identification

The Management of each of the Group members is responsible for the identification and evaluation of key risks applicable to their areas of business. The risk management model adopted by BOV is the classic "three lines of defence model" wherein the first line of defence is constituted by the functions that own and manage risks, namely the business units; the second line is constituted by the functions that oversee risks, namely Risk Management, Compliance and Anti-Financial Crime; and the third line is constituted by Internal Audit, which is the function that provides independent assurance. The Risk Management function, within the second line of defence, falls under the responsibility of the Chief Risk Officer, and operates within a wider Bank structure that reflects the risk appetite and risk management philosophy articulated by the Board of Directors.

Reporting

Functional, operating and financial reporting standards are applicable to all entities of the Group. These are supplemented by operating standards set, as required, by the Bank's Board and the Executive Committee. Systems and procedures are in place to identify, control and to report on the major risks including credit risk, changes in the market prices of financial instruments, liquidity, operational error and fraud. Exposure to these risks is monitored by ALCO and by the Risk Committee. The Board receives periodic management information giving comprehensive analysis of financial and business performance including variances against budgets.

Corporate governance statement of compliance (continued)

E. LISTING RULE 5.97.5

Whilst Listing Rule 5.97.5 is not applicable, the information relating to the shareholder register required by this Listing Rule is found in the Directors' Report.

F. GENERAL MEETINGS

The general meeting is the highest decision making body of the Bank. A general meeting is called by twenty-one days' notice and it is conducted in accordance with the Articles of Association of the Bank.

The Annual General Meeting (AGM) deals with what is termed as "ordinary business", namely, the receiving or adoption of the annual financial statements, the declaration of a dividend, if any, the appointment of the auditors, Board authorisation to fix the auditors' emoluments and the Election of Directors. Other business which may be transacted at a general meeting (including at the AGM) will be dealt with as special business.

All shareholders registered in the Shareholders' Register on the Record Date as defined in the Listing Rules, have the right to attend, participate and vote in the general meeting. A shareholder or shareholders holding not less than 5% in nominal value of all the shares entitled to vote at the general meeting may request the Bank to include items on the agenda of a general meeting and/or table draft resolutions for items included in the agenda of a general meeting. Such requests are to be received by the Bank at least forty six days before the date set for the relative general meeting.

A shareholder who cannot participate in the general meeting can appoint a proxy by written or electronic notification to the Bank. Every shareholder represented in person or by proxy is entitled to ask questions which are pertinent and related to items on the agenda of the general meeting and to have such questions answered by the Directors or by such persons as the Directors may delegate for that purpose. Pursuant to Legal Notice 288 of 2020, during the 2020 AGM, shareholders could not attend physically for the AGM and shareholders could only participate during the AGM by appointing the Chairman of the Meeting as their proxy.

Annual General Meeting 2020

During the year under review, the AGM for 2020, originally scheduled to be held on the 15 May, was due to the COVID-19 circumstances, rescheduled to be held on the 26 November. Pursuant to Legal Notice 288 of 2020, and in accordance with the guidelines issued by the health authorities on public gatherings and mass events, the Bank's AGM for 2020 was held remotely. Notwithstanding that shareholders could not attend physically for the AGM, shareholders could participate during the AGM by appointing the Chairman of the Meeting as their proxy and indicating their voting preferences. Shareholders were also granted the right to submit any questions they might have in writing to the Company Secretary, ahead of the Meeting. These questions were subsequently responded to by the Chairman during the AGM itself, which was also streamed live on the Bank's website. The questions and answers of questions submitted by shareholders prior to the AGM, were uploaded on the Bank's website.

Remuneration report as at 31 December 2020

Report of the Remuneration Committee as at 31 December 2020

1. Terms of Reference and Membership of the Remuneration Committee

The Remuneration Committee (the Committee) is charged with overseeing the development and implementation of the remuneration and related policies of the Group. Its primary purpose is to make recommendations to the Board of Directors on the remuneration policy of the Group, support the Board of Directors in overseeing the remuneration system's design and operation and ensure that remuneration is appropriate and consistent with the Bank's culture, long term business and risk appetite, performance and control environment as well as with any legal or regulatory requirements. The role of the Committee is to devise the appropriate remuneration packages needed to attract, retain and motivate Directors, as well as key function holders required for the proper governance of the Group.

During FY 2020 the Committee was composed of, Antonio Piras (Chairman), Alfred Lupi and Steve Agius as members, all of whom are Independent Non-Executive Directors. The Chief Executive Officer attends meetings of the Committee. The Chief Human Resources and Ethics Officer attends meetings of the Committee by invitation. None of the Executives participated in the discussion regarding their remuneration. The Company Secretary acts as secretary to the Committee.

2. Meetings

The Committee held three meetings during the period under review, which were attended by all members.

3. Remuneration Statement

3.1 Bank of Valletta p.l.c Remuneration Policy – Executive Management

The Board of Directors determines the framework of the overall remuneration policy for Executive Management based on recommendations from the Committee. The Committee, on the recommendations of the Chief Executive Officer, then establishes the individual remuneration arrangements of the Group's Executive Management, namely the members of the Executive Committee.

The Remuneration Policy applies consistently to all employees within the Group. Its objective is to align employees' remuneration with the Group's performance, business strategy and business models, risk appetite framework, values and long term goals. The overriding principle of the Remuneration Policy is that individual performance is evaluated according to both quantitative/financial and qualitative/behavioural measures.

During 2021 the Bank will be reviewing its Remuneration Policy to ensure that it is compliant with the EU Capital Requirements Directive (CRD) V on variable pay. This includes risk score cards, deferral and malus and clawback. The Remuneration Policy will also be revised to align it with the BOV Variable Remuneration Share Plan that was approved during the Annual General Meeting held on the 26 November 2020.

Further details about the Bank's Remuneration Policy are found in the Pillar 3 disclosures which are published on the Bank's website.

The Committee considers that the current Executive Management remuneration packages are based upon the appropriate local market equivalents and are adequate for the responsibilities involved. The Committee is of the opinion that the remuneration packages are such, as to enable the Bank to attract, retain and motivate executives having the appropriate skills and qualities, in order to ensure the proper management of the organisation. Such packages should therefore be kept under constant review.

Hereinafter, for the purposes of this Remuneration Statement, references to "Senior Executives" shall mean the Chief Executive Officer and the other seven members of the Executive Committee.

Senior Executives enjoy the health insurance arrangements and death in service benefits as all Bank employees. Senior Executives are also entitled to the use of a company car. Certain members of the Executive Committee have a clause in their contract, wherein should their contract be terminated without due reason, they may be eligible for monetary compensation.

The Chief Executive Officer's remuneration is reviewed and approved by the Committee. The Chief Executive Officer is eligible for an annual bonus entitlement by reference to the attainment of pre-established objectives and targets as laid down in the Chief Executive Officer's contract of engagement and approved by the Committee.

The Members of the Executive Committee are also eligible for an annual bonus entitlement. The Members of the Executive Committee are eligible for an annual salary increase which is approved by the Board of Directors upon the recommendations of the Committee.

Remuneration report as at 31 December 2020 (continued)

No supplementary pension or other pension benefits are payable to the Senior Executives. Insofar as early retirement schemes are concerned, the Senior Executives are subject to the schemes which are set out and defined in the Collective Agreement (for Managerial and Clerical Grades) as may be applicable to employees from time to time.

The Committee is of the view that the amount of performance bonus paid out at all staff levels is not significant.

Total emoluments received by Senior Executives during FY 2020 are reported under Section 3.3.within this Report, in terms of Code Provisions 8.A.5.

Variable Remuneration of Senior Executives (Executive Committee)

The Variable Remuneration of Senior Executives is determined by the Remuneration Committee. All Senior Executives were given new targets for the second half of 2020. There are 3 core elements to each performance assessment as follows:
1. Personal Performance against Targets
2. Risk Management Performance
3. Leadership Behavioural Assessment

An assessment of the performance of the Senior Executives was carried out by the Chief Executive Officer and approved by the Remuneration Committee. As part of its assessment process and in determining the variable remuneration, the Committee sought the advice of the Risk Committee.

Variable Remuneration of Chief Executive Officer

Information on the performance assessment and the variable remuneration of the Chief Executive Officer is reported in the Directors' Remuneration Report, within this Annual Report in terms of Chapter 12 of the Listing Rules.

3.2 Remuneration Policy – Directors

The Remuneration Policy for Directors was drawn up in accordance with Listing Rules 12.26 and was approved during the Bank's Annual General Meeting. The maximum annual aggregate emoluments that may be paid to the Directors is approved by shareholders at the General Meeting in terms of Article 33.1 of the Bank's Articles of Association. The aggregate emoluments of all directors of €450,000 per annum, was fixed at an Extraordinary General Meeting held on 27 July 2017. This amount excludes the salaries of Directors in the Bank's employment.

Currently, a base annual fee of €20,500 is paid to each Director and €80,000 is paid to the Chairman of the Board. In addition to the base fee, Non-Executive Directors who are also appointed as members of one of the Board Committees receive additional compensation. The additional remuneration paid depends on whether the Non-Executive Director is Chair or a member of such Board Committee. During 2020, Non-Executive Directors who were appointed Chair of a Board Committee were granted an annual €5,000 Committee fee whilst Non-Executive Directors who were appointed Members of a Board Committee were granted an annual €3,000 Committee fee.

The Directors on the Board carry significant personal responsibilities in view of the size and complexity of the institution and of the regulatory environment. They are executing their duties in an especially complex framework conditioned by the transformation process which the Bank is undergoing, these difficulties wrought by COVID and ongoing challenges from the legal and regulatory dimensions. It is worthwhile to observe that the remuneration received by Directors for their roles in Board and Committees has with the passage of time come to not sufficiently reflect these realities, especially when compared to the general market situation.

Service Contracts for Directors

Non-Executive Directors

The Non-Executive Directors have service contracts with the Bank, none of which provide for severance payments upon termination of their respective directorship. In terms of the said service contracts as well as pursuant to the Remuneration Policy for Directors, the Non-Executive Directors are entitled to certain benefits after the termination of their directorship, including discounts on products and services offered by the Group. Service contracts regulate the term of office of Non-Executive Directors, referring specifically to the concept of Rotation of Directors provided within the Memorandum and Articles of Association (as further explained under Principle 3 of the Corporate Governance Statement of Compliance). Non-Executive Directors are not paid any benefits linked to the termination of their office and they do not benefit from any pension or early retirement schemes by virtue of their office.

Executive Directors

The Chief Executive Officer is appointed as Executive Director, on an ex officio basis, by virtue of his role of Chief Executive Officer. By virtue of his contract of engagement, the current Chief Executive Officer is not entitled to any pension, retirement scheme or other entitlements upon termination of contract.

Remuneration report as at 31 December 2020 (continued)

The second Executive Director on the Board is currently the Chief Risk Officer, who has a term of office of three (3) years and shall thereafter be eligible for reappointment. The Bank currently does not have a formal pension plan, although on a non-contractual basis, the Chief Risk Officer may be eligible to a retirement gratuity of up to a 3 times salary, subject to a prescribed level of service, by virtue of his being an employee of the Bank.

Vacation of office of Directors shall be served in writing. Service contracts also provide for the Directors' powers and duties vis à-vis the Bank and their obligation to dedicate sufficient time to carry out their responsibilities. Directors are obliged to avoid conflicts of interest and shall take reasonable steps to keep the Bank's matters confidential. Directors' emoluments are designed to reflect the time committed by Directors to the Bank's affairs, including the different Board Committees of which Directors are members, and their responsibilities on such Committees.

Share Options and Share-Incentive Schemes

None of the Non-Executive Directors, in the capacity as a Director of the Bank, is entitled to profit sharing, share options or pension benefits.

Pursuant to the Remuneration Policy for Directors, in the case of Executive Directors, variable remuneration shall be made of a combination of cash and ordinary shares of Bank of Valletta. For Financial Year 2020, this principle was applied only for the variable pay of the Chief Executive Officer, in accordance also with the terms of his contract of engagement as provided hereunder:

	Share Value €	Performance Period
Rick Hunkin		
Vested Shares	20,800	1 January to 30 June 2020

The share component of Rick Hunkin's variable remuneration will be acquired from the secondary market following the publication of the Bank's financial statements on the 30 March 2021. These shares shall be retained for a period of at least 12 months from the date they are vested.

In the case of the Chief Risk Officer, in view that the Remuneration Policy for Directors was approved by the General Meeting on the 26 November 2020, and given that the de minimis exceptions permitted by relevant banking regulations apply for the variable pay granted to the Chief Risk Officer for Financial Year 2020, the bonus awarded to the Chief Risk Officer was paid fully in cash and no part thereof was deferred to a later year/s.

In terms of non-cash benefits, Directors are entitled to health insurance. They are also entitled to a refund of out-of-pocket expenses. In addition, the Executive Directors only are entitled to the use of a company car.

One of the Non-Executive Directors, as well as both the Executive Directors, are employees of the Bank and therefore also receive remuneration by virtue of their employment.

3.3 Code Provision 8.A.5

Senior Executives' Emoluments (Executive Committee)

Fixed Remuneration	Group Directors Fees	Variable Remuneration	Share Options	Others
€1,194,055.98	€30,000*	€149,100**	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses

* This amount represents emoluments received by senior executives in relation to their directorships on the Bank's subsidiary companies.
** This amount includes €45,000 paid to three Senior Executives by way of special bonus, which amount represents bonus attributed to Financial Year 2019 but which was paid post March 2020.

Remuneration report as at 31 December 2020 (continued)

Directors' Fees

Fixed Remuneration	Group Directors Fees	Variable Remuneration	Share Options	Others
€312,553	€11,260	None	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses: €11,141

BOV Directors' Fees FY 2020	€
Gordon Cordina (Chairman) (appointed 13 October 2020)	19,228
Taddeo Scerri (resigned 15 May 2020)	31,817
Stephen Agius	26,500
Miguel Borg	20,500
Diane Bugeja	32,230
James Grech	20,500
Rick Hunkin	20,500
Alfred Lupi*	53,741
Alfred Mifsud	32,230
Anita Mangion	23,500
Antonio Piras	29,287
Paul V. Azzopardi (resigned 15 February 2020)	2,520
Total	312,553

Alfred Lupi occupied the position of Interim Chairman of Bank of Valletta from 16 May 2020 till 12 October 2020 and during such period was paid the remuneration of Chairman of the Bank.

Remuneration report as at 31 December 2020 (continued)

Directors' Remuneration Report in terms of Chapter 12 of the Listing Rules

During the previous Annual General Meeting of the Bank which was held on the 26 November 2020, the general meeting approved the Remuneration Policy for Directors. The votes obtained with respect to the resolution relating to the Remuneration Policy for Directors were as follows:

Votes in favour:	329,042,014
Votes against:	3,318,598
Votes abstained:	3,453,468

The Remuneration Policy for Directors (the "Policy") regulates the remuneration of the Non-Executive Directors as well as that of the Executive Directors. The Remuneration Committee is tasked with keeping the Policy under review and considers whether it requires revision or updating in line with market demands in order to ensure that the Bank's Board of Directors attracts and retains, suitable members that provide the collective skills and experience required for the proper functioning of the Board. The Policy shall be reviewed and any material amendments to the Policy shall be submitted to a vote by the general meeting before adoption, and in any case at least every four years.

The Remuneration Policy for Directors is available on the Bank's website on https://www.bov.com/content/remuneration-policy and on https://www.bov.com/content/financial-reports.

There were no deviations from the procedure for the implementation of the Remuneration Policy for Directors.

Information in terms on Appendix 12.1 of the Listing Rules

Executive Directors

The Executive Directors' total remuneration as salaried employees is regulated pursuant to the Remuneration Policy for Directors, the Group's Remuneration Policy and the Executive Director's respective contract of engagement. The Bank's policy is that the remuneration of Executive Directors ought to reflect mainly their executive positions within the Bank. Such remuneration consists of a fixed salary, variable remuneration and benefits as may be provided for in their employment contract with the Bank.

The Bank believes that a combination of fixed and variable remuneration aims to attract and retain suitable executives who have the necessary competence, skills, qualities and experience to enable them to discharge their duties according to the highest standards. The fixed remuneration component gives due consideration to the level of responsibility which such position entails, whereas the variable component is subject to the performance assessment by the Remuneration Committee. This assessment may include risk-adjusted performance indicators and shall be aligned with the strategic objectives and delivery value to shareholders.

Any variable component of Executive Director remuneration is subject to malus and clawback provisions which allow a reduction or reversal of any variable remuneration. The Remuneration Committee may enforce such provisions up to 7 years from the date of the performance assessment (which may be increased to 10 years if there is an on-going investigation) in case of:

- (Malus only) material misstatement of the Bank's financial results
- (Malus only) material error
- (Malus and clawback) circumstances warranting summary dismissal
- (Malus and clawback) material failure of risk management
- (Malus only) material downturn in economic activity

During the period under review no malus and clawback provisions were exercised.

Non-Independent Non-Executive Director by virtue of being salaried employee of the Bank

Besides being a Non-Executive Director on the Bank's Board of Directors, Mr James Grech holds an indefinite salaried office with the Bank. However, James Grech is not considered to be an Executive Director because his position is not one of executive decision making with the Bank, and he is appointed to the Board by shareholders in general meeting.

Remuneration report as at 31 December 2020 (continued)

Remuneration of Executive Directors and Non-Independent Non-Executive Directors by virtue of being salaried employees of the Bank

	Rick Hunkin €	Miguel Borg €	James Grech €
Fixed pay	350,182	149,455	65,183
Variable pay:			
- Cash	20,800	27,500	2,250
- Shares	20,800	N/A	N/A
Benefits	47,176	8,541	4,926
BOV directors' fees	20,500	20,500	20,500
Other Group Companies directors' fees	N/A	10,000	N/A
Aggregate	459,458	215,996	92,859

Shares and Share Options awarded in 2020

	Share Value €	Performance Period
Rick Hunkin		
Vested Shares	20,800	1 January to 30 June 2020

The variable remuneration of Rick Hunkin was approved by the Board of Directors, upon the recommendation of the Remuneration Committee, on the 26 February 2021. However, the shares component of the variable remuneration will be acquired from the secondary market following the publication of the Bank's financial statements on the 30 March 2021. These shares shall be retained for a period of at least 12 months from the date they are vested. The variable remuneration of Miguel Borg includes €15,000 special bonus attributed to Financial Year 2019 but which was paid post March 2020 and €12,500 bonus which was approved by the Remuneration Committee on the 12 March 2021 for Financial Year 2020.

Determining the Performance of the Executive Directors and of the Non-Independent Non-Executive Director by virtue of being salaried employee of the Bank

The performance assessment of Rick Hunkin was based on the evaluation of the targets achieved against the objectives laid down in his contract of engagement. These objectives are in line with the Bank's overall targets, strategy, risk appetite framework and long-term goals. These objectives together with their respective weighting are listed below:

Regulatory Compliance: 33%
Transformation Business Plan: 33%
Leadership Team Composition: 33%

The assessment of the Chief Executive Officer's performance was carried out by first requiring each Non-Executive Director to individually assess the Chief Executive Officer's performance, for each individual goal pursuant to the Chief Executive Officer contract of engagement for the first six months of his mandate, that is, from 1 January till 30 June 2020. Following an evaluation by the Non-Executive Directors, the performance and the variable remuneration of the Chief Executive Officer was reviewed by the Remuneration Committee and recommended to the Board for approval.

In accordance with the Remuneration Policy for Directors, the percentage of variable remuneration received by Rick Hunkin amounts to 12% of his fixed salary (excluding benefits) and therefore is lower than the 100% of fixed remuneration threshold. No deferral principle applies for Rick Hunkin's bonus. However, with respect to the 50% of the bonus which is paid by way of BOV shares, these shall be retained for a period of at least 12 months from the date they are vested.

An assessment of the performance of Miguel Borg was carried out by the Chief Executive Officer and approved by the Remuneration Committee. The performance assessment of Miguel Borg was made on the basis of the following 3 core elements:
1. Personal Performance against Targets
2. Risk Management Performance
3. Leadership Behavioural Assessment

Remuneration report as at 31 December 2020 (continued)

As part of its assessment process and in determining the variable remuneration, the Committee also sought the advice of the Risk Committee.

In the case of Miguel Borg, in view that the Remuneration Policy for Directors was approved by the General Meeting on the 26 November 2020, and given that the de minimis exceptions permitted by relevant banking regulations apply for the variable pay granted to Miguel Borg for Financial Year 2020, the bonus awarded to him was paid fully in cash and no part thereof was deferred to a later year/s. The amount of variable pay received by Miguel Borg amounts to approximately 8% of his fixed salary and is lower than the 100% of fixed pay threshold.

In the case of James Grech, his variable remuneration as a salaried employee of the Bank, is governed by the Group Remuneration Policy. The Key Performance Indicators of James Grech consisted of business objectives and behavioural competencies. The performance assessment of James Grech was carried out by the Chief Officer Treasury to whom James Grech reports. The amount of variable pay received by James Grech amounts to approximately 3% of his fixed salary and is lower than the 95% of fixed pay threshold. No deferral requirements applied to James Grech during performance year 2020.

Non-Executive Directors

The maximum annual aggregate emoluments that may be paid to the Directors is approved by shareholders at the General Meeting in terms of Article 33.1 of the Bank's Articles of Association. The aggregate emoluments of all directors of €450,000 per annum, was fixed at an Extraordinary General Meeting held on 27 July 2017. This amount excludes the salaries of Directors in the Bank's employment.

Currently, a base annual fee of €20,500 is paid to each Director (including the Executive Directors) and €80,000 is paid to the Chairman of the Board. In addition to the base fee, Non-Executive Directors who are also appointed as members of one of the Board Committees receive additional compensation. The additional remuneration paid depends on whether the Non-Executive Director is Chair or a member of such Board Committee. During 2020, Non-Executive Directors who were appointed Chair of a Board Committee were granted an annual €5,000 Committee fee whilst Non-Executive Directors who were appointed Members of a Board Committee were granted an annual €3,000 Committee fee.

Non-Executive Directors may receive various benefits as approved by the Remuneration Committee. Currently, all Non-Executive Directors are entitled to health insurance and to a reimbursement of out-of-pocket expenses incurred by them.

Non-Executive Directors' fees and benefits	FY2020 Fees €	FY2020 Benefits €
Gordon Cordina (Chairman) (appointed 13 October 2020)	19,228	n/a
Taddeo Scerri *	31,817	1,107
Stephen Agius	26,500	1,534
Diane Bugeja	32,230	729
James Grech	20,500	1,326
Alfred Lupi	53,741	1,976
Alfred Mifsud	32,230	2,964
Anita Mangion	23,500	1,326
Antonio Piras	29,287	n/a
Paul V. Azzopardi (resigned 15 February 2020) **	2,520	179
Total	**271,553**	**11,141**

* *Taddeo Scerri resigned from Chairman and Director of the Bank on 1 May 2020*

** *Paul Azzopardi also received a further €1,260 as directors' fees in his capacity of Director on BOV Asset Management Limited, a wholly owned subsidiary of BOV, for the period 1 January to 15 February 2020*

The directors' remuneration takes into consideration the Board members' required competencies, skills, effort and scope of the Board work. It is intended to ensure that the Bank can attract and retain high-quality people, enabling the Bank to execute its business strategy and serve its long-term interests, including its sustainability goals.

Remuneration report as at 31 December 2020 (continued)

The Bank has complied in full with the procedure for the implementation of the Remuneration Policy for Directors as defined in Chapter 12 of the Listing Rules.

The Directors Remuneration Report in terms of Chapter 12 of the Listing Rules is being put forward to an advisory vote during the 2021 Annual General Meeting pursuant to the requirements of Listing Rule 12.26L.

In accordance with Listing Rule 12.26N, the External Auditors have checked that all information, as required in terms of Appendix 12.1 of Chapter 12 of the Listing Rules, has been included in the Directors' Remuneration Report within this Remuneration Report.

Nominations report as at 31 December 2020

The Nominations and Governance Committee

The Nominations and Governance Committee (the Committee) was set up by the Board of Directors and is enshrined within the Bank's Memorandum and Articles of Association. The Committee works under the guidance of its Terms of Reference as approved by the Board of Directors.

The role of the Committee is twofold, namely (i) to ensure that the composition of the Bank's Board of Directors has the appropriate level and mix of experience, skills and competence which are required for the operation of a credit institution and (ii) to ensure that persons occupying the post of Directors meet the requirements of governance standards, prevailing legislation and regulation.

From time to time, the Board of Directors reviews the Terms of Reference of the Committee. However, certain fundamentals are entrenched in the Memorandum and Articles of Association, which set out both the basic role of the Committee as well as its functions, namely:

i) To recommend to the Board of Directors, candidates having the right attributes, including integrity, skill, competence and experience individually; and who can contribute to the collective skills, experience and competence required at Board level;
ii) To make recommendations to the Board of Directors on persons considered as independent to occupy positions on the Board;
iii) To make recommendations on matters such as succession planning, establishment of policies and procedures related to the selection of Senior Management/key function holders and the optimal size of the Board of Directors and the Executive Committee;
iv) To ensure that nominations to the Board of Directors are made on merit and in line with the overall requirements of the skills and competence required;
v) To ensure that persons whose nomination is approved and recommended to shareholders or the Board of Directors as the case may be, are in a position to dedicate sufficient time and resources to the office of Director;
vi) To monitor on an ongoing basis any significant additional time commitments of the Board Members;
vii) To evaluate and test each candidate to the Board against guidelines issued from time to time by the Regulators; and
viii) Periodically assess the skills, knowledge and experience that may be required within the Board and ensure that such arrangements are consistent with high corporate governance standards and best practice and make recommendations thereon to the Board.

With a view to avoid possible perceptions of conflicts of interest in the scrutiny and approval of candidates for appointment as Non-Executive Directors, the Articles of Association provide that no member of the Committee shall be present when his nomination as a director or a matter which concerns that member in question, is being evaluated by the Committee. In these instances such member shall be substituted by another director.

The Committee is Chaired by the Chairman of the Bank and composed of two other Independent Non-Executive Directors.

The Committee held eleven meetings during the period under review.

	Meetings Held: 11
Members	Meetings attended by member
Gordon Cordina (Chairman)	2 (out of 2)
Taddeo Scerri (Chairman)*	6 (out of 6)
Alfred Lupi (Interim Chairman)**	3 (out of 3)
Stephen Agius	11
Diane Bugeja***	10 (out of 11)
Antonio Piras****	1 (out of 1)

* Resigned on 15 May 2020 and was replaced by Alfred Lupi as Interim Chairman
** Interim Chairman from 16 May 2020 to 12 October 2020
*** Appointed member on 9 January 2020
**** Ceased to be a member on 9 January 2020

During FY 2020, the Committee focused on the nomination process for the appointment of Interim Chairman and Chairman. As part of the Committee's suitability assessment of the Chairman, the Committee considered the Chairman's expected time commitment in his position of Chairman of the Bank as well as his other time commitments outside the Bank. It was deemed that the Chairman is in a position to dedicate sufficient time to his role as Chairman of the Bank.

Nominations report as at 31 December 2020 (continued)

In addition the Committee was also actively involved in the engagement of the new Chief Internal Auditor, the new Chief Finance Officer and the appointment of the Interim Chief Finance Officer, pending the latter's appointment. The Committee was also responsible for the evaluation of the Board's performance, the Chairman's performance and the Board Committees' performance (as further explained under Principle 7 of the Corporate Governance Statement of Compliance).

The Committee conducted a suitability assessment on candidates seeking appointment on the Board. During the year, the Committee ensured that persons whose nomination is approved and recommended to shareholders or the Board of Directors for the post of Non-Executive Directors have the necessary competences and skills and are in a position to dedicate sufficient time commitment to their position as Non-Executive Directors on the Bank's Board. The Committee was also responsible to monitor any additional time commitments by Board members.

Disclosures for the purposes of Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms:

While information about every member of the Board is found on the section entitled "Board of Directors and Company Secretary" of the Annual Report, a detailed curriculum vitae of every member of the Board and of the nominees is available at the Office of the Company Secretary.

Independent Assurance Report to the Shareholders of Bank of Valletta p.l.c.

Report required by Listing Rule 5.98 and 12.26N issued by the Listing Authority in Malta

We were engaged by the Directors to report on specific disclosures in the Corporate Governance Statement and the Remuneration Report (the "Disclosures") of Bank of Valletta p.l.c. (the "Bank") as at 31 December 2020 as to whether these are in compliance with corporate governance regulations and information to be provided in the remuneration report set out in the Listing Rules issued by the Listing Authority, the Malta Financial Services Authority (the "Listing Rules"). We are required to report in the form of an independent reasonable assurance conclusion as to whether:

in light of our knowledge and understanding of the Bank and its environment obtained during the course of the statutory audit, we have identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4, and for issuers of securities that carry voting rights that are subject to the requirements of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, the information referred to in Listing Rule 5.97.5. Where material misstatements are identified in relation to the requirements of Listing Rules 5.97.4 and 5.97.5, as applicable, we shall, in addition to our opinion, provide an indication of the nature of such misstatements;
the Disclosures include the other information required by Listing Rule 5.97, insofar as it is applicable to the Bank; and,
the Disclosures include the information required by Appendix 12.1 under Chapter 12 of the Listing Rules, insofar as it is applicable to the Bank.

Responsibilities of the Directors

The Directors are responsible for the compliance of the Bank, and of the Disclosures, with the Listing Rules.

The Directors are also responsible for preparing and presenting the Disclosures that are free from material misstatement and for the information contained therein.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Disclosures that is free from material misstatement whether due to fraud or error. It also includes ensuring that the Bank complies with the Listing Rules, selecting and applying policies and procedures in relation to both financial and non-financial information, making estimates and judgement that are reasonable in the circumstances and for maintaining adequate records in relation to the Disclosures.

The Directors are also responsible for preventing and detecting fraud and for identifying and ensuring that the Bank complies with laws and regulations applicable to its activities.

The Directors are also responsible for ensuring that staff involved with the preparation and presentation of the Disclosures are properly trained, information systems are properly updated and that any changes in reporting encompass all significant reporting units relevant to the Disclosures encompass all significant business units. This responsibility also includes informing us of any changes in the Bank's operations since the date of the Disclosures and since the date of our most recent assurance report on the Disclosures.

Our Responsibilities

Our responsibility is to examine the Disclosures and to report thereon in the form of a reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000, Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board.

That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Disclosures are properly prepared and presented, in all material respects, in accordance with the requirements set out in the relevant Listing Rules.

The firm applies International Standard on Quality Control 1 Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our assurance engagement in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Independent Assurance Report to the Shareholders of Bank of Valletta p.l.c. continued)

The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Disclosures whether due to fraud or error.

In making those risk assessments, we have considered internal control relevant to the preparation and presentation of the Disclosures in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Bank's internal control over the preparation and presentation of the Disclosures. Our engagement also included assessing the appropriateness of the Disclosures, the suitability of the criteria, being the relevant Listing Rules, in preparing and presenting the Disclosures in the circumstances of the engagement and evaluating the appropriateness of the method used in the preparation and the overall presentation of the Disclosures. Reasonable assurance is less than absolute assurance.

We are not required to, and we do not, consider whether the directors' statements on internal control and risk management systems cover all the risks and controls in relation to the financial reporting process or form an opinion on the effectiveness of the Bank's corporate governance procedures or its risks and control procedures, nor on the ability of the Bank to continue in operational existence. Our opinion in relation to the disclosures pursuant to Listing Rules 5.97.4 and 5.97.5 is based solely on our knowledge and understanding of the Bank and its environment obtained in forming our opinion on the audit of the financial statements. We have not performed any procedures by way of audit, verification or review on the underlying information from which the other disclosures required by Listing Rule 5.97 is derived.

We also read the other information included in the Annual Report in order to identify any material inconsistencies with the Disclosures.

Conclusion

Our conclusion has been formed on the basis of, and is subject to, the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

In our opinion:

in light of the knowledge and understanding of the Bank and its environment obtained during the course of our statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Listing Rule 5.97.4, and for issuers of securities that carry voting rights that are subject to the requirements of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, the information referred to in Listing Rule 5.97.5;

the Disclosures include the other information required by Listing Rule 5.97 insofar as it is applicable to the Bank; and,

the Disclosures include the information required by Appendix 12.1 under Chapter 12 of the Listing Rules, insofar as it is applicable to the Bank.

The Principal authorised to sign on behalf of KPMG on the work resulting in this assurance report is Noel Mizzi.

KPMG
Registered Auditors,

30 March 2021

Statements of profit or loss

For the year ended 31 December 2020

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Interest and similar income					
- on loans and advances	2	166,995	169,825	166,995	169,825
- on debt and other fixed income instruments	2	23,287	37,138	23,287	37,138
Interest expense	3	(43,476)	(54,113)	(43,476)	(54,113)
Net interest income		**146,806**	**152,850**	**146,806**	**152,850**
Fee and commission income		75,981	86,458	67,095	77,451
Fee and commission expense		(8,689)	(13,108)	(8,689)	(13,108)
Net fee and commission income	4	**67,292**	**73,350**	**58,406**	**64,343**
Dividend income		219	757	2,239	30,078
Trading profits	5	16,641	22,241	16,683	22,243
Net gain on investment securities and hedging instruments	6	657	88	657	88
Operating income		**231,615**	**249,286**	**224,791**	**269,602**
Employee compensation and benefits	7	(79,389)	(71,240)	(76,594)	(68,593)
General administrative expenses		(71,186)	(77,828)	(69,866)	(76,364)
Amortisation of intangible assets	20	(11,395)	(6,317)	(11,395)	(6,317)
Depreciation of property and equipment	21	(8,412)	(7,155)	(8,174)	(7,096)
Net impairment (charge)/reversal	8	(65,136)	11,562	(65,136)	11,562
Operating (loss)/profit before litigation provision		**(3,903)**	**98,308**	**(6,374)**	**122,794**
Litigation provision reversal/(charge)	33	8,584	(25,000)	8,584	(25,000)
Operating profit		**4,681**	**73,308**	**2,210**	**97,794**
Share of results of equity-accounted investees, net of tax	18	10,520	15,897	-	-
Profit before tax	9	**15,201**	**89,205**	**2,210**	**97,794**
Income tax expense	10	(1,399)	(25,713)	(544)	(26,569)
Profit for the year		**13,802**	**63,492**	**1,666**	**71,225**
Earnings per share	11	**2.4c**	**10.9c**	**0.3c**	**12.2c**

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Note	The Group		The Bank	
		2020	2019	2020	2019
		€000	€000	€000	€000
Profit for the year		13,802	63,492	1,666	71,225
Other comprehensive income					
Items that are/or may be reclassified subsequently to profit or loss:					
Debt investments at FVOCI					
- change in fair value		(2,998)	2,867	(2,998)	2,867
tax thereon		1,049	(1,003)	1,049	(1,003)
- change in fair value transferred to profit or loss		(652)	-	(652)	-
tax thereon		228	-	228	-
Items that will not be reclassified to profit or loss:					
Equity investments at FVOCI					
- change in fair value		(1,445)	4,711	(1,445)	4,711
tax thereon		506	(1,649)	506	(1,649)
Property revaluation	21	4,503	22	4,503	22
tax thereon		(450)	(2)	(450)	(2)
Remeasurement of actuarial losses on defined benefit plans	35	426	(409)	426	(409)
tax thereon		(149)	143	(149)	143
Other comprehensive income for the year, net of tax		1,018	4,680	1,018	4,680
Total comprehensive income		14,820	68,172	2,684	75,905

The notes are an integral part of these financial statements.

Statements of financial position

As at 31 December 2020

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	3,798,449	3,669,580	3,798,449	3,669,580
Financial assets at fair value through profit or loss	14	168,500	205,139	168,340	204,979
Investments	15	3,279,412	3,071,160	3,279,412	3,071,160
Loans and advances to banks	16	479,409	501,686	479,409	501,686
Loans and advances to customers at amortised cost	17	4,741,443	4,445,812	4,741,443	4,445,812
Investments in equity-accounted investees	18	111,999	101,479	52,870	52,870
Investments in subsidiary companies	19	-	-	6,230	6,230
Intangible assets	20	59,666	60,463	59,666	60,463
Property and equipment	21	128,646	126,196	128,155	126,031
Current tax		26,759	15,185	26,093	14,678
Deferred tax	23	91,259	76,017	91,259	76,017
Assets held for realisation	40	9,958	10,123	9,958	10,123
Other assets	24	5,251	42,627	5,257	42,627
Prepayments		10,020	5,142	9,125	3,031
Total Assets		12,910,771	12,330,609	12,855,666	12,285,287
LIABILITIES					
Financial liabilities at fair value through profit or loss	14	12,391	10,907	12,391	10,907
Amounts owed to banks	25	88,031	66,047	88,031	66,047
Amounts owed to customers	26	11,272,289	10,629,719	11,277,692	10,632,260
Deferred tax	23	6,186	5,736	6,186	5,736
Other liabilities	27	161,016	189,109	160,396	188,881
Provisions	33	113,880	118,109	113,880	118,109
Accruals and deferred income	28	601	484	-	-
Derivatives designated for hedge accounting	29	16,015	13,963	16,015	13,963
Subordinated liabilities	30	163,237	234,230	163,237	234,230
Total Liabilities		11,833,646	11,268,304	11,837,828	11,270,133
EQUITY					
Called up share capital	31	583,849	583,849	583,849	583,849
Share premium account	31	49,277	49,277	49,277	49,277
Revaluation reserves	32	55,477	54,898	55,365	54,786
Retained earnings	32	388,522	374,281	329,347	327,242
Total Equity		1,077,125	1,062,305	1,017,838	1,015,154
Total Liabilities and Equity		12,910,771	12,330,609	12,855,666	12,285,287
MEMORANDUM ITEMS					
Contingent liabilities	33	285,775	341,618	285,775	341,618
Commitments	34	1,818,970	1,828,756	1,818,970	1,828,756

The notes are an integral part of these financial statements. These financial statements were approved by the Board of Directors and authorised for issue on 30 March 2021 and signed on its behalf by:

Dr Gordon Cordina
Chairman

Alfred Lupi
Director

Rick Hunkin
Director & Chief Executive Officer

Statements of changes in equity

For the year ended 31 December 2020

The Group	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
At 1 January 2019	530,772	49,277	50,034	364,050	994,133
Profit for the year	-	-	-	63,492	63,492
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,864	-	1,864
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	3,062	-	3,062
Property revaluation, net of tax	-	-	20	-	20
Release of surplus on sale of property, net of tax	-	-	(82)	82	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(266)	(266)
Total other comprehensive income	-	-	4,864	(184)	4,680
Total comprehensive income for the year	-	-	4,864	63,308	68,172
Transactions with owners, recorded directly in equity:					
Bonus Issue	53,077	-	-	(53,077)	-
At 1 January 2020	583,849	49,277	54,898	374,281	1,062,305
Profit for the year	-	-	-	13,802	13,802
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(1,949)	-	(1,949)
- 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	-	-	(939)	-	(939)
- change in fair value transferred to retained earnings, net of tax			(162)	162	-
Property revaluation, net of tax	-	-	4,053	-	4,053
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	277	277
Total other comprehensive income	-	-	579	439	1,018
Total comprehensive income for the year	-	-	579	14,241	14,820
At 31 December 2020	583,849	49,277	55,477	388,522	1,077,125

The notes are an integral part of these financial statement

Statements of changes in equity

For the year ended 31 December 2020 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 1 January 2019	530,772	49,277	49,922	309,278	939,249
Profit for the year	-	-	-	71,225	71,225
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,864	-	1,864
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	3,062	-	3,062
Property revaluation, net of tax	-	-	20	-	20
Release of surplus on sale of property, net of tax	-	-	(82)	82	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(266)	(266)
Total other comprehensive income	-	-	4,864	(184)	4,680
Total comprehensive income for the year	-	-	4,864	71,041	75,905
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	-
At 1 January 2020	583,849	49,277	54,786	327,242	1,015,154
Profit for the year	-	-	-	1,666	1,666
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(1,949)	-	(1,949)
- 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	-	-	(939)	-	(939)
- change in fair value transferred to retained earnings, net of tax			(162)	162	-
Property revaluation, net of tax	-	-	4,053	-	4,053
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	277	277
Total other comprehensive income	-	-	579	439	1,018
Total comprehensive income for the year	-	-	579	2,105	2,684
At 31 December 2020	583,849	49,277	55,365	329,347	1,017,838

The notes are an integral part of these financial statements.

Statements of cash flows for the year ended 31 December 2020

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Cash flows from operating activities					
Interest and commission receipts		250,428	274,907	237,254	265,902
Interest, commission and compensation payments		(45,708)	(56,017)	(45,708)	(55,962)
Payments to employees and suppliers		(161,641)	(139,946)	(158,765)	(135,187)
Operating profit before changes in operating assets and liabilities		43,079	78,944	32,781	74,753
(Increase)/decrease in operating assets:					
Loans and advances		(336,161)	(68,083)	(331,832)	(68,083)
Reserve deposit with Central Bank of Malta		(7,293)	(1,521)	(7,293)	(1,521)
Fair value through profit or loss financial assets		54,449	8,528	54,449	8,528
Fair value through profit or loss equity instruments		5,027	755	5,027	(64)
Treasury bills with original maturity of more than 3 months		(86,669)	(23,855)	(86,669)	(23,855)
Other assets		38,621	(30,433)	39,928	(30,433)
Increase/(decrease) in operating liabilities:					
Amounts owed to banks and to customers		639,840	185,260	642,702	184,710
Other liabilities		(29,272)	(19,958)	(29,421)	(18,879)
Net cash from operating activities before tax		321,621	129,637	319,672	125,156
Tax paid		(26,581)	(39,480)	(24,860)	(40,938)
Net cash from operating activities		295,040	90,157	294,812	84,218
Cash flows from investing activities					
Dividends received		219	24,186	219	30,078
Interest received from amortised and other fixed income instruments		40,332	50,840	40,332	50,840
Purchase of debt instruments		(1,064,821)	(569,278)	(1,064,821)	(569,278)
Proceeds from sale or maturity of debt instruments		805,350	832,503	805,350	832,503
Proceeds from sale of equity instruments		562	-	562	-
Purchase of property and equipment and intangible assets		(15,724)	(34,996)	(15,718)	(34,949)
Proceeds from disposal of property and equipment		-	330	-	330
Net cash (used in)/ from investing activities		(234,082)	303,585	(234,076)	309,524
Cash flows from financing activities					
Interest paid on debt securities and subordinated liabilities		(6,457)	(10,050)	(6,457)	(10,050)
Repayment of debt securities		(70,993)	(40,208)	(70,993)	(40,208)
Payment of lease liabilities		(1,704)	(1,475)	(1,482)	(1,475)
Net cash used in financing activities		(79,154)	(51,733)	(78,932)	(51,733)
Net change in cash and cash equivalents before fx changes		(18,196)	342,009	(18,196)	342,009
Effect of exchange rate changes on cash and cash equivalents		112	2,011	112	2,011
Net change in cash and cash equivalents after effect of exchange rate changes		(18,308)	339,998	(18,308)	339,998
Net change in cash and cash equivalents		(18,196)	342,009	(18,196)	342,009
Cash and cash equivalents at 1 January		3,968,868	3,626,859	3,968,868	3,626,859
Cash and cash equivalents at 31 December	36	3,950,672	3,968,868	3,950,672	3,968,868

The notes are an integral part of these financial statements.

Notes to the financial statements 31 December 2020

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

Legal Notice 19 of 2009 as amended by Legal Notice 233 of 2016, Accountancy Profession (Accounting and Auditing Standards) (Amendments) Regulations, 2016, defines compliance with generally accepted accounting principles and practice as adherence to International Financial Reporting Standards (IFRS) as adopted by the EU for financial periods starting on or after 1 January 2008. These Regulations have come into force on 17 June 2016.

Article 4 of Regulation 1606/2002/EC requires that, for each financial period starting on or after 1 January 2005, companies governed by the law of an EU Member State shall prepare their consolidated financial statements in conformity with IFRS as adopted by the EU if, at their reporting date, their securities are admitted to trading on a regulated market of any EU Member State. This Regulation prevails over the provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) to the extent that the said provisions of the Companies Act, 1995, (Chapter 386, Laws of Malta) are incompatible with the provisions of the Regulation. Consequently, the separate and the consolidated financial statements are prepared in conformity with IFRS as adopted by the EU. These financial statements have also been prepared in accordance with the provisions of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Companies Act, 1995 (Chapter 386, Laws of Malta).

The financial statements have been prepared on the historical cost basis. Assets and liabilities are measured at historical cost except for the following that are measured at fair value: financial assets measured at fair value through other comprehensive income (FVOCI), financial instruments classified at fair value through profit or loss (FVTPL), derivatives and land and buildings. Additionally, assets held for realisation are measured at fair value less costs to sell, if it is lower than their cost.

Going concern

The time period that the Directors have performed stress testing and considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2020 is a period of at least twelve months from the date of approval of these financial statements (the 'period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, together with a range of other factors such as the uncertainty that the global COVID-19 pandemic has brought about, the outlook for the Maltese and European economy. The matters of primary consideration by the Directors are set out below:

Capital: The Group has developed capital plans under base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and Liquidity: The Directors have considered the Group's funding and liquidity position and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment. This statement is based on the fact that different stress testing scenarios were developed. Two scenarios worthy of mention include the following:
I) Bank run - Upon simulation of a heavy 44% reduction in deposits, the stressed Liquidity Coverage Ratio (LCR) still remained at 161% even after six months of continuous stress.
ii) Another significant liquidity stress event was modelled which involved two stress testing intensities: Baseline scenario and an Adverse scenario. The stress testing exercise considered a significant deposit base contraction on top of a marked reduction in High Quality Liquid Assets. The latter, in simple terms, refers to those assets held by the Bank that can be quickly resorted to in order to meet withdrawals and other forms of liquidity outflows. Under the most severe Adverse scenario, the stressed LCR still remained around four times the regulatory minimum attesting to the Group's resilient liquidity risk profile. The stress test also considered the associated effect on the solvency position with the stressed capital adequacy ratio (CAR) still holding well at around 20%. This stress test was based on an assessment of a severe but plausible downside stress.

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Standards issued but not yet effective

A number of new standards and amendments were endorsed by the EU but effective for periods starting on or after 1 January 2021 as disclosed hereunder. The impact that the adoption of other International Financial Reporting Standards and amendments will have on the financial statements of the Group and the Bank in the period of initial application is currently being assessed by the directors but is not expected to have a significant impact on the Group's financial statements. These standards and amendments include the following:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16) (issued on 27 August 2020) - effective 01 January 2021
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9 (issued on 25 June 2020) – effective 01 January 2021.

In addition, the following new standards and amendments have not yet been endorsed by the EU:

- IFRS17 Insurance Contracts and amendments to IFRS17 Insurance Contracts (issued on 25 June 2020) – effective 01 January 2023
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1) (issued on 23 January 2020) – effective 01 January 2023

Notes to the financial statements 31 December 2020 (continued)

1.SIGNIFICANT ACCOUNTING POLICIES (continued)

1.1 Basis of preparation (continued)

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) (issued on 14 May 2020) – effective 01 January 2022
- Annual Improvements to IFRS Standards 2018 -2020 (issued on 14 May 2020) – effective 01 January 2022
- Amendments to IFRS 3 Business Combinations (issued on 14 May 2020) – effective 01 January 2022

- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets (issued on 14 May 2020) – effective 01 January 2022
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021) - Effective 01 January 2023
- Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021) - Effective 01 January 2023

1.2 Basis of consolidation

The Group financial statements comprise the financial statements of Bank of Valletta p.l.c., (the Bank), a public liability company domiciled and incorporated in Malta, and its subsidiaries. Subsidiaries are entities controlled by the Group. The Group 'controls' an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held (e.g. those resulting from a lending relationship) become substantive and lead to the Group having power over an investee. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances, transactions, income and expenses are eliminated on consolidation. Non-controlling interests that represent ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at their present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on an acquisition-by-acquisition basis. After initial recognition, non-controlling interests in the net assets consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

The excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities is recognised as goodwill and is included within the carrying amount of the investment and assessed for impairment as part of the investment. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable assets and liabilities, the difference is included as income in the determination of the Group's share of the profit or loss in the period in which the investment is acquired. Equity-accounted investees comprise interests in associates. The results and assets and liabilities of equity-accounted investees are incorporated in the consolidated financial statements using the equity method of accounting from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. Equity-accounted investees are those entities in which the Group has significant influence, but not control or joint control over the financial and operating policies.

The significant accounting policies adopted are set out in the following pages.

1.3 Financial instruments

1.3.1 Amortised cost and effective interest rate

Interest income and expense is recognised using the effective interest method, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's gross carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums upon initial recognition.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets adjusted for any expected credit loss allowance.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 Financial Instruments (continued)

1.3.2 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:
- Financial assets that are not purchased or originated credit-impaired ('POCI') but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision), or
- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

1.3.3 Initial recognition

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument. All loans and advances to customers and to banks are recognised when cash is advanced to borrowers. All purchases and sales of securities are recognised and derecognised on settlement date, which is the date that an asset is delivered to or by the Group.

1.3.4 Measurement at initial recognition

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

An expected credit loss allowance (ECL) is also recognised immediately after initial recognition for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 39.2.1.2, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

1.4 Financial Assets

1.4.1 Classification and measurement of financial assets

The Group classifies its financial assets in the following measurement categories:
- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:
(i) the Group's business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI') on specified dates, and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 39.2.1.1. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses on specified dates, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net gain on investment securities and hedging instruments'. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of profit or loss within 'Trading profits' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

Financial assets and liabilities are designated at fair value through profit or loss on initial recognition where such designation results in more relevant information because it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Business Model Assessment

The Group makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the
Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Cash flows that represent solely payments of principal and interest

'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis and is irrevocable. Other equity instruments are classified as measured at FVTPL.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised. Dividends are recognised in profit or loss (see note 1.23) unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Gains and losses on equity investments at FVTPL are included in the 'Trading profits' line in the statement of profit or loss.

1.4.2 Modification of terms

When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to the credit risk of the borrower, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see 1.4.4) and a new financial asset is recognised at fair value. If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

Additionally, in the case of loans and advances which encountered actual or apparent financial difficulties, the Group may grant a concession where a customer's financial difficulty indicates that with the original terms and conditions of the contract satisfactory repayment may not be possible. Such concessions are recognised as revisions to the expected credit loss on the associated loan.

A concession refers to either of the following:
- a change in the previous terms and conditions of a contract the customer is considered unable to comply with due to its financial difficulties to allow for sufficient debt service ability, that would not have been granted had the customer not been in financial difficulties; or
- a total or partial refinancing of a troubled debt contract, that would not have been granted had the customer not been in financial difficulties.

1.4.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:
- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 39.2.1.2 provides more detail of how the expected credit loss allowance is measured.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: as a provision;
- Where a financial instrument includes both a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.3 Impairments (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: at the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the present value of the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Modification of financial assets

When there is a modification of financial assets' terms (note 1.4.2), the date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes including for the purpose of determining whether a significant increase in credit risk has occurred.

1.4.4 Derecognition of financial assets

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset and the transfer qualifies for derecognition.

1.4.5 Fair valuation of financial assets

Where possible, fair value is based on quoted bid prices in an active market. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

1.5 Financial liabilities

1.5.1 Classification and measurement of financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Financial liabilities are initially measured at fair value less, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to their issue. Financial liabilities are subsequently measured at amortised cost using the effective interest method, except for financial liabilities at fair value through profit or loss, which are measured at fair value.

Financial liabilities at fair value through profit or loss include financial liabilities classified as held for trading and those designated at fair value through profit or loss upon initial recognition. During the current and the previous year, the Group did not designate any financial liabilities as at fair value through profit or loss upon initial recognition. Derivatives are categorised as held for trading, unless they are designated and effective hedging instruments.

Financial liabilities that are measured at amortised cost using the effective interest method include amounts owed to banks, amounts owed to customers, debt securities in issue and subordinated liabilities.
The gain or loss on financial liabilities at fair value through profit or loss is recognised in profit or loss. For financial liabilities carried at amortised cost, the gain or loss is recognised in profit or loss when the financial liability is derecognised and through the amortisation process whereby any difference between the proceeds net of transaction costs, and the settlement or redemption is recognised over the term of the financial liability.

1.5.2 Derecognition of financial liabilities

A financial liability is derecognised when it is extinguished. This occurs when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Financial guarantee contracts and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For financial guarantees issued or commitments the Group recognises a loss allowance.
Impairment allowances and provisions on loan commitments that comprise both a drawn and undrawn commitment are presented in accordance with the policy set out in the note 1.4.3 Impairment.

1.7 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when the Group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

1.8 Derivatives held for risk management purposes and hedge accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as well as certain non-derivative financial instruments as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both on inception of the hedging relationship and on an ongoing basis, of whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125%. For a cash flow hedge of a forecast transaction, the Group makes an assessment of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

These hedging relationships are discussed below.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a Central Counterparty Clearing (CCP) by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Other non-trading derivatives

Other non-trading derivatives are recognised on balance sheet at fair value on initial recognition. If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net income from other financial instruments at FVTPL.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.9 Sale and repurchase agreements

Securities sold subject to a linked repurchase agreement ('repos') are retained in the financial statements as financial assets at fair value through profit or loss or as investment securities as appropriate, and the counterparty liability is included in amounts owed to banks. Securities purchased under agreements to resell ('reverse repos') are not recognised but the amounts paid are recorded as loans and advances to banks. The difference between sale and repurchase price or purchase and subsequent sale price is recognised over the life of the repo/reverse repo agreements using the effective interest method and is treated as interest.

1.10 Investments in subsidiaries and equity-accounted investees

Investments in subsidiaries and equity-accounted investees are initially included in the Bank's statement of financial position at cost and subsequently at cost less any impairment loss which may have arisen. Interest in equity-accounted investees are accounted for using the equity method at Group level. They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases. Dividends from the investments are recognised in the Bank's profit or loss when its right to receive dividend is established.

Impairment
At the end of each reporting period, the Bank reviews the carrying amount of its investments in subsidiaries and equity-accounted investees to determine whether there is any indication of impairment and if any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment losses and reversals are recognised immediately in profit or loss.

1.11 Property and equipment

Property and equipment are classified into the following classes – land and buildings, IT infrastructure and equipment and other (primarily furniture and fittings).

Property and equipment are initially measured at cost. Subsequent costs are included in the asset's carrying amount when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure on repairs and maintenance of property and equipment is recognised as an expense when incurred.

Subsequent to initial recognition, freehold and long-term leasehold properties are stated in the statement of financial position at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are performed by a professionally qualified architect on a regular basis such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period. Any surpluses arising on such revaluation are recognised in other comprehensive income and accumulated in equity as a revaluation reserve unless they reverse a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. Any deficiencies resulting from decreases in value are deducted from this revaluation reserve to the extent that the balance held in this reserve relating to a previous revaluation of that asset is sufficient to absorb these, and charged to profit or loss thereafter.

Other tangible assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.12 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

1.12.1 Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises, the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using its incremental borrowing rate. This rate was based on the swap rate curves as proxies for the risk free rate, the MGS yield to include the local context and applying a risk margin.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

1.12.2 Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

1.13 Intangible assets

Intangible assets comprise computer software. In determining the classification of an asset that incorporates both intangible and tangible elements, judgement is used in assessing which element is more significant. Computer software which is an integral part of the related hardware is classified as property and equipment and accounted for in accordance with the Group's accounting policy on property and equipment. Where the software is not an integral part of the related hardware, this is classified as an intangible asset. Computer software is externally generated.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Computer software is initially measured at cost. It is subsequently carried at cost less accumulated amortisation and any accumulated impairment losses.

Computer software is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition represent the difference between the net disposal proceeds, if any, and the carrying amount, and are included in profit or loss in the period of derecognition.

Notes to the financial statements 31 December 2020 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

1.14 Depreciation and amortisation

Depreciation on property and equipment and amortisation on intangible assets commence when these assets are available for use and are charged to profit or loss so as to write off the cost or revalued amount of assets, other than land, less any estimated residual value, over their estimated useful life, using the straight line method, on the following bases:

Property and equipment		
Freehold and long-term leasehold buildings	2%	per annum
IT infrastructure and equipment	10% - 25%	per annum
Other (primarily furniture and fittings)	5% - 33%	per annum
Right-of-Use Assets	Over the life of the lease	
Intangible assets		
Computer software	10% - 20%	per annum

The depreciation or amortisation method applied, the residual value and the useful life are reviewed at the end of each reporting period and adjusted if appropriate.

1.15 Impairment of property and equipment and intangible assets

At the end of each reporting period the Group reviews the carrying amount of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists the recoverable amount is estimated in order to determine the extent of the impairment loss and the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use.

An impairment loss is recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the loss is recognised in other comprehensive income to the extent that it does not exceed the amount in the revaluation surplus for that asset.

An impairment loss recognised in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Impairment reversals are recognised immediately in profit or loss, unless the asset is carried at a revalued amount, in which case the impairment reversal is recognised in other comprehensive income, unless an impairment loss on the same asset was previously recognised in profit or loss.

1.16 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. In such case, the unwinding of the discount is recognised as finance cost.

A contingent liability is (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised. Contingent assets are disclosed where an inflow of economic benefits is probable.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.17 Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if it is highly probable that they will be recovered primarily through a sale transaction rather than through continuing use. Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within a reasonable period from the date of classification. Non-current assets are not depreciated (or amortised) while they are classified as held for sale or while they are part of a disposal group classified as held for sale.

1.18 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits repayable on demand or with a contractual period to maturity of less than 3 months; advances to banks repayable within 3 months from the date of the advance; balances with the Central Bank of Malta, excluding reserve deposit requirements, and treasury bills with an original maturity of less than 3 months. Amounts owed to banks that are repayable on demand or with a contractual period to maturity of less than 3 months and which form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statements of cash flow.

1.19 Dividends payable

Interim dividends approved by the directors are recognised when paid. Final dividends are recognised as liability upon approval by the shareholders at the Annual General Meeting.

1.20 Operating segments

An operating segment is a component of an entity (a) that engages in business activities from which it may earn revenues and incur expenses, (b) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available. Unallocated items comprise mainly head office expenses and tax assets and liabilities.

1.21 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, its absence, the most advantageous market to which the Group has access at the date. The fair value of a liability reflects its non-performance risk.

Fair value reflects conditions, including but not limited to liquidity in the market, at a specific date and may therefore differ significantly from the amounts which will actually be received on the maturity or settlement date. The Bank's portfolio remains deployed across a wide spread of holdings of moderate duration debt securities issued by quality, credit rated, sovereign, supranational, corporate and financial institutions, as further disclosed in notes 14 and 15 to the financial statements.

The best evidence of fair value of an instrument is a quoted price in an actively traded market for that instrument. The determination of what constitutes an active market is subjective and requires the collation of data and the exercise of judgement. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Bank determines whether active market conditions exist by taking into consideration various characteristics, including:

- a significant decline in volume and level of trading activity;
- significant variations in available prices either over time or among market participants;
- the absence of or stale prices;
- unusually wide bid/offer spreads; and
- exceptionally minimal transactions when compared with the quantum of the issue in question.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.21 Fair Value (continued)

Where it is concluded that an active market does not exist a valuation technique is used. The latter gives consideration to transaction prices in inactive markets, however it makes use of other observable market data which include a combination of the following:

- the risk premium of more active instruments of the same issuer, the same type of debt, the same currency and with the same or similar maturity;
- the spreads payable on Credit Default Swaps of the issuer;
- the risk premium over and above the risk free bonds for similarly rated issuers in the same industry sector;
- yield curve or Discounted Cash Flow (DCF) calculations to maturity using appropriate interest rate/discount factors;
- liquidity adjustments to reflect ability to sell asset over a reasonable timeframe; and
- other overall reasonableness tests.

The main assumptions and estimates which management considers when using valuation techniques are the likelihood and expected timing of future cash flows on the instrument, selecting an appropriate discount rate for the instrument and a risk premium. The valuation techniques used by the Group incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments.

1.22 Taxation

Income tax expense comprises current and deferred tax and is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case it is dealt with in other comprehensive income or in equity, as appropriate.

Current tax
Current tax is based on the taxable result for the period. The taxable result for the period differs from the result as reported in profit or loss because it excludes items which are non-assessable or disallowed and it further excludes items that are taxable or deductible in other periods. Current tax also includes any tax arising from dividends. It is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period, and any adjustments in relation to the prior periods.

Deferred tax
Deferred tax is determined under the liability method in respect of all temporary differences between the carrying amount of an asset or liability in the financial statements and its tax base. Deferred tax liabilities are generally recognised for all taxable temporary differences subject to certain exceptions and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

1.23 Revenue recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the Group and these can be measured reliably. The following specific recognition criteria must also be met before revenue is recognised.

Dividend income from investments is recognised when the right to receive payment has been established.

Interest income and expense is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument or, when appropriate, a shorter period to that instrument's net carrying amount. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the instrument but not future credit losses. The calculation includes payments and receipts that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Generally fee and commission income, is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses are expensed as the services are received.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.24 Foreign currency translation

For the purpose of the consolidated and separate financial statements, the presentation currency is the Euro. The functional currency of the Bank and of all its subsidiaries is the Euro.

In preparing the financial statements of the individual group entities, transactions denominated in currencies other than the functional currency are translated at the exchange rates ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Euro at the rates of exchange ruling at the end of the reporting period. Gains and losses arising from such translation are dealt with in profit or loss and presented with trading income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Euro at the exchange rate ruling on the date the fair value was measured. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are not retranslated.

1.25 Employee benefits

The Group and the Bank contribute towards the state pension in accordance with local legislation. The only obligation of the Group and the Bank is to make the required contribution. Costs are expensed in the period in which they are incurred in profit or loss.

For the Group's and the Bank's defined benefit plans, the cost of providing benefits is determined using the projected unit credit method, with estimations being carried out at each reporting date. Past service cost is recognised as an expense at the earlier of the following dates (a) when the plan amendment or curtailment occurs and (b) when the entity recognises related restructuring costs or termination benefits. The amount recognised in the Statement of Financial Position represents the present value of the expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The service cost and the net interest on the net defined benefit liability are recognised in profit or loss. Remeasurements of the net defined benefit liability, comprising actuarial gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss in a subsequent period. Such remeasurements are recognised immediately in retained earnings. Actuarial gains and losses are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions. Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits. Due to the nature of the actuarial assumptions, in accordance with the provisions of IAS 19, Employee Benefits, the Group and the Bank did not involve a qualified actuary in the measurement of their post-employment benefit obligations.

1.26 Judgements in applying accounting policies and key sources of estimation uncertainty

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. The judgements made by management in applying the Group's and the Bank'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.

1.26.1 Credit Impairment

Estimates and underlying assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are either disclosed below or in note 39.2.1.2.5. This note discloses the determination of inputs in the IFRS 9 ECL measurement model; including key assumptions used in incorporation of forward-looking information.

1.26.2 Fair value of financial instruments not quoted in active markets

The fair value of financial instruments that are not quoted in active markets is determined by using valuation techniques. Periodically, the Group calibrates these valuation techniques and tests them for validity. Where possible the valuation techniques used by the Group make use of observable data and incorporate all factors that market participants would consider in setting a price and are consistent with accepted economic methodologies for pricing financial instruments. Management is required to make certain assumptions and estimates in arriving at an appropriate fair value, based on available observable market data. A change in assumptions could affect the reported fair value of these financial instruments. Further disclosures are provided in note 39.

Notes to the financial statements 31 December 2020 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.26 Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

1.26.3 Fair value of land and buildings

The fair value of the Group's and the Bank's land and buildings is determined by using valuation techniques as further disclosed in note 21. In arriving at an estimate of fair value at the end of the reporting period, the Group and the Bank make use of significant unobservable inputs. A change in such inputs could affect the reported fair value of these land and buildings.

1.26.4 Classification of facilities as forborne

Management follows the European Banking Authority technical standard in identifying performing/non-performing exposures and in determining forborne exposures. Judgement is exercised in determining whether the modification of the original terms of a facility are granted, because of financial difficulties, which would result in the exposure being classified as forborne.

1.26.5 Provisions and contingent liabilities

In the ordinary course of operations, the Group faces loss contingencies that may result in the recognition of a liability. Management periodically assesses these issues based on information available and assessments from internal and/or external legal counsel.

The Group is currently involved in various claims and legal proceedings arising out of it normal business operations. Periodically, 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 are based on the best information available at the reporting date. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in the estimates of the potential liabilities could have a material impact on results of operations and the financial position of the Group. Where an individual provision is material, the fact that a provision has been quantified would not constitute any admission of wrongdoing or legal liability.

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
2. INTEREST AND SIMILAR INCOME				
On loans and advances to banks	144	3,683	144	3,683
On loans and advances to customers	166,851	166,142	166,851	166,142
	166,995	169,825	166,995	169,825
On debt and other fixed income instruments				
- fair value through other comprehensive income	6,084	6,427	6,084	6,427
- amortised cost	33,529	44,414	33,529	44,414
- fair value through profit or loss	727	1,334	727	1,334
	40,340	52,175	40,340	52,175
Amortisation of discounts and premiums				
- fair value through other comprehensive income	(2,253)	(2,331)	(2,253)	(2,331)
- amortised cost	(14,800)	(12,706)	(14,800)	(12,706)
	(17,053)	(15,037)	(17,053)	(15,037)
Net interest income on debt and other fixed income instruments	23,287	37,138	23,287	37,138
	190,282	206,963	190,282	206,963

3. INTEREST EXPENSE

On amounts owed to banks	708	2,787	708	2,787
On interest rate swaps	4,198	4,006	4,198	4,006
On amounts owed to customers	16,325	21,992	16,325	21,992
On debt securities in issue	-	641	-	641
On subordinated liabilities	6,457	9,409	6,457	9,409
Negative interest on loans to banks, treasury bills and balances with Central Bank of Malta	15,788	15,278	15,788	15,278
	43,476	54,113	43,476	54,113

4. NET FEE AND COMMISSION INCOME

On loans and advances, similar activities and local business	35,065	40,492	35,065	40,492
On life assurance, fund management and similar activities	21,254	23,448	12,368	14,441
On other activities	10,973	9,410	10,973	9,410
	67,292	73,350	58,406	64,343

The fees and commission presented in this note include income of €24.4 million (2019: €27.3 million) relating to financial assets and financial liabilities not measured at FVTPL.

A significant portion of the fees and commissions earned by the Group are of a one time nature and are recognised at the point in time when the transaction takes place.

The other fee and commission income earned from contracts with customers is measured based on the consideration specified in the contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
5. TRADING PROFITS				
Net income on foreign exchange activities	11,302	17,341	11,343	17,343
Fair value movements and net gains on sale of financial instruments designated at fair value through profit or loss	5,336	4,927	5,337	4,927
Fair value movements and net gains/(losses) on sale of financial instruments mandatorily measured at fair value through profit or loss	3	(27)	3	(27)
	16,641	22,241	16,683	22,243
6. NET GAIN ON INVESTMENTS AND HEDGING INSTRUMENTS				
Amortised cost instruments				
- net (loss)/gain on disposal	-	(1)	-	(1)
Financial assets at FVOCI - debt instruments				
- net gain on disposal	652	-	652	-
- net revaluation gain attributable to hedged risk	3,906	3,488	3,906	3,488
	4,558	3,488	4,558	3,488
Derivative financial instruments				
- net loss on derivative financial instruments held for hedging	(3,901)	(3,399)	(3,901)	(3,399)
	657	88	657	88
7. EMPLOYEE COMPENSATION AND BENEFITS				
Employee compensation and benefits				
- wages and salaries	64,397	60,871	61,702	58,324
- social security costs	4,133	3,974	4,034	3,875
- retirement benefits	5,944	683	5,943	682
- other staff costs	4,915	5,712	4,915	5,712
	79,389	71,240	76,594	68,593
	No. of persons	No. of persons	No. of persons	No. of persons
The average number of employees are analysed as follows:				
Managerial	669	633	643	607
Supervisory and clerical	1,147	1,127	1,109	1,090
Others	68	63	60	54
	1,884	1,823	1,812	1,751

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
8. NET IMPAIRMENT (CHARGE)/REVERSAL				
Loans and advances to customers				
- increase in expected credit losses	(114,893)	(27,815)	(114,893)	(27,815)
- bad debts written off	(4,329)	(2,455)	(4,329)	(2,455)
	(119,222)	(30,270)	(119,222)	(30,270)
Loans and advances to customers				
- decrease in expected credit losses	44,540	33,939	44,540	33,939
- recoveries of amounts previously written off	9,557	8,040	9,557	8,040
	54,097	41,979	54,097	41,979
Investments				
- (Increase)/decrease in expected credit losses	(11)	147	(11)	(147)
Net impairment (charge)/reversal	(65,136)	11,562	(65,136)	11,562

Net Impairment charge for the year includes post-model adjustments of €56.7 million (note 39.2.1.2.5)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
9. PROFIT BEFORE TAX				
Profit before tax is stated after charging:				
Total remuneration payable to the external auditors of the parent company				
- the audit of financial statements	651	650	620	620
- other assurance services	63	51	56	46
- tax advisory services	10	50	6	45
- other non audit services	71	55	71	47
	795	806	753	758
Directors' emoluments:				
- fees	337	396	326	376
- directors' salaries as full-time bank employees	703	434	703	434
	1,040	830	1,029	810
Compensation to other key management personnel is analysed as follows:				
- other fees	177	160	-	-
- short term employee benefits	732	582	732	582
	909	742	732	582
Total remuneration of directors and other key management personnel	1,949	1,572	1,761	1,392

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
10. INCOME TAX EXPENSE				
Through profit and loss				
Current				
- for the period	16,790	29,838	15,935	30,694
Deferred	(15,391)	(4,125)	(15,391)	(4,125)
	1,399	25,713	544	26,569

The charge for income tax is based on the taxable profit for the period at a rate of 35%. The income tax expense and the product of accounting profit multiplied by the statutory domestic income tax rate are reconciled as follows:

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Profit before tax	15,201	89,205	2,210	97,794
Tax at the applicable rate of 35%	5,320	31,222	774	34,228
Tax effect of:				
Exempt and untaxed dividends	(11)	(109)	(11)	(7,809)
Share of results of equity-accounted investees	(3,682)	(5,564)	-	-
Withholding tax on property sales	(275)	(146)	(275)	(146)
Depreciation on premises	1,019	775	1,019	775
Non-deductible expenses	26	1	26	2
Over provision in prior years	(560)	-	(560)	-
Other differences	(438)	(466)	(429)	(481)
Income tax expense	1,399	25,713	544	26,569

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Other comprehensive income				
- current	(1,783)	2,652	(1,783)	2,652
- deferred	599	(141)	599	(141)
	(1,184)	2,511	(1,184)	2,511

The credit in the current tax through other comprehensive Income is offset by the current tax expense in profit or loss.

Notes to the financial statements 31 December 2020 (continued)

11. EARNINGS PER SHARE

	The Group		The Bank	
	2020	2019	2020	2019
	cents per share	cents per share	cents per share	cents per share
Earnings per share	2.4c	10.9c	0.3c	12.2c

The earnings per share for the Group and Bank have been calculated on the profits of the Group and the Bank, as shown in the statements of profit or loss, divided by number of shares in issue.

Earnings per share was calculated on profit attributable to shareholders of the Group €13,802,000 (2019: €63,492,000) and the Bank €1,666,000 (2019: €71,225,000) divided by 583,849,270 shares outstanding as at 31 December 2020.

12. DIVIDENDS

The Board of Directors resolved not to pay any dividends for the year ended 31 December 2020. This decision is in line with supervisory expectations to utilise capital to support economic business needs during these times of uncertainty, as well as, continue to build up strong capital buffers to meet contingencies that may arise over the coming years.

13. BALANCES WITH CENTRAL BANK OF MALTA, TREASURY BILLS AND CASH

		The Group		The Bank	
	Note	2020	2019	2020	2019
		€000	€000	€000	€000
Balances with Central Bank of Malta		3,569,907	3,474,400	3,569,907	3,474,400
Malta Government Treasury Bills		158,218	97,053	158,218	97,053
Cash	36	70,324	98,127	70,324	98,127
		3,798,449	3,669,580	3,798,449	3,669,580

Balances with the Central Bank of Malta include Reserve Deposit, in terms of Regulation (EC) No.1745/2003 of the European Central Bank amounting to €108.6 million (2019: €101.3 million) in respect of both the Group and the Bank. Balances with Central Bank of Malta and Malta Government Treasury Bills are subject to negative interest rates.

Balances held with Central Bank of Malta are subject to negative interest rates.

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at FVTPL:				
Debt and other fixed income instruments (note 14.1)	33	7,723	33	7,723
Derivative financial instruments (note 14.3)	2,016	1,275	2,016	1,275
	2,049	8,998	2,049	8,998
Financial assets designated at FVTPL:				
Debt and other fixed income instruments (note 14.1)	9,397	25,338	9,397	25,338
Equity and other non-fixed income instruments (note 14.2)	31,369	31,381	31,209	31,221
Loans and advances to customers (note 17)	125,685	139,422	125,685	139,422
	166,451	196,141	166,291	195,981
	168,500	205,139	168,340	204,979

As at 31 December 2020, debt instruments of a nominal value of €12.5 million pledged in favour of Bank Intesa San Paolo have been redeemed during the year and funds retained with the Italian Bank. As at 31 December 2019 debt instruments with a nominal value of €12.5 million were pledged in favour of the Italian Bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar Trust (notes 15, 16 and 33).

Financial liabilities at fair value through profit or loss

	The Group 2020	The Group 2019	The Bank 2020	The Bank 2019
Financial liabilities classified as held for trading:				
Derivative financial instruments (note 14.3)	12,391	10,907	12,391	10,907

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
14.1 Debt and other fixed income instruments				
Issued by public bodies				
- local general government	9,395	20,081	9,395	20,081
- foreign general government	14	12,898	14	12,898
	9,409	32,979	9,409	32,979
Issued by other issuers				
- foreign banks	21	82	21	82
	9,430	33,061	9,430	33,061
Listing status				
- listed on Malta Stock Exchange	9,395	20,081	9,395	20,081
- listed elsewhere	35	12,980	35	12,980
	9,430	33,061	9,430	33,061
Summary of movements during the year:				
At the beginning of the year	33,061	39,633	33,061	39,633
Movement in accrued interest receivable	(309)	(36)	(309)	(36)
Redemptions	(22,500)	(5,412)	(22,500)	(5,412)
Movement in fair value	(766)	(1,170)	(766)	(1,170)
Exchange adjustment	(56)	46	(56)	46
At the end of the year	9,430	33,061	9,430	33,061

Notes to the financial statements 31 December 2020 (continued)

14. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

14.2 Equity and other non-fixed income instruments

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
Issued by other issuers				
- local banks	442	584	442	584
- foreign other	30,767	26,894	30,767	26,894
- local other	160	3,903	-	3,743
	31,369	31,381	31,209	31,221
Listing status				
- listed on Malta Stock Exchange	602	4,487	442	4,327
- foreign unlisted	30,767	26,894	30,767	26,894
	31,369	31,381	31,209	31,221
Summary of movements during the year:				
At the beginning of the year	31,381	27,072	31,221	26,093
Acquisitions	29	332	29	332
Disposals at carrying amount	(5,056)	(1,087)	(5,056)	(268)
Movement in fair value	5,460	4,819	5,460	4,819
Exchange adjustment	(445)	245	(445)	245
At the end of the year	31,369	31,381	31,209	31,221

14.3 Derivative financial instruments

Fair value of assets	2,016	1,275	2,016	1,275
Fair value of liabilities	12,391	10,907	12,391	10,907

The above comprise over-the-counter forward exchange contracts and interest rate swaps that have not been designated as hedging instruments stated at fair value, with notional amounts analysed with remaining life as follows:

- less than 3 months	268,086	392,559	268,086	392,559
- between 3 months and 1 year	16,507	17,489	16,507	17,489
- more than 1 year	102,860	125,102	102,860	125,102
	387,453	535,150	387,453	535,150

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
15. INVESTMENTS				
Debt and other fixed income instruments				
- measured at FVOCI (note 15.1)	124,279	144,011	124,279	144,011
- measured at amortised cost (note 15.2)	3,133,350	2,903,359	3,133,350	2,903,359
Equity and other non-fixed income instruments (note 15.3)				
- measured at FVOCI	21,783	23,790	21,783	23,790
	3,279,412	3,071,160	3,279,412	3,071,160

Investments with a nominal value of €144.5 million (2019: €66.3million) have been pledged against the provision of credit lines by the Central Bank of Malta.

Investments with a nominal value of €39.7 million (2019: €39.7 million) have been pledged in favour of Depositor Compensation Scheme as at 31 December 2020.

As at 31 December 2020, Investments with a nominal value of €304 million (2019: €344 million) were pledged in favour of the Italian Bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar Trust. A nominal value of €40 million has during the year been redeemed and funds kept with the Italian Bank Intesa San Paolo (notes 16 and 33).

15.1 Debt and other fixed income instruments measured at FVOCI

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
Issued by public bodies				
- local general government	52,164	64,473	52,164	64,473
- local public sector	72,115	79,538	72,115	79,538
	124,279	144,011	124,279	144,011
Listing status				
- listed on Malta Stock Exchange	124,279	144,011	124,279	144,011
	124,279	144,011	124,279	144,011
Summary of movements during the year:				
At the beginning of the year	144,011	142,907	144,011	142,907
Movement in interest receivable accrued	(198)	(68)	(198)	(68)
Acquisitions	104,438	-	104,438	-
Disposals at carrying amount	(109,708)	-	(109,708)	-
Redemptions	(5,562)	(5,000)	(5,562)	(5,000)
Amortisation	(2,253)	(2,331)	(2,253)	(2,331)
Movement in fair value	137	6,535	137	6,535
Profit on disposal	652	-	652	-
Exchange adjustment	(7,238)	1,968	(7,238)	1,968
At the end of the year	124,279	144,011	124,279	144,011

As at 31 December 2020 the loss allowance on Debt Instruments at FVOCI amounts to €30,508 (2019: €25,879).

Notes to the financial statements 31 December 2020 (continued)

15. INVESTMENTS (continued)

15.2 Debt and other fixed income instruments measured at amortised cost

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
Issued by public bodies				
- local general government	818,415	453,129	818,415	453,129
- foreign general government	1,171,906	1,161,607	1,171,906	1,161,607
	1,990,321	1,614,736	1,990,321	1,614,736
Issued by other issuers				
- foreign banks	991,834	1,060,246	991,834	1,060,246
- foreign other	148,767	225,123	148,767	225,123
- other local	2,428	3,254	2,428	3,254
	1,143,029	1,288,623	1,143,029	1,288,623
	3,133,350	2,903,359	3,133,350	2,903,359
Listing status				
- listed on Malta Stock Exchange	820,843	456,383	820,843	456,383
- listed elsewhere	2,001,871	1,980,976	2,001,871	1,980,976
- foreign unlisted	310,636	466,000	310,636	466,000
	3,133,350	2,903,359	3,133,350	2,903,359

At 31 December 2020, the fair value of debt and other fixed income instruments measured at amortised cost, without deducting transaction costs, amounted to €3,207.9 million (2019: €2,948.5 million).

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
Summary of movements during the year:				
At the beginning of the year	2,903,359	3,152,919	2,903,359	3,152,919
Movement in interest receivable accrued	(212)	(1,192)	(212)	(1,192)
Acquisitions	960,383	569,278	960,383	569,278
Redemptions	(690,732)	(827,504)	(690,732)	(827,504)
Amortisation	(14,800)	(12,706)	(14,800)	(12,706)
Impairment (loss)/reversal	(206)	162	(206)	162
Exchange adjustment	(24,442)	22,402	(24,442)	22,402
At the end of the year	3,133,350	2,903,359	3,133,350	2,903,359

15.3 Equity and other non-fixed income instruments measured at FVOCI

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Issued by other issuers				
- local other	20,090	22,073	20,090	22,073
- local Banks	106	130	106	130
- local Public	1,587	1,587	1,587	1,587
	21,783	23,790	21,783	23,790
Listing status				
- listed on Malta Stock Exchange	21,783	23,790	21,783	23,790
	21,783	23,790	21,783	23,790
Summary of movements during the year:				
At the beginning of the year	23,790	19,129	23,790	19,129
Disposals at carrying amount	(562)	-	(562)	-
Movement in fair value	(1,445)	4,661	(1,445)	4,661
At the end of the year	21,783	23,790	21,783	23,790

Notes to the financial statements 31 December 2020 (continued)

16. LOANS AND ADVANCES TO BANKS	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Repayable on call and at short notice	312,243	342,702	312,243	342,702
Term placements with other banks	159,284	157,213	159,284	157,213
Cheques in course of collection	7,882	1,771	7,882	1,771
	479,409	501,686	479,409	501,686

Following amendments to the Depositor Compensation Scheme (DCS) Regulations (Regulation (27)(2) of the DCS Regulations, 2015), Banks can opt to pledge securities instead of deposits with the Central Bank of Malta. In this respect, no balances with the Central Bank of Malta have been pledged in favour of the Depositor Compensation Scheme as at 31 December 2020 (2019: nil).

Balances with a carrying amount of €28.6 million (2019: €29.8 million) were held as collateral against derivative contracts.

Balances held with certain banks are subject to negative interest rates.

An amount of €59.5 million (2019: €7 million) have been pledged in favour of the Italian Bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar Trust (notes 14,15 and 33).

17. LOANS AND ADVANCES TO CUSTOMERS	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Repayable on call and at short notice	441,492	477,853	441,492	477,853
Term loans and advances	4,466,626	4,076,280	4,466,626	4,076,280
	4,908,118	4,554,133	4,908,118	4,554,133
Less impairment losses	(166,675)	(108,321)	(166,675)	(108,321)
Net loans and advances at amortised cost	4,741,443	4,445,812	4,741,443	4,445,812
Loans and advances designated at fair value through profit or loss (note 14)	125,685	139,422	125,685	139,422
Total loans and advances	4,867,128	4,585,234	4,867,128	4,585,234
Expected credit loss allowances	166,675	108,321	166,675	108,321
	166,675	108,321	166,675	108,321

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
At the beginning of the year	101,479	108,510	52,870	52,870
Share of results, net of tax	10,520	15,897	-	-
Dividend received	-	(22,928)	-	-
At the end of the year	111,999	101,479	52,870	52,870
Amounts include:				
Local listed	31,302	27,794	22,304	22,304
Local unlisted	80,697	73,685	30,566	30,566
	111,999	101,479	52,870	52,870

On the historical cost basis, shares in equity-accounted investees of the Group, would have been included at a cost of €52.9million (2019: €52.9million).

The fair value of the equity-accounted investees that is publicly quoted amounted to €70.3 million (2019: €61.8 million) at 31 December 2020. The cost of this investment is €22.3 million (2019: €22.3 million).

The fair value of the publicly quoted investee is calculated using observable inputs and are regarded as being Level 1 under IFRS 13.

Notes to the financial statements 31 December 2020 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES (continued)

Details of the associates held by the Group and the Bank are as follows:

	Equity Interest		Class	Incorporated in	Nature of Business
	2020	2019			
Name of company	%	%			
MAPFRE Middlesea p.l.c.	31.08	31.08	Ordinary	Malta	Insurance
MAPFRE MSV Life p.l.c.*	50.00	50.00	Ordinary	Malta	Life Assurance

	Group's share of results	
	2020	2019
Name of company	€000	€000
MAPFRE Middlesea p.l.c.	3,508	4,588
MAPFRE MSV Life p.l.c.	7,012	11,309
	10,520	15,897

*A further 15.54% (2019:15.54%) is held indirectly via another equity accounted investee. Although the Bank has an effective participating interest of 65.54% (2019: 65.54%), it does not exercise control over the financial and operating decisions of the associate as it only has the right for equal representation on the Board of Directors of the associate together with the other shareholders. Furthermore, as from 1 October 2011 the Bank is deemed to exercise significant influence on MAPFRE MSV Life p.l.c. as opposed to joint control as a result of a shareholders' agreement which gives the other shareholder control and as from the financial year 30 September 2012 it is being treated as an equity-accounted investee.

The financial statements of the equity-accounted investees are prepared to 31 December. The registered addresses of the associates are as follows:

MAPFRE Middlesea p.l.c.	Middlesea House, Floriana FRN 1442, Malta
MAPFRE MSV Life p.l.c.	The Mall, Mall Street, Floriana FRN 1470, Malta

Summarised financial information extracted from the published preliminary statement of annual results of the associates as at 31 December 2020 in respect of the equity-accounted investees:

	2020	2019
	€000	€000
Total assets	2,687,667	2,616,125
Total liabilities	2,506,254	2,452,936
Revenues	360,998	545,421
Results for the period	14,285	15,505

	The Group	
	2020	2019
	€000	€000
Share of net assets of equity-accounted investees	111,999	101,479
Share of results of equity-accounted investees	10,520	15,897

IFRS 9 is generally effective for years beginning on or after 1 January 2018. However, in September 2016, the IASB issued amendments to IFRS 4 which provide optional relief to eligible insurers in respect of IFRS 9. The option permits entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4, a temporary exemption to defer the implementation of IFRS 9.

Notes to the financial statements 31 December 2020 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEES (continued)

Entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2022 which aligns with the new effective date of IFRS 17.

For annual periods beginning before 1 January 2021, the Group is permitted to retain the relevant accounting policies applied by the equity-accounted investee for consolidation purposes when the Group applies IFRS 9 but the associate applies the temporary exemption from IFRS 9.

The equity-accounted investees evaluated its liabilities at 31 December 2015, the prescribed date of assessment under the optional temporary relief provisions and concluded that all of the liabilities are predominantly connected with insurance. More than 90% of the equity-accounted Investees' liabilities as at 31 December 2015 are liabilities arising from contracts within the scope of IFRS 4. As at the same date the equity-Accounted Investees' predominant activities were also established to be insurance related as evidenced through revenues reported in the Annual Report of that year.

Further to the above, the equity-accounted investees have not previously applied any version of IFRS 9. Therefore, the equity-accounted investees are eligible insurers that qualify for optional relief from the application IFRS 9.

As at 1 January 2018, the equity-accounted investees have elected to apply the optional temporary relief under IFRS 4 that permits the deferral of the adoption of IFRS 9 for eligible insurers. The equity-accounted investees will continue to apply IAS 39 until 1 January 2022.

The fair value of the financial assets held by the equity-accounted investees which would otherwise fall under the relevant IFRS 9 classification as at 31 December 2020 and the amount of change in the fair value during the year will be disclosed in the Associate's financial statements. These financial statements are available on the respective companies' websites.

The judgements made by the equity-accounted investees and the key sources of estimation uncertainties are disclosed below:

Estimate of in-force business

Assumptions
The value of in-force business is determined by the directors of the equity-accounted investee based on the advice of the entity's consulting actuaries. The valuation represents the discounted value of projected future transfers to shareholders from policies in force at the year end, after making provision for taxation. In determining this valuation, assumptions relating to future mortality, persistence and levels of expenses are based on experience of the type of business concerned. Gross investment returns assumed vary depending upon the mix of investments held by the associates and expected market conditions. The value depends on assumptions made regarding future economic and demographic experience. The impact of the change of the present value of in-force (PVIF) accounts was 36% of the result for the year. The PVIF represents 69% of the carrying value of the investments in equity-accounted investees.

This valuation assumes a spread of 1% (2019: 2%) between the weighted average projected investment return and the risk adjusted discount factor applied of 4% (2019: 6.5%). Expenses are assumed to inflate at 2% (2019: 3.5%).

Changes in assumptions
Assumptions are reviewed on an annual basis to reflect the development of experience and to improve on the reliability of the estimation process.

Ultimate liability arising from claims made under insurance contracts
There are several sources of uncertainty that need to be considered in the estimate of the liability that the equity-accounted investees will ultimately pay for such claims. In particular insurance risks including exposure to liability can span over more than one accounting year, and this increases the uncertainty surrounding the estimate for final settlement.

In calculating the estimated cost of unpaid claims, the equity-accounted investees uses a combination of estimation techniques, based partly on known information at year end, partly on statistical analysis of historical experience and on actuarial valuations carried out by an independent external actuary.

Notes to the financial statements 31 December 2020 (continued)

19. INVESTMENTS IN SUBSIDIARY COMPANIES

Name of company	Equity interest 2020 %	2019 %	Class	Incorporated in	Nature of Business
BOV Asset Management Limited	100	100	Ordinary	Malta	Fund Management
BOV Fund Services Limited	100	100	Ordinary	Malta	Fund Administration

Name of company Cost/Carrying amount	The Bank 2020 €000	2019 €000
BOV Asset Management Limited	5,481	5,481
BOV Fund Services Limited	749	749
	6,230	6,230

The registered address of the above unlisted undertakings is as follows:

BOV Asset Management Limited	58, Triq San Zakkarija, Il-Belt Valletta VLT1130
BOV Fund Services Limited	58, Triq San Zakkarija, Il-Belt Valletta VLT1130

All subsidiaries prepared their financial statements to the same date, 31 December.

20. INTANGIBLE ASSETS

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Software				
Cost				
1 January	91,205	66,813	91,205	66,813
Additions	10,598	24,737	10,598	24,737
Assets retired from active use	(97)	(345)	(97)	(345)
31 December	101,706	91,205	101,706	91,205
Accumulated amortisation				
1 January	30,742	24,770	30,742	24,770
Charge for the year	11,395	6,317	11,395	6,317
Accumulated amortisation on assets retired from active use	(97)	(345)	(97)	(345)
31 December	42,040	30,742	42,040	30,742
Carrying amount at 31 December	59,666	60,463	59,666	60,463
Future capital expenditure:				
- contracted but not provided for in the financial statements	269	4,386	269	4,386
- authorised by the directors but not contracted	33,115	26,797	33,115	26,797

Notes to the financial statements 31 December 2020 (continued)

21. PROPERTY AND EQUIPMENT

Reconciliation of Carrying Amount

The Group	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
Cost or valuation				
Balance at 1 January 2019	115,318	29,790	27,108	172,216
Recognition of right-of-use asset on initial application of IFRS 16	7,420	-	1,185	8,605
Adjusted balance at 1 January 2019	122,738	29,790	28,293	180,821
Additions	4,864	5,980	1,699	12,543
Assets retired from active use	(3)	(133)	(1,144)	(1,280)
Disposals	(479)	-	(9)	(488)
Revaluation	22	-	-	22
Reclassification to Assets held for realisation	(6,638)	-	-	(6,638)
Balance at 31 December 2019	120,504	35,637	28,839	184,980
Balance at 1 January 2020	120,504	35,637	28,839	184,980
Adjustment	665	-	76	741
Adjusted balance at 1 January 2020	121,169	35,637	28,915	185,721
Additions	1,037	3,268	1,520	5,825
Assets retired from active use	(1,630)	(5,312)	(1,261)	(8,203)
Disposals	-	-	(11)	(11)
Revaluation	4,503	-	-	4,503
Balance at 31 December 2020	125,079	33,593	29,163	187,835
Accumulated depreciation				
Balance at 1 January 2019	15,724	17,617	19,720	53,061
Depreciation for the year	2,117	3,322	1,716	7,155
Accumulated depreciation on assets retired from active use	(3)	(133)	(1,144)	(1,280)
Disposals	(152)	-	-	(152)
Balance at 31 December 2019	17,686	20,806	20,292	58,784
Balance at 1 January 2020	17,686	20,806	20,292	58,784
Adjustment	166	-	30	196
Depreciation for the period	2,618	4,069	1,725	8,412
Accumulated depreciation on assets retired from active use	(1,630)	(5,312)	(1,261)	(8,203)
Balance at 31 December 2020	18,840	19,563	20,786	59,189
Carrying amount at:				
Balance at 31 December 2019	**102,818**	**14,831**	**8,547**	**126,196**
Balance at 31 December 2020	**106,239**	**14,030**	**8,377**	**128,646**

As at 31 December 2020, property and equipment includes right-of-use assets of €9.2 million (2019: €9.6 million) related to office premises and motor vehicles (note 22).

Notes to the financial statements 31 December 2020 (continued)

21. PROPERTY AND EQUIPMENT (continued)

Reconciliation of Carrying Amount (continued)

The Bank	Land and buildings €000	IT infrastructure and equipment €000	Other €000	Total €000
Cost or valuation				
Balance at 1 January 2019	115,279	29,146	25,361	169,786
Recognition of right-of-use asset on initial application of IFRS 16	7,420	-	1,185	8,605
Adjusted balance at 1 January 2019	122,699	29,146	26,546	178,391
Additions	4,864	5,980	1,652	12,496
Assets retired from active use	(3)	(133)	(1,144)	(1,280)
Disposals	(479)	-	(9)	(488)
Revaluation	22	-	-	22
Reclassification to Assets held for realisation	(6,638)	-	-	(6,638)
Balance at 31 December 2019	120,465	34,993	27,045	182,503
Balance at 1 January 2020	120,465	34,993	27,045	182,503
Additions	1,040	3,261	1,505	5,806
Assets retired from active use	(1,630)	(5,312)	(1,261)	(8,203)
Disposals	-	-	(11)	(11)
Revaluation	4,503	-	-	4,503
Balance at 31 December 2020	124,378	32,942	27,278	184,598
Accumulated depreciation				
Balance at 1 January 2019	15,631	16,794	18,383	50,808
Depreciation for the year	2,117	3,322	1,657	7,096
Accumulated depreciation on assets retired from active use	(3)	(133)	(1,144)	(1,280)
Disposals	(152)	-	-	(152)
Balance at 31 December 2019	17,593	19,983	18,896	56,472
Balance at 1 January 2020	17,593	19,983	18,896	56,472
Depreciation for the year	2,452	4,021	1,701	8,174
Accumulated depreciation on assets retired from active use	(1,630)	(5,312)	(1,261)	(8,203)
Balance at 31 December 2020	18,415	18,692	19,336	56,443
Carrying amount at:				
Balance at 31 December 2019	**102,872**	**15,010**	**8,149**	**126,031**
Balance at 31 December 2020	**105,963**	**14,250**	**7,942**	**128,155**

As at 31 December 2020, Property and Equipment includes right-of-use assets of €8.8million (2019: €9.6 million) related to office premises and motor vehicles (see note 22).

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Carrying amount of land and buildings occupied for own use	106,239	102,818	105,963	102,872
Future capital expenditure:				
- contracted but not provided for in the financial statements	2,229	5,109	2,229	5,109
- authorised by the directors but not contracted for	15,774	20,119	15,774	20,119

Notes to the financial statements 31 December 2020 (continued)

21. PROPERTY AND EQUIPMENT (continued)

Land and buildings are revalued by professionally qualified architects in accordance with the policy documented in Note 1. The carrying amounts of land and buildings that would have been included in the financial statements had these assets been carried at cost less accumulated depreciation are:
2020: Group and Bank €47.8 million (2019: Group and Bank €48.3 million).

Property valuations are mainly valued using the 'comparative investment approach' whereby market value is arrived at by capitalising at an appropriate yield rate, the annual income produced, should the property be leased out to third parties. The income is arrived at by analysing a number of estate agent listings for comparative properties and determining a mean rental value rate. The valuation techniques were consistent with those applied for the year ended 31 December 2019. Revaluations are carried out on a regular basis in accordance with the Group's accounting policies.

Property fair value measurement is classified as Level 3. Significant unobservable inputs used in the valuation of these properties is the rental income for office space and the percentage capitalisation rate which indicates the multiplier relationship between Net Rental Income and Property Value. Further details about these significant inputs are summarised in the table below:

	Significant unobservable input	Narrative sensitivity
Buildings in Commercial Area	Price per square metre, ranging from €115/sqm to €1,050/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.5% to 8.10%	The higher the capitalisation rate the lower the fair value
Buildings in Residential Area	Price per square metre, ranging from €117/sqm to €360/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.31% to 6.00%	The higher the capitalisation rate the lower the fair value

Notes to the financial statements 31 December 2020 (continued)

22. Leases

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds, equipment leases and property space for ATMs. The Group does not recognise low value items or short-term arrangements of one year or less.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

Right-of-use assets relate to office premises and motor vehicles that are presented within property and equipment (see note 21)

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Balance at 1 January 2019	7,421	1,184	8,605
Additions	2,167	118	2,285
Depreciation charge for the year	(1,029)	(253)	(1,282)
Disposals	-	(9)	(9)
Balance at 31 December 2019	8,559	1,040	9,599
Balance at 1 January 2020	8,559	1,040	9,599
Net adjustment	499	46	545
Additions	390	309	699
Depreciation charge for the year	(1,337)	(274)	(1,611)
Disposals	-	(11)	(11)
Balance at 31 December 2020	8,111	1,110	9,221

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Balance at 1 January 2019	7,421	1,184	8,605
Additions	2,167	118	2,285
Depreciation charge for the year	(1,029)	(253)	(1,282)
Disposals	-	(9)	(9)
Balance at 31 December 2019	8,559	1,040	9,599
Balance at 1 January 2020	8,559	1,040	9,599
Additions	391	295	686
Depreciation charge for the year	(1,171)	(258)	(1,429)
Disposals	-	(11)	(11)
Balance at 31 December 2020	7,779	1,066	8,845

See note 27 for maturity analysis of lease liabilities as at 31 December 2020.

Notes to the financial statements 31 December 2020 (continued)

22. Leases (continued)

ii. Amounts recognised in profit or loss

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Interest on lease liabilities 2019	191	21	212
Expenses relating to short-term leases 2019	310	5	315
Expenses relating to low value items 2019	-	8	8
	501	34	535
Interest on lease liabilities 2020	235	23	258
Expenses relating to short-term leases 2020	324	38	362
	559	61	620

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Interest on lease liabilities 2019	191	21	212
Expenses relating to short-term leases 2019	310	5	315
Expenses relating to low value items 2019	-	8	8
	501	34	535
Interest on lease liabilities 2020	213	19	232
Expenses relating to short-term leases 2020	324	32	356
	537	51	588

iii. Amounts recognised in statement of cash flows

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2019	1,212	263	1,475
Total cash outflow for leases 2020	1,413	291	1,704

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2019	1,212	263	1,475
Total cash outflow for leases 2020	1,210	272	1,482

iv. Extension options

Some property leases contain extension options exercisable by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options, and if it is reasonably certain to exercise the extension option, the Group includes this period in the lease term and the potential future lease payments in the lease liability.

Notes to the financial statements 31 December 2020 (continued)

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
23. DEFERRED TAX				
Deferred taxation is analysed as follows:				
Net deferred tax asset arising on:				
Fair value movement of financial instruments	281	281	281	281
Impairment allowances	69,992	43,802	69,992	43,802
Allowance for employee benefits	4,046	4,785	4,046	4,785
Excess of capital allowances over depreciation	(14,414)	(11,354)	(14,414)	(11,354)
Defined benefit plans	3,354	3,503	3,354	3,503
Provisions and other temporary differences	28,000	35,000	28,000	35,000
	91,259	76,017	91,259	76,017
Deferred tax liability arising on:				
Property revaluation	6,186	5,736	6,186	5,736

The Group and the Bank

	At 31 December 2019 €000	Recognised in profit or loss €000	Recognised in OCI €000	Recognised in other equity €000	At 31 December 2020 €000
Movement in temporary differences relating to:					
Fair value movement of financial instruments	281	-	-	-	281
Impairment allowances	43,802	26,190	-	-	69,992
Allowance for employee benefits	4,785	(739)	-	-	4,046
Excess of capital allowances over depreciation	(11,354)	(3,060)	-	-	(14,414)
Defined benefit plans	3,503	-	(149)	-	3,354
Property revaluation	(5,736)	-	(450)	-	(6,186)
Provisions and other temporary differences	35,000	(7,000)	-	-	28,000
	70,281	15,391	(599)	-	85,073

The Group and the Bank

	At 31 December 2018 €000	Recognised in profit or loss €000	Recognised in OCI €000	Recognised in other equity €000	At 31 December 2019 €000
Movement in temporary differences relating to:					
Fair value movement of financial instruments	281	-	-	-	281
Impairment allowances	44,375	(573)	-	-	43,802
Allowance for employee benefits	5,814	(1,029)	-	-	4,785
Excess of capital allowances over depreciation	(8,330)	(3,023)	-	-	(11,354)
Defined benefit plans	3,360	-	143	-	3,503
Property revaluation	(5,743)	-	(2)	9	(5,736)
Provisions and other temporary differences	26,250	8,750	-	-	35,000
	66,007	4,125	141	9	70,281

The Group's deferred tax assets and liabilities on the statement of financial position have not been off-set to the extent that there is no legally enforceable right of set-off with the tax authorities.

The Bank is expected to have sufficient profits in the future to absorb the deferred tax asset recognised.

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
24. OTHER ASSETS				
Settlement account	3,365	38,204	3,365	38,204
Deferred expenditure	1,685	3,816	1,685	3,816
Other	201	607	207	607
	5,251	42,627	5,257	42,627
25. AMOUNTS OWED TO BANKS				
Term deposits	43,844	30,445	43,844	30,445
Repayable on demand	44,187	35,602	44,187	35,602
	88,031	66,047	88,031	66,047
26. AMOUNTS OWED TO CUSTOMERS				
Term deposits	1,520,017	1,726,294	1,520,017	1,726,294
Repayable on demand	9,752,272	8,903,425	9,757,675	8,905,966
	11,272,289	10,629,719	11,277,692	10,632,260
27. OTHER LIABILITIES				
Post employment and termination liabilities (see note 35)	21,239	23,772	21,239	23,772
Cash collateral for commitments	59,231	56,096	59,231	56,096
Deposits from companies in formation	2,202	3,454	2,202	3,454
Bills payable	32,405	41,625	32,405	41,625
Accruals and deferred income	18,910	29,699	18,910	29,699
Payment orders outwards	3,459	257	3,459	257
Lease Liability (analysed in the following table)	9,402	9,617	9,042	9,617
Other	14,168	24,589	13,908	24,361
	161,016	189,109	160,396	188,881

Notes to the financial statements 31 December 2020 (continued)

27. OTHER LIABILITIES (continued)

Lease Liability

At 31 December 2020, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group		
	Land and Buildings €000	Other €000	Total €000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,369	300	1,669
Between one and five years	4,589	851	5,440
More than five years	4,439	22	4,461
Total undiscounted lease liabilities at 31 December 2020	10,397	1,173	11,570
Lease liabilities included in statement of financial position at 31 December 2020:			
Current	1,163	281	1,444
Non-current	7,112	846	7,958
	8,275	1,127	9,402

	The Bank		
	Land and Buildings €000	Other €000	Total €000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,161	281	1,442
Between one and five years	4,465	818	5,283
More than five years	4,439	22	4,461
Total undiscounted lease liabilities at 31 December 2020	10,065	1,121	11,186
Lease liabilities included in statement of financial position at 31 December 2020:			
Current	969	264	1,233
Non-current	6,994	815	7,809
	7,963	1,079	9,042

	The Group		The Bank	
	2020 €000	2019 €000	2020 €000	2019 €000
28. ACCRUALS AND DEFERRED INCOME				
Accruals	601	484	-	-
	601	484	-	-

The above amounts include amounts owed to suppliers in respect of services rendered in the current financial year which were not yet invoiced.

Notes to the financial statements 31 December 2020 (continued)

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
29. DERIVATIVES DESIGNATED FOR HEDGE ACCOUNTING				
Derivative financial instruments designated as fair value hedges	16,015	13,963	16,015	13,963

Refer to note 6: Net gain on Investments and hedging instruments for the net gain/loss on the bond and hedging instrument.

The above comprise over-the-counter interest rate swaps, stated at fair value with notional amounts analysed by the remaining life as follow:

-less than 3 months	-	5,000	-	5,000
-more than 1 year	52,940	58,280	52,940	58,280
	52,940	63,280	52,940	63,280

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
30. SUBORDINATED LIABILITIES				
4.80% Euro subordinated unsecured bonds	-	70,993	-	70,993
3.50% Euro subordinated unsecured bonds	113,130	113,130	113,130	113,130
3.75% Euro subordinated unsecured bonds	50,107	50,107	50,107	50,107
	163,237	234,230	163,237	234,230

The 4.8% Euro subordinated bonds matured on 15 March 2020.

The 3.5% Euro subordinated bonds are redeemable at par on 8 August 2030 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 31 December 2020 is €112.3 million (2019: €111.1 million).

The 3.75% Euro subordinated unsecured bonds are redeemable at par on 15 June 2031 and are listed on the Malta Stock Exchange. The fair value of these unsecured bonds as at 31 December 2020 is €51.0 million (2019: €50.4 million).

	The Bank	
	2020	2019
	€000	€000
31. SHARE CAPITAL AND SHARE PREMIUM		
Share Capital		
Authorised:		
1,000,000,000 Ordinary shares of €1.00 each	1,000,000	1,000,000
(2019: 1,000,000,000 Ordinary shares of €1.00 each)		
Issued and paid up:		
583,849,000 Ordinary shares of €1.00 each fully paid	583,849	583,849
(2019: 583,849,000 Ordinary shares of €1.00 each fully paid)		

During the financial year ended 31 December 2019 the Bank made a bonus issue of 53,077,200 fully paid ordinary shares of a nominal value of €1.00 per share, representing 1 bonus share for every 10 shares held, thereby increasing the issued share capital from 531 million shares to 584 million shares, resulting in a paid up capital of €584 million.

	The Bank	
	2020	2019
Share Premium	€000	€000
Share Premium	49,277	49,277

Notes to the financial statements 31 December 2020 (continued)

32. OTHER RESERVES

Retained Earnings

Retained earnings represent the profits retained over the years and primarily comprise the profit attributable to equity holders and transfers to share capital in respect of the bonus issue. This reserve includes the amount held in respect of General Banking Reserves.

General Banking Reserves

The revised Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is deductible from distributable funds. As at the reporting date this reserve amounts to €4.1 million (2019: €5.3 million).

Revaluation Reserves

Revaluation reserves represent fair value movements on land and buildings and financial assets at FVOCI net of tax, which are recognised in Other Comprehensive Income.

	The Group €000	The Bank €000
On land and buildings:		
Balance at 31 December 2018	40,256	40,256
Property revaluation	22	22
Deferred tax and effect of changes in property tax rates	(2)	(2)
Release of surplus on sale of property, net of tax	(82)	(82)
Balance at 31 December 2019	40,194	40,194
Property revaluation	4,503	4,503
Deferred tax and effect of changes in property tax rates	(450)	(450)
Balance at 31 December 2020	44,247	44,247
On fair-value-through-other comprehensive income:		
Balance as 31 December 2018	9,778	9,666
Fair value adjustments	7,578	7,578
Tax thereon	(2,652)	(2,652)
Balance at 31 December 2019	14,704	14,592
Fair value adjustments	(4,443)	(4,443)
Transfer to profit or loss on disposal	(652)	(652)
Transfer to retained earnings on disposal	(249)	(249)
Tax thereon	1,870	1,870
Balance at 31 December 2020	11,230	11,118
Total	55,477	55,365

33. PROVISIONS AND CONTINGENCIES

	The Group and the Bank			
Provisions	Financial guarantees and loan commitments provisions €000	Custody and trust litigation provision €000	Other litigation provision €000	Total €000
Carrying amount at 1 January 2020	16,109	100,000	2,000	118,109
Movement	16,271	(20,000)	(500)	(4,229)
Carrying amount at 31 December 2020	32,380	80,000	1,500	113,880

	The Group		The Bank	
Contingencies	2020 €000	2019 €000	2020 €000	2019 €000
Guarantees	267,390	313,651	267,390	313,651
Other contingent liabilities	18,385	27,967	18,385	27,967
	285,775	341,618	285,775	341,618

Notes to the financial statements 31 December 2020 (continued)

33. PROVISIONS AND CONTINGENCIES (continued)

Financial guarantee contracts and loan commitments provision

The amount in respect of financial guarantee contracts and loan commitments issued represent the expected credit loss as at 31 December 2020.

Contingent liabilities

Contingent liabilities are backed by corresponding obligations from third parties.

Bank of Valletta is a 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 the 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 described in Note 1 (1.26.5). Except as disclosed hereunder, it is not practicable to provide an aggregate estimate of potential liability for the Bank's other legal proceedings as a class of contingent liabilities.

The Bank considers the provisions recognised to date to be sufficient to cover any likely requirements of the Bank to settle its claims.

Litigation and claims provisions

The significant developments in the principal legal outstanding cases in relation to custody and trusts are disclosed below:

Deiulemar Trust

In November 2014, court action was instituted against the Bank by the curators of Deiulemar group which was declared insolvent when the shares in the ultimate holding company were held in trust by the Bank. The claim is for €363 million.

Independent legal advice from a highly reputed Italian professor and from the law firm representing the Bank in the proceedings confirms that the claim is entirely without merit.

However, significant uncertainties remain about this claim on account of factors that should not have an impact on its outcome. Indeed, the Bank has, on a number of occasions, expressed concerns about the fairness of the trial, in particular because it is being held in Torre Annunziata, a small town in which some 13,000 bondholders lost their savings as a result of the Deiulemar group's failure. This has created a hostile environment. The Bank raised these concerns before the Tribunal of Torre Annunziata, only to have them turned down. The Bank then sought a remedy from the European Court of Human Rights (ECHR). The Bank's request has been declared inadmissible at this stage because, according to the ECHR, the Bank still has remedies to pursue in Italy and it has to exhaust those remedies before petitioning the ECHR again.

The case is now up for judgment unless the Tribunal in Torre Annunziata were, as the Bank strongly believes it should, to appoint an independent expert to value the shares held by the Bank. Based on legal advice and economic analysis, the Bank is of the view that the shares were worthless. If the case were to be decided against the Bank, whether for the full claim or for any material amount, the Bank intends to pursue every appeal available to it and, if necessary, to petition the ECHR again once the Italian appeals would have been exhausted.

The current provision of €80 million, represented by an offer of €75 million plus litigation costs, reflects the out-of-court settlement offer of the Bank to the Deiulemar bondholders. During 2020, this offer was not accepted. However, the Board of Directors as at December 2020 continued to be of the view that the offer makes commercial sense in an effort to close the claim against it.

On the basis of the above, the Bank considers the claim against it to be without merit and the Board believes that a fair hearing would confirm this.

Falcon Fund SICAV

The Bank received a claim in 2017 from Hammaeskiold & Co as legal representatives of the Swedish Pension Agency (SPA), being the sole investor in the Falcon Fund SICAV (FFS). The damages claimed to have been suffered by SPA amount to at least €81 million. No court proceedings have ever been initiated, though SPA had indicated their intention to do so. The Bank settled this claim through an independent mediator during 2020. The provision held in respect of this claim was reversed and an amount recovered under the insurance cover held. The transaction resulted in a net recovery of €8.1 million recognised in the period ended December 2020.

Notes to the financial statements 31 December 2020 (continued)

34. COMMITMENTS

	The Group		The Bank	
	2020	2019	2020	2019
	€000	€000	€000	€000
Documentary credits	26,730	44,816	26,730	44,816
Undrawn formal standby facilities, credit facilities and other commitments to lend	1,782,528	1,768,695	1,782,528	1,768,695
Capital expenditure contracted but not provided for in the financial statements	2,498	9,495	2,498	9,495
Commitments to financial institutions	7,214	5,750	7,214	5,750
	1,818,970	1,828,756	1,818,970	1,828,756

35. POST EMPLOYMENT AND TERMINATION LIABILITIES

The Group's and the Bank's major post-employment benefit plan (the "plan") applies to eligible individuals. The benefits provided to the individuals in terms of the plan are computed on a specified formula which takes into consideration, amongst other things, the employees' salary on retirement and the pension entitlement in terms of Maltese law.

The provision is computed in accordance with the accounting policy for post-employment benefit plans. This provision represents the Group's and the Bank's obligation:

(i) discounted to the net present value at the rate which has been determined by reference to market yields at the end of the reporting period on high-quality corporate bonds);
(ii) after considering the life expectancy of such employees based on the latest publicly available mortality tables;
(iii) the expected terminal salaries; and
(iv) the Bank's expectations of the employees' retirement date.

The Group and the Bank have during financial year 2019 launched three Voluntary Retirement Schemes and a Gradual Retirement Scheme. These schemes will remain open up to 31 December 2021. Accepted applicants under the respective schemes shall be given:

(i) a lump sum payment of three times their terminal salary; or
(ii) a lump sum payment of one time their terminal salary and a proportion of the terminal annual salary depending on the aggregate years of services; or
(iii) a sum equivalent to 1 year's terminal salary paid by way of a Retirement Gratuity, reduced pro-rata, up to the age of 61.

Applicants shall be eligible to the different schemes according to the schemes' individual criteria.

Furthermore, the Group and the Bank make payments to certain eligible employees in consideration of the liquidation of a defunct pension scheme.

Notes to the financial statements 31 December 2020 (continued)

35. POST EMPLOYMENT AND TERMINATION LIABILITIES (continued)

The movement in the plans is analysed as follows:

	The Group and the Bank	
	2020	2019
	€000	€000
Present value at 1 January	23,772	26,302
Payments effected	(8,053)	(3,622)
Recognised in profit or loss:		
- Interest expense	199	131
- Terminal benefits	5,747	552
Remeasurement of actuarial gains/(losses) recognised in other comprehensive income resulting from:		
- Experience adjustments	(435)	(230)
- Changes in financial assumptions	(162)	639
- Changes in demographic assumptions	171	-
Present value at 31 December	21,239	23,772

The year-end obligation in relation to the plan is mainly in relation to retired employees.

The plan exposes the Group and the Bank to the following main risks:
(i) interest risk, since a decrease in market yields will increase the plan liability; and
(ii) longevity risk, since an increase in the life expectancy of the plan participants will increase the plan liability.

The significant actuarial assumptions applied by the Group and the Bank in respect of the plan were as follows:

	The Group and the Bank	
	2020	2019
Discount rates - Euro corporate yield as per S&P Global Market Intelligence	0.13%	0.0%
Life expectancy (years):		
Males	81	81
Females	85	85

The Group and the Bank are providing sensitivity analysis in connection with each significant actuarial assumption applied in respect of the plan. These analysis are prepared as of the end of the reporting period, showing how the liability would have been affected by hypothetical changes in the relevant actuarial assumptions that were reasonably possible at that date, while holding all other assumptions constant. The analysis presented below are for illustrative purposes only and may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. In presenting the sensitivity analysis, the present value of the obligation has been calculated using the projected unit credit method at the end of the reporting period. The amounts generated from the analysis represent forward-looking estimates and hence, actual results in the future may differ materially from those projected results. In accordance with the transitional provisions in the revised IAS 19, the Group and the Bank have not disclosed comparative information in this respect.

- If the discount rate is 100 basis points higher (lower) with all other assumptions held constant, the defined benefit obligation increases by €1.7 million (increases by €1.4 million)
- If the life expectancy increases (decreases) by two years for both men and women with all other assumptions held constant, the defined benefit obligation increases by €3.4 million (decreases by €3.4 million).

The weighted average duration of the liability in respect of the plan at 31 December 2020 is 8 years (2019: 9 years).

The Bank does not fund these pensions by assigning specific assets as there is sufficient liquidity to meet the required payments as these arise. In view of the non complexity of the inputs involved, no actuary was deemed necessary in estimating this obligation.

Notes to the financial statements 31 December 2020 (continued)

36. NOTES TO THE STATEMENTS OF CASH FLOWS

	Note	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
Cash	13	70,324	98,127	70,324	98,127
Balances with Central Bank of Malta (excluding Reserve Deposit)		3,461,312	3,373,098	3,461,312	3,373,098
Treasury bills (with original maturity of less than 3 months)		35,529	61,033	35,529	61,033
Money at call and short notice		471,532	499,921	471,532	499,921
Amounts owed to banks		(88,025)	(63,311)	(88,025)	(63,311)
Cash and cash equivalents included in the statements of cash flows		3,950,672	3,968,868	3,950,672	3,968,868
Balances with contractual maturity of more than 3 months		130,560	35,049	130,560	35,049
		4,081,232	4,003,917	4,081,232	4,003,917
Equivalent items reported in the statements of financial position:					
Balances with Central Bank of Malta, Treasury bills and cash (excluding Reserve Deposit)		3,689,854	3,568,278	3,689,854	3,568,278
Loans and advances to banks		479,409	501,686	479,409	501,686
Amounts owed to banks		(88,031)	(66,047)	(88,031)	(66,047)
		4,081,232	4,003,917	4,081,232	4,003,917

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS

During the current and prior year, the Group and the Bank entered into transactions during the course of their normal business, with equity-accounted investees, subsidiaries, the Government of Malta ("The Government") (which has a 25% holding in the Bank), Government related entities, key management personnel, and other related parties. Government related entities are those where, in the opinion of the Bank, the Government is either deemed to exercise control, that is, it has the power to govern the financial and operating policies of the entity or linked to the Government but not controlled by the Government.

Key management personnel includes the Chairman, Directors, the members of the Management Board and their respective spouses, spousal equivalent and dependants. Other related parties are those companies over which the key management personnel hold control or significant influence (directorship).
Transactions with related parties are made on an arm's length basis.

The Bank also entered into related party transactions on an arm's length basis with its subsidiaries and equity-accounted investees. Transactions between the Bank and its subsidiaries have been eliminated on consolidation.

The amounts due to or from related parties are settled in cash and the amount of related party transactions and outstanding balances at the reporting date are disclosed below:

The Group	2020 Related party balances €000	Total activity/ balance €000	% of total	2019 Related party balances €000	Total activity/ balance €000	% of total
Interest and similar income:						
- on loans and advances						
The Government	1,083			1,516		
Government related entities	14,448			14,123		
Key management personnel	34			37		
Other related parties	602			87		
	16,167	166,995	10%	15,763	169,825	9%
Interest and similar income:						
- on debt and other fixed income instruments						
The Government	8,010	23,287	34%	10,452	37,138	28%
Interest expense						
Equity-accounted investees	2,041			1,766		
The Government	14,811			14,743		
Government related entities	596			1,283		
Key management personnel	7			20		
Other related parties	-			1		
	17,455	43,476	40%	17,813	54,113	33%
Fee and commission income						
Equity-accounted investees	5,139			4,751		
The Government	1,876			210		
Government related entities	1,158			399		
Key management personnel	3			4		
Other related parties	19			23		
	8,195	75,981	11%	5,387	86,458	6%

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Group	2020 Related party balances €000	Total activity/ balance €000	% of total	2019 Related party balances €000	Total activity/ balance €000	% of total
Employee compensation and benefits						
Key management personnel	1,949	79,389	2%	1,570	71,240	2%
General administrative expenses						
Equity-accounted investees	111			77		
Key management personnel	27			49		
Other related parties	48			66		
	186	71,186	0%	192	77,828	0%
Movement in impairment allowances						
The Government	817			(66)		
Government related entities	657			33		
Key management personnel	(7)			3		
Other related parties	(4)			18		
	1,463	(65,136)	-2%	(12)	11,562	0%
Balances with Central Bank of Malta treasury bills and cash						
The Government	3,728,780	3,798,449	98%	3,571,453	3,669,580	97%
Financial assets at fair value through profit or loss						
The Government	9,395	168,500	6%	20,081	205,139	10%
Investments						
The Government	870,579	3,279,412	27%	517,602	3,071,160	17%
Loans and advances to customers (net)						
The Government	37,258			31,986		
Government related entities	468,365			424,966		
Key management personnel	3,107			3,338		
Other related parties	15,280			888		
	524,010	4,741,443	11%	461,178	4,445,812	10%
Impairment allowances						
The Government	(858)			(41)		
Government related entities	(2,219)			(1,562)		
Key management personnel	(3)			(10)		
Other related parties	(17)			(21)		
	(3,097)	(166,675)	2%	(1,634)	(108,321)	2%

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Group	2020 Related Party balances €000	Total activity/ balance €000	% of €000	2019 Related party balances €000	Total activity/ balance €000	% of €000
Amounts owed to customers						
Equity-accounted investees	242,954			220,877		
The Government	282,746			253,237		
Government related entities	143,352			161,019		
Key management personnel	4,594			6,203		
Other related parties	4,434			11,571		
	678,080	11,272,289	6%	652,907	10,629,719	6%
Total Assets less Liabilities						
Equity-accounted investees	(242,954)			(220,877)		
The Government	4,362,408			3,887,844		
Government related entities	322,794			262,385		
Key management personnel	(1,490)			(2,875)		
Other related parties	10,829			(10,704)		
	4,451,587			3,915,773		
Commitments						
Equity-accounted investees	303			303		
The Government	19,709			19,714		
Government related entities	70,113			103,802		
Key management personnel	345			431		
Other related parties	900			3,852		
	91,370	1,818,970	5%	128,102	1,828,756	7%
The Bank						
Interest and similar income: - on loans and advances						
The Government	1,083			1,516		
Government related entities	14,448			14,123		
Key management personnel	16			19		
Other related parties	592			14		
	16,139	166,995	10%	15,672	169,825	9%
Interest and similar income: - on debt and other fixed income instruments						
The Government	8,010	23,287	34%	10,452	37,138	28%
Interest expense						
Equity-accounted investees	2,041			1,766		
The Government	14,811			14,743		
Government related entities	596			1,283		
Key management personnel	6			20		
	17,454	43,476	40%	17,812	54,113	33%

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Bank

	2020 Related party balances €000	Total activity/ balance €000	% of total	2019 Related party balances €000	Total activity/ balance €000	% of total
Fee and commission income						
Equity-accounted investees	5,139			4,751		
Subsidiaries	1,944			2,087		
The Government	1,876			210		
Government related entities	1,158			399		
Key management personnel	2			3		
Other related parties	14			2		
	10,133	67,095	15%	7,452	77,451	10%
Dividend income						
Equity-accounted investees	-			23,428		
Subsidiaries	2,020			5,892		
	2,020	2,239	90%	29,320	30,078	97%
Employee compensation and benefits						
Key management personnel	1,761	76,594	2%	1,392	68,593	2%
General administrative expenses						
Equity-accounted investees	111			77		
Key management personnel	25			45		
Other related parties	48			21		
	184	69,866	0%	143	76,364	0%
Movement in impairment allowances						
The Government	817			(66)		
Government related entities	657			33		
Key management personnel	(7)			3		
	1,467	(65,136)	-2%	(30)	11,562	0%
Balances with Central Bank of Malta treasury bills and cash						
The Government	3,728,780	3,798,449	98%	3,571,453	3,669,580	97%
Financial assets at fair value through profit or loss						
The Government	9,395	168,340	6%	20,081	204,979	10%
Investments						
The Government	870,579	3,279,412	27%	517,602	3,071,160	17%
Loans and advances to customers (net)						
The Government	37,258			31,986		
Government related entities	468,365			424,966		
Key management personnel	2,527			2,725		
Other related parties	15,114			324		
	523,264	4,741,443	11%	460,001	4,445,812	10%

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Bank	2020 Related party balances €000	Total activity/ balance €000	% of €000	2019 Related party balances €000	Total activity/ balance €000	% of €000
Impairment allowances						
The Government	(858)			(41)		
Government related entities	(2,219)			(1,562)		
Key management personnel	(3)			(10)		
	(3,080)	(166,675)	2%	(1,613)	(108,321)	1%
Other assets						
Subsidiaries	1,560	141,692	1%	2,617	146,476	2%
Amounts owed to customers						
Equity-accounted investees	242,954			220,877		
Subsidiaries	5,403			2,541		
The Government	282,746			253,237		
Government related entities	143,352			161,019		
Key management personnel	2,993			4,452		
Other related parties	3,704			3,228		
	681,152	11,277,692	6%	645,354	10,632,260	6%
Total Assets less Liabilities						
Equity-accounted investees	(242,954)			(220,877)		
Subsidiaries	(3,843)			76		
The Government	4,362,408			3,887,844		
Government related entities	322,794			262,385		
Key management personnel	(469)			(1,737)		
Other related parties	11,410			(2,904)		
	4,449,346			3,924,787		
Commitments						
Equity-accounted investees	303			303		
The Government	19,709			19,714		
Government related entities	70,113			103,802		
Key management personnel	313			419		
Other related parties	722			1,556		
	91,160	1,818,970	5%	125,794	1,828,756	7%

	The Group 2020 €000	The Group 2019 €000	The Bank 2020 €000	The Bank 2019 €000
All outstanding balances are secured except for the following:				
Loans and advances to customers:				
- Key management personnel	186	231	153	197
- Other related parties	118	190	-	-
	304	421	153	197
Details of guarantees received are disclosed below:				
Loans and advances to customers:				
- Amounts guaranteed by The Government	365,664	378,436	365,664	378,436

Notes to the financial statements 31 December 2020 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

Loans to and commitments on behalf of directors and other key management personnel (including connected persons):

	The Group		The Bank	
	Loans and advances	Commitments	Loans and advances	Commitments
	€000	€000	€000	€000
Directors				
At 31 December 2018	1,298	100	698	67
Additions	104	11	57	11
	1,402	111	755	78
Less reductions/repayments	(120)	(50)	(86)	(29)
At 31 December 2019	1,282	61	669	49
Additions	-	69	-	50
	1,282	130	669	99
Less reductions/repayments	(126)	-	(93)	-
At 31 December 2020	1,156	130	576	99
Other key management personnel				
At 31 December 2018	1,694	239	1,694	239
Additions	515	147	515	147
	2,209	386	2,209	386
Less reductions/repayments	(153)	(16)	(153)	(16)
At 31 December 2019	2,056	370	2,056	370
Additions	-	-	-	-
	2,056	370	2,056	370
Less reductions/repayments	(105)	(155)	(105)	(155)
At 31 December 2020	1,951	215	1,951	215

The above facilities do not involve more than the normal risk of repayment or present other unfavourable features and were made in the ordinary course of business on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, other employees.

Notes to the financial statements 31 December 2020 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS

The Group's reportable segments are shown in the table below.

Reportable segments	Operations
Personal Banking & Wealth Management	Loans and other transactions and balances with retail customers, including wealth and asset management related activities
Corporate Banking	Loans and other transactions and balances with corporate customers
Proprietary Investments	Funding and centralised risk management activities through borrowings and issues of debt securities
Liquidity Management	Investments in liquid assets such as short-term placements and corporate and government debt securities

Interest income is the main revenue generating activity for all segments. The customer-oriented segments also have income derived from fees and commissions and earnings arising on foreign exchange transactions.

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Interest income	79,742	77,306	87,111	90,396	22,563	36,837	866	2,424	190,282	206,963
Interest expense	(4,083)	(5,386)	(4,146)	(5,793)	(4,877)	(6,554)	(30,370)	(36,380)	(43,476)	(54,113)
Fee and commission income	45,782	57,028	19,893	20,233	-	464	10,306	8,733	75,981	86,458
Fee and commission expense	(7,376)	(12,335)	(871)	(170)	-	-	(442)	(603)	(8,689)	(13,108)
Trading income	315	287	6,162	10,945	-	-	4,825	6,108	11,302	17,340
Gains from financial assets	-	-	-	-	5,996	4,989	-	-	5,996	4,989
Gain on Visa transaction										
Dividend income	-	-	-	-	219	757	-	-	219	757
Depreciation/amortisation	(11,609)	(7,916)	(3,488)	(2,353)	-	(469)	(4,710)	(2,734)	(19,807)	(13,472)
Other costs	(70,105)	(67,557)	(27,887)	(25,767)	(5,740)	(4,865)	(46,843)	(50,879)	(150,575)	(149,068)
Impairment (loss)/reversal	(14,411)	(1,872)	(50,516)	13,274	(209)	160	-	-	(65,136)	11,562
Operating profit/(loss) before litigation provision	18,255	39,555	26,258	100,765	17,952	31,319	(66,368)	(73,331)	(3,903)	98,308
Litigation provision reversal/(charge)	8,584	(25,000)	-	-	-	-	-	-	8,584	(25,000)
Operating profit/(loss) before share of results of equity-accounted investees	26,839	14,555	26,258	100,765	17,952	31,319	(66,368)	(73,331)	4,681	73,308
Group share of results after tax of equity-accounted investees	-	-	-	-	10,520	15,897	-	-	10,520	15,897
Group profit before taxation for the year									15,201	89,205

Notes to the financial statements 31 December 2020 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS (continued)

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2 019
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
ASSETS	2,478,324	2,425,661	2,483,969	2,274,103	3,370,309	3,171,441	4,277,858	4,171,266	12,610,460	12,042,471
Property and equipment and intangible assets	-	-	-	-	171,889	149,379	-	-	171,889	149,379
Additions to property and equipment and intangible assets	-	-	-	-	16,423	37,280	-	-	16,423	37,280
Carrying value of equity-accounted investees	-	-	-	-	111,999	101,479	-	-	111,999	101,479
Total Assets	2,478,324	2,425,661	2,483,969	2,274,103	3,670,620	3,459,579	4,277,858	4,171,266	12,910,771	12,330,609
LIABILITIES										
Total Liabilities	2,699,706	2,628,735	2,897,852	2,640,842	3,499,490	3,321,384	2,736,598	2,677,343	11,833,646	11,268,304

The revenue which is reported above represents revenue generated from external customers. There were no inter-segment revenue during the year (2019: nil).

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1. Segment's operating profit represents the profit earned by each segment.

There are no material activities which are carried out outside Malta.

COVID-19 has impacted the Bank's different segments across the board, primarily reflected in a reduction of commission income, exchange earnings, increase in expected credit losses and a decrease in share of results of associates.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT

39.1 Use of financial instruments

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to increase its interest margins through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve both on-balance sheet loans and advances, as well as guarantees and other commitments such as performance and other bonds and letters of credit.

The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange and interest rate exposures are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Given that the difference between the Group and the Bank balances in respect of financial instruments, and the corresponding effect on the statement of profit or loss and other comprehensive income and reserves in respect thereof, are not material, references in this note to the Group are to be construed as references to the Bank, unless otherwise stated.

The principal areas of financial risk are detailed below:

39.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

Financial assets which could potentially expose the Group to credit risk, mainly include balances with Central Bank of Malta, treasury bills and cash, derivative financial assets, debt and other fixed income instruments, and loans and advances to banks and customers.

39.2.1 Credit risk management and exposure

(i) Loans and advances

The purpose of credit risk management is to keep credit risk exposure to a permissible level relative to capital, to maintain the soundness of assets, and to ensure returns commensurate with risk. This leads to a loan portfolio that achieves high returns on capital and assets.

Credit risk is managed and controlled throughout the Bank on the basis of established credit processes, and within a framework of credit policy and delegated authorities based on responsibility, skill and experience.

Credit grading and monitoring systems are in place to accommodate the early identification and management of deterioration in loan quality. In addition, the credit management process is underpinned by an independent system of credit review.

Credit risk analysis is carried out on two levels: the single name; and the bank’s lending portfolio review. The Bank uses a number of tools to limit its exposure to undue credit risk. These include the application of:

- High-level credit policies designed to ensure a balanced and managed approach to the identification and mitigation of credit risk;
- Lending guidelines defining the responsibilities of lending officers that seek to provide a disciplined and focused benchmark for credit decisions;
- Independent reviews of credit exposures;
- Sector caps, encompassing both industry and specific product types, to communicate the Board’s risk appetite for specific types of business;
- Establishment and maintenance of large exposures and provisioning policies in accordance with regulatory reporting requirements; and
- Communication and provision of general guidance on all credit-related risk issues, including regulatory changes to promote consistent and best practice throughout the Bank.

Where possible the Bank aims to reduce and control risk concentrations. Broadly stated, concentration results when the Bank has a high level of exposure to a single or related group of borrowers, credit exposures secured by a single security, or credit exposures with common characteristics within an industry, such that adverse developments in this exposure would be damaging to the Bank.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

Given the size and nature of the domestic financial sector and the local economy, the Bank is exposed to concentration risk in its credit business. The Bank has systems in place to identify material concentrations in the loan portfolio, and to ensure adherence to prudential limits set by the Board of Directors and/or the regulator to single borrowers or groups of related borrowers and other significant risk concentrations. The CEO and the Board of Directors are regularly informed on the concentration of the Bank's portfolio.

The following is a list of industry concentrations in connection with loans and advances to banks and customers:

	The Group	
	2020	2019
	€000	€000
Households and individuals	2,486,909	2,391,889
Real estate activities	479,102	442,523
Financial and insurance activities	444,395	412,591
Wholesale and retail trade	367,563	349,885
Accommodation and food service activities	251,747	185,715
Construction	194,219	184,303
Transportation and storage	166,646	130,101
Manufacturing	129,533	125,746
Electricity, gas, steam and air conditioning supply	127,355	113,561
Administrative and support service activities	121,695	110,809
Professional, scientific and technical activities	100,186	93,497
Human health and social work activities	45,739	48,185
Information and communication	29,709	24,163
Arts, entertainment and recreation	28,548	25,304
Education	27,673	18,128
Other services activities	18,006	18,431
Public administration and defense, compulsory social security	9,047	10,336
Agriculture	4,679	4,428
Fishing	409	1,419
Water supply, sewerage waste management and remediation activities	377	2,114
Mining and quarrying	266	427
Loans and advances to customers	5,033,803	4,693,555
Loans and advances to banks	479,414	501,686
	5,513,217	5,195,241

(ii) Other financial assets

The credit risk in respect of other financial assets is mitigated through limits set in the Treasury Management Policy. The Bank assigns limits on the level of credit risk undertaken in relation to any single counterparty or sovereign exposure in accordance with external ratings based on Fitch's ratings or on those of other major rating agencies.

Changes in credit ratings are monitored on a daily basis and are subject to frequent review, when considered necessary. The limits on the level of credit risk are reviewed consistently and approved by the Board of Directors at regular intervals. Actual exposures are monitored against limits on an on-going basis. The Bank enters into security transactions only with such authorised counterparties and it invests only in securities or paper with credit quality within specific parameters stated in the Treasury Management Policy.

The level of concentration in respect of other significant financial assets is disclosed in the remaining notes to the financial statements.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

Collateral and other credit enhancements

Credit risk mitigation is one of the key elements of the Group's credit policy. This includes the requirement to obtain collateral, depending on the nature of the proposal, as set out in the Bank's policies and procedures. The nature and level of collateral required depends on a number of factors, including, but not limited to the amount of the exposure, the type of facility provided, the term of the facility, the amount of the counterparty's contribution and an evaluation of the level of the credit risk or probability of default involved (see note 39.2.1.5).

Settlement Risk

The Group's activity may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed. Settlement risk in respect of security transactions is mitigated through settlement limits assigned to counterparties based on external credit ratings or by effecting payment on a delivery versus payment (DVP) basis.

Sovereign Debt

Sovereign risk refers to the risk that a government may default on its obligations, and includes refinancing risk related to the inability to raise capital to repay maturing bonds. The Group monitors sovereign risks through sovereign credit ratings issued by credit rating agencies which include Fitch, Moody's, and S&P. The Treasury Management Policy seeks to mitigate sovereign risk, whether directly or indirectly through exposures to corporate and financial institutions domiciled therein, through investment limits assigned on the basis of the long-term credit rating of such sovereigns. This is further supplemented by in depth economic reviews undertaken periodically and assessments of the fiscal, economic and socio-political aspects upon which such limits are accordingly aligned.

39.2.1.1 Credit Quality

(i) Financial Assets by rating agency (Fitch) designation

The Group	Balances with CBM and Treasury Bills €000	Debt Securities €000	Loans and Advances to Banks €000	Derivatives €000	Total €000
As at 31 December 2020					
AAA	3,569,907	526,289	-	212	4,096,408
AA- to AA+	-	600,078	44,345	-	644,423
A- to A+	158,218	1,912,603	322,127	1,388	2,394,336
BBB- to BBB+	-	221,753	94,843	-	316,596
Lower than BBB-	-	6,333	8,256	-	14,589
Unrated	-	3	9,838	416	10,257
	3,728,125	3,267,059	479,409	2,016	7,476,609
As at 31 December 2019					
AAA	3,474,400	610,809	-	-	4,085,209
AA- to AA+	-	783,000	133,264	511	916,775
A- to A+	97,053	1,463,547	247,258	336	1,808,194
BBB- to BBB+	-	211,662	88,121	-	299,783
Lower than BBB-	-	11,395	10,503	-	21,898
Unrated	-	18	22,540	428	22,986
	3,571,453	3,080,431	501,686	1,275	7,154,845

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

The tables below analyse debt securities by sector, classification and residency.

Sector

	The Group		
	Amortised cost	FVOCI	FVTPL
2020	€000	€000	€000
Banks	991,834	-	21
Government	1,990,321	52,164	9,409
Public	-	72,115	-
Others	151,195	-	-
	3,133,350	124,279	9,430

			The Group
	Amortised cost	FVOCI	FVTPL
2019	€000	€000	€000
Banks	1,060,246	-	82
Government	1,614,736	64,473	32,979
Public	-	79,538	-
Others	228,377	-	-
	2,903,359	144,011	33,061

Residency

			The Group
	Amortised cost	FVOCI	FVTPL
2020	€000	€000	€000
Malta	820,843	124,279	9,395
Monetary Union member states	1,291,561	-	14
Rest of the world	1,020,946	-	21
	3,133,350	124,279	9,430

			The Group
	Amortised cost	FVOCI	FVTPL
2019	€000	€000	€000
Malta	456,383	144,011	20,081
Monetary Union member states	1,194,403	-	12,898
Rest of the world	1,252,573	-	82
	2,903,359	144,011	33,061

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

(ii) Loans and advances to customers analysed into performing and non-performing exposures

Total Gross/Forborne Exposures	The Group Total 2020 €000	The Group of which Forborne 2020 €000	The Group Total 2019 €000	The Group of which Forborne 2019 €000
Performing				
Stage 1	4,216,884	-	4,127,997	-
Stage 2	579,430	23,234	347,610	22,280
	4,796,314	23,234	4,475,607	22,280
Non-performing				
Stage 3	237,489	92,641	217,948	92,680
	237,489	92,641	217,948	92,680
Total Gross/Forborne Exposures	5,033,803	115,875	4,693,555	114,960

Gross Forborne Exposures are analysed as follows:

	Modification in Terms 2020	Refinancing 2020	Modification in Terms 2019	Refinancing 2019
Performing	€000	€000	€000	€000
Personal	6,920	293	3,397	1,085
Business	15,029	992	16,001	1,797
	21,949	1,285	19,398	2,882
Non-performing				
Personal	18,870	307	15,259	2,205
Business	69,280	4,184	73,009	2,207
	88,150	4,491	88,268	4,412

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2 Expected credit loss measurement

The movement in forebearance activity during the period is as follows:

	Loans & Advances	
	2020	2019
	€000	€000
1 January	114,960	118,024
Additions	12,793	17,695
Retired from forborne	(11,878)	(20,759)
31 December	115,875	114,960

(iii) Analysis of past due balances

Past due up to 29 days	31,051	100,077
Past due 30 - 59 days	9,133	24,782
Past due 60 - 89 days	6,291	7,340
	46,475	132,199

Analysis of past due balances comprise all loan exposures (including forborne exposures).

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Defaulted gross loans by segment:		
Business	187,953	170,111
Personal	49,536	47,837
	237,489	**217,948**

Defaulted facilities are those credit facilities with payments of interest and/or capital overdue by 90 days or more or where the Group has reasons to doubt the eventual recoverability of funds. A variety of types of collateral are accepted including property, securities, cash, guarantees and insurance, as disclosed in note 39.2.1.5.

Information about impairment allowances is disclosed in note 39.2.1.2 in respect of the Group's exposures as at 31 December 2020 and 31 December 2019.

39.2.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. Refer to note 39.2.1.2.1 for a description of how the Group determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. Refer to note 39.2.1.2.2 for a description of how the Group defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected losses on a lifetime bases. Refer to note 39.2.1.2.4 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 39.2.1.2.5 includes an explanation of how the Group has incorporated this in its ECL models.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

Further explanation is also provided of how the Group determines appropriate groupings when ECL is measured on a collective basis (refer to note 39.2.1.2.8).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

With the exception of instruments measured at FVTPL, exposures with low credit risk at the reporting date and any originated credit-impaired financial assets (note 39.2.1.2.2), the Group assesses whether financial instruments have experienced a significant increase in credit risk since initial recognition.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information.

In the case of the Group's advances portfolio, the objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Group allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Stage	Internal rating
1	1 - 3
2	4 - 5
3	6 - 11

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

Commercial exposures	Personal exposures	All exposures
• Information obtained during periodic review of customer files - e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities	• Internally collected data on customer behaviour -e.g. utilisation of credit card facilities • Affordability metrics	• Payment record - this includes overdue status as well as a range of variables about payment ratios • Utilisation of the granted limit • Requests for and granting of forbearance • Existing and forecast changes in business • Financial and economic conditions

The Group applies the low credit risk simplification for all investments which are of an investment grade, which comprises the vast majority of its treasury portfolio. The Group accordingly only assesses SICR for investments in those debt securities which are rated as sub-investment grade. For sub-investment grade securities, the Group considers a security to have experienced a significant increase in credit risk if the security has been the subject to a credit rating downgrade since initial recognition.

COVID-19 impact on credit quality

The Bank has followed the provisions of Directive 18, issued by the Central Bank of Malta, to allow a moratorium on capital and interest to eligible borrowers temporarily unable to serve their loan obligations due to COVID-19, for a period not exceeding a total of 9 months. Specific guidelines with respect to the granting of these loans were issued, in particular that eligible borrowers had to have good credit quality. The deferred payments were spread over the term of the facilities, wherever possible, to ensure that the loans did not extend beyond retirement age, for personal customers, and to limit the forbearance measure to the short-term. For shorter-term business facilities, an extension to the term was granted. 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 Bank also participated in the Malta Development Bank COVID-19 loan facility scheme, which also included a moratorium on capital and interest for a maximum period of 1 year. In general, the Bank granted moratoria of 6 months renewable for a further 6 months, without implications on the Forbearance status of the borrowers.

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. The credit analysis makes use of specific information available, coupled with expert judgement 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. With the assistance of external consultants, the Bank conducted an in-depth review of the larger exposures which were granted moratoria to assess the borrower’s viability as these are more susceptible to encounter financial difficulties once the moratorium period expires. As at December 20, a number of individually significant exposures operating in COVID-19 impacted sectors were downgraded one notch on the basis of further assistance being required following the expiry of the moratoria, resulting in €18.4 million ECL charge.

The exercise mainly targeted the largest exposures in the portfolio assessed at group level and covering nearly 60% of total on balance exposures. The main focus of this exercise related to customers operating in the ‘Accommodation and Food Services’ wherein 57% of the sector exposure was covered.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.1 Significant increase in credit risk (continued)

The table below presents the Bank's credit portfolio grouped by type of COVID-19 assistance availed of and industry risk.

	2020 COVID-19 Assistance			
Industry Risk	Balance	MDB COVID assist	Moratoria granted	of which expired moratoria
	€000	€000	€000	€000
High	1,033,555	101,176	378,833	179,560
Medium	654,714	61,011	105,587	80,607
Other	3,345,534	30,749	375,945	262,155
Total	5,033,803	192,936	860,365	522,322

The majority of exposures with expired moratoria are now following the agreed repayment program.

39.2.1.2.2 Definition of default and credit impaired

The Group considers financial assets in the advances portfolio to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit lower than the current amount outstanding.

In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default aligns with that applied by the Group for regulatory capital purposes.

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired.

In the case of the treasury portfolio, the Group considers investments in debt instruments to be in default when a payment, including a coupon payment, is missed.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.3 Cure rate

An instrument in the Group's advances portfolio is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of three months. This period of three months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions.

A forborne instrument is considered to no longer be in default when it no longer meets any of the criteria for a consecutive period of twelve months.

The Group's experience is that defaulted debt investments within the treasury portfolio do not cure given that a security's default mechanism is triggered when a security's issuer misses a coupon payment. Any new instruments which the Group receives as part of an eventual debt restructuring exercise is considered to be a new instrument altogether.

39.2.1.2.4 Measuring ECL

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving overdraft, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12 month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described in note 39.2.1.2.5.
PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The Group estimates LGD parameters on its advances portfolio based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. In the case of the Group's treasury portfolio, the Group lacks historical experience of defaults, and accordingly makes use of the LGD parameters set out by the Bank for International Settlements.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.4 Measuring ECL (continued)

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

39.2.1.2.5 Forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are calculated using statistical models and forecasts are obtained for all maturities to which the Bank has exposure. Macroeconomic factors that are found to be statistically significant for all portfolios are forecasted using a vector autoregressive model (VAR). On an annual basis, as part of the model recalibration exercise an assessment is carried out to ensure that these economic variables are still statistically significant.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD.

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 be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes.

The Bank recognised net impairment charges of €65.1 million made up of net increases in ECL of €70.4 million, amounts written off of €4.3 million and recoveries of amounts previously written off of €9.6 million (see note 8). The net increase in provision of €70.4 million is the result of model driven impairment charge of €13.7 million and post model management adjustments amounting to €56.7 million. Further analysis of these movements are disclosed below.

COVID-19 impact on PDs

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. The change to forecasts which reflects the national impact brought about by the pandemic is also 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 PDs were updated again as at year-end with the ('CBM') Quarter 4 macro-economic forecasts. The model generated baseline forecast was replaced by the CBM baseline forecast whereas the generated severe forecast was similarly replaced by the published national severe forecast. As at December 20, it was more reasonable to reflect the current situation by removing the optimistic scenario and increasing the probability to 50/50 for baseline and pessimistic scenario. The change in weightings is reasonable as it coincides with the CBM baseline and severe scenarios and is deemed to represent a more relevant view then the 25:50:25 as it responds to non-linearity risk.

The following table depicts the three key forecasts as per model to those provided by the CBM and the resulting change. The shift from the model to CBM forecasts resulted in an increase in ECL for the year of €2.8 million.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.5 Forward-looking information (continued)

Severe	IFRS9 Model generated Forecasts		Severe CBM Forecasts	
	2020	2021	2020	2021
Macrovariable	%	%	%	%
GDP	0.3	1.9	-9.4	5.5
Inflation	3.0	2.2	0.8	0.8
Unemployment	3.8	4.6	4.4	4.1

Baseline	IFRS9 Model generated Forecasts		Baseline CBM Forecasts	
	2020	2021	2020	2021
Macrovariable	%	%	%	%
GDP	3.1	5.2	-7.5	5.9
Inflation	2.4	1.4	0.8	0.9
Unemployment	3.2	3.1	4.1	3.9

ECL impact on change in weights and forecasts	Baseline CBM Forecasts Change		Severe CBM Forecasts Change		
	2020	2021	2020	2021	▲ ECL
Macrovariable	%	%	%	%	€' million
Change in weights from 25/50/25 to 50/50					3.6
GDP	-9.7	3.6	-10.6	0.7	5.6
Inflation	-2.2	-1.4	-1.6	-0.5	-2.8
Unemployment	0.6	-0.5	0.9	0.8	-3.6
					2.8

Management adjustments to models for impairment

Management adjustments to impairment models are applied in order to factor in certain conditions or changes in policy that are not fully incorporated into the impairment models, or to additional facts and circumstances at the period end. Management adjustments are reviewed and incorporated into future model development where applicable.

<u>Adjustments to the model including those predominantly due to COVID-19</u>

COVID-19 impacted the global economy throughout 2020 and macroeconomic forecasts indicate longer-term impacts that will result in higher unemployment levels and customer / client stress. However, to date, little real credit deterioration has occurred, largely as a result of government and credit institutions’ support.

In light of the above, management has applied COVID-19 specific adjustments to modelled outputs to ensure the full potential impacts of stress are provided for. These adjustments address the temporary nature of ongoing government support, the uncertainty in relation to the timing of stress and the degree to which economic consensus has not yet captured the range of economic uncertainty.

Post manual adjustments amounting to a total of €56.7 million, of which €16.9 million are directly attributable to COVID-19 and €39.8 million related to non-performing exposures. The adjustments have been applied mainly to the Bank’s business lending, which is the product most highly susceptible to estimation uncertainty as a result of the above conditions. In the case of retail lending, represented mainly by mortgages, no management adjustments were deemed necessary as the assumed macro-economic inputs have been determined to sufficiently capture the longer-term impacts. The adjustments broadly comprised of the following:

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Credit risk management and exposure (continued)

39.2.1.2.5 Forward-looking information (continued)

- Management applied judgement to reflect the higher probability of default in respect of performing exposures operating in high and medium risk sectors. Due to the lack of individual customer information and the degree of uncertainty, management considered necessary to apply a higher probability of default to all the remaining performing exposures operating in high and medium risk sectors (exposures not subject to an individual assessment as at year-end). At the reporting date the asset quality of such exposures remains sound and there is no evidence that significant increase in credit risk has occurred for these exposures. However, a higher applied PD (Lifetime as a proxy instead of the 12-month PD) is deemed cautious since the circumstances relating to COVID-19 remain uncertain. This resulted in an increase in ECL charge for the year of €16 million.
- The 'Accommodation and Food Services Activities' sector was by far the worst hit sector by the pandemic. Inbound tourist arrivals declined by 76.1 percent[1], leading to hotel occupancy rates dropping from 65.7 percent in 2019 to 25.4 percent in 2020[2]. Restaurants and bars were obliged to close for several months and a decrease in seating capacity was imposed once these reopened. All this resulted in the sector's output contracting by an extraordinary 64.7 in real terms[3]. The 'Accommodation and Food Services Activities' sector is mainly made up of hotels and other accommodation property as well as restaurants, bars etc. The estimated impact of revaluing the properties related with 'Accommodation and Food Services Activities' equates to an increase in haircut of circa 10%. Adopting this assumption, the Bank set aside a further provision of €0.9 million.
- A €39.8 million adjustment has also been applied in respect of long outstanding non-performing exposures on the basis that the current economic conditions will continue to exacerbate the recovery process through the liquidation of collateral held. This adjustment has been determined by reference to reasonably possible recovery scenarios over an extended period of time and factoring in costs to dispose and additional haircuts to the underlying collateral held.

39.2.1.2.6 Critical estimates

The most significant key macroeconomic variables used for the ECL estimate as at 31 December 2020 are set out below. The scenarios "baseline" and "severe" were used for all loan portfolios.

Macro economic forecasts (2021-2025)	Severe %	Baseline %
GDP Growth rate	3.2	4.9
Housing index	-7.0	3.6
Inflation rate	1.7	1.5
Interest rate	0.7	-0.4
Money supply	25.4	14.3
Unemployment rate	5.3	3.6
Probability (%)	50.0	50.0

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact. This is reviewed and monitored for appropriateness on a quarterly basis.

39.2.1.2.7 Sensitivity of ECL to future economic conditions

ECL is sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations. A sensitivity analysis is performed on ECL recognised on the credit portfolio, assuming the upside (baseline) and downside forward-looking scenarios are weighted at 100% instead of applying an unbiased set of probability weights.

[1] NSO News Release 018/2021 – Inbound Tourism: December 2020 dated 3 February 2021
[2] NSO News Release 035/2021 – Collective Accommodation Establishments: Q4/2020 dated 24 February 2021
[3] NSO News Release 040/2021 – Gross Domestic Product: 2020 dated 1 March 2021

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.7 Sensitivity of ECL to future economic conditions (continued)

	2020 €000
Gross performing exposures	4,796,314
ECL variance	
- Upside	(4,796)
- Downside	4,724

Applying a baseline scenario would approximate the probability weighted scenario.

The Group performed additional ECL runs to sensitise expected credit loss allowances to changes in the impact of macrovariable inputs and their impact on projected PD curves.

The most significant changes in ECL resulting from shifts in macro variable inputs are inflation and unemployment. Both variables result in significant impact on the purchasing power and hence on the borrowers' ability to meet its contractual obligations.

Set out below are the changes to ECL as at 31 December 2020 that would result from changes in parameters from the actual observations. The most significant sensitivity tests affecting the ECL allowance are as follows:

Macrovariable	Shift in basis points	Variance in ECL €000
Inflation rate	+150	19,037
Unemployment	+100	6,191
GDP	+150	1,363

In a scenario of economic downturn assuming a 1% shift of exposures from Stage 1 to Stage 2 and applying the difference in Stage 2 and Stage 1 average impairment coverage ratios to the movement in gross exposure, is estimated to increase ECL by €3.6 million (2019: €2.4 million), mostly arising on loans and advances to customers.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.8 Grouping by shared risk characteristics

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

As at December 2020	Exposure	External benchmarks used LGD
Investments in debt securities within the treasury portfolio	€ 3,258,181	8% - 55% Bank for International Settlements parameters

As at December 2019	Exposure	External benchmarks used LGD
Investments in debt securities within the treasury portfolio	€ 3,047,716	8% - 55% Bank for International Settlements parameters

For portfolios in respect of which the Group has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1.3 Gross carrying amount and exposure to credit risk

The following table sets out information about the credit quality of financial assets measured at amortised cost, FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 39.2.1.1.

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not credit-Impaired €000	Stage 3 Lifetime ECL credit- Impaired €000	Total €000
Loans and advances to banks at amortised cost				
As at 31 December 2020				
AAA	3,569,908	-	-	3,569,908
AA- to AA+	17,006	-	-	17,006
A- to A+	267,735	-	-	267,735
BBB- to BBB+	24,583	-	-	24,583
Lower than BBB-	-	8,195	-	8,195
	3,879,232	8,195	-	3,887,427
Loss allowance	(18)	-	-	(18)
Carrying amount	3,879,214	8,195	-	3,887,409
Loans and advances to banks at amortised cost				
As at 31 December 2019				
AAA	3,474,270	-	-	3,474,270
AA- to AA+	29,935	-	-	29,935
A- to A+	215,501	-	-	215,501
BBB- to BBB+	-	-	-	-
Lower than BBB-	-	8,972	-	8,972
	3,719,706	8,972	-	3,728,678
Loss allowance	(9)	(3)	-	(12)
Carrying amount	3,719,697	8,969	-	3,728,666

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not credit-Impaired €000	Stage 3 Lifetime ECL credit- Impaired €000	Total €000
Loans and advances to customers at amortised cost				
As at 31 December 2020				
Grades 1-3	4,091,199	37,130	9,931	4,138,260
Grades 4-5	-	542,300	19,903	562,203
Grades 6-11	-	-	207,655	207,655
	4,091,199	579,430	237,489	4,908,118
Loss allowance	(17,362)	(30,558)	(118,755)	(166,675)
Carrying amount	4,073,837	548,872	118,734	4,741,443
Loans and advances to customers at amortised cost				
As at 31 December 2019				
Grades 1-3	3,988,575	81,474	1,155	4,071,204
Grades 4-5	-	266,136	4,103	270,239
Grades 6-11	-	-	212,690	212,690
	3,988,575	347,610	217,948	4,554,133
Loss allowance	(9,145)	(19,405)	(79,771)	(108,321)
Carrying amount	3,979,430	328,205	138,177	4,445,812

Facilities under probation result in an ECL stage which is worse than the stage related to their internal grading.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.3 Gross carrying amount and exposure to credit risk (continued)

The following table represents the average 12-month PD corresponding to the internal credit grading.

Grading	12-month average PD
Grades 1-3: Regular	0.019
Grades 4-5: Watch	0.384
Grades 6-11: Default	1.000

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not credit-Impaired €000	Stage 3 Lifetime ECL credit- Impaired €000	Total €000
Investments in debt securities				
As at 31 December 2020				
AAA	526,298	-	-	526,298
AA- to AA+	600,087	-	-	600,087
A- to A+	1,893,594	9,918	-	1,903,512
BBB- to BBB+	221,860	-	-	221,860
Lower than BBB-	-	6,424	-	6,424
	3,241,839	16,342	-	3,258,181
Loss allowance	(447)	(105)	-	(552)
Carrying amount	3,241,392	16,237	-	3,257,629

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL not credit-Impaired €000	Stage 3 Lifetime ECL credit- Impaired €000	Total €000
Investments in debt securities				
As at 31 December 2019				
AAA	610,817	-	-	610,817
AA- to AA+	783,009	-	-	783,009
A- to A+	1,435,322	3,101	-	1,438,423
BBB- to BBB+	204,020	-	-	204,020
Lower than BBB-	-	11,447	-	11,447
	3,033,168	14,548	-	3,047,716
Loss allowance	(289)	(57)	-	(346)
Carrying amount	3,032,879	14,491	-	3,047,370

The treasury portfolio is made up primarily of investment grade securities. Consequently, an insignificant number of downgrades were registered in the treasury portfolio as a result of COVID-19.

39.2.1.4 Maximum exposure to credit risk on FVTPL securities, Financial guarantees and loan commitments

Maximum exposure
The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the maximum exposure to credit risk without taking account of the value of any collateral obtained, except as disclosed below.

Financial guarantees
The maximum exposure to credit risk is the full amount that the Group would have to pay if the guarantees are called upon (note 33).

Loan commitments
The maximum exposure to credit risk arising on loan commitments and other credit related commitments that are irrecoverable over the life of the respective facilities is the full amount of the committed facilities (note 34).

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.4 Maximum exposure to credit risk on FVTPL securities, financial guarantees and loan commitments (continued)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL):

	Maximum exposure to credit risk	
	2020	2019
	€000	€000
Financial assets mandatorily measured at FVTPL:		
- Debt securities	33	7,723
	33	7,723
Financial assets designated at fair value:		
- Debt securities	9,397	25,338
- Loans and advances to customers	125,685	139,422
	135,082	164,760
	135,115	172,483
Derivatives financial instruments	2,016	1,275

39.2.1.5 Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Margin agreement for derivatives, for which the Group has master netting agreements imposed by way of law.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period.

A portion of the Group's financial assets originated by the mortgage business has sufficiently low 'loan to value' (LTV) ratios, which results in no loss allowance being recognised in accordance with the Group's expected credit loss model. The carrying amount of such financial assets is €748.3 million as at 31 December 2020.

Security values are reviewed on a regular basis and are also re-assessed at time of default if it is found that the carrying value of the collateral item could have materially changed since last valuation. The Bank calculates the value of collateral as the market value less a haircut, with the latter representing a conservative estimate of the costs to sell and the potential loss of value in a forced sale scenario. For financial instruments, haircuts are calculated according to the risk profile of each individual security and depend on a number of variables including price volatility and liquidity/marketability of the instrument.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral (continued)

The table below shows the financial effect and main types of collateral held against the Group's customer loan exposures:

The Group
As at 31 December 2020

	Loans and advances to customers €000	Undrawn credit facilities and other commitments to lend €000
Loans collateralised by:		
Prime bank guarantees	50	18
Cash or quasi cash	87,624	31,029
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or Public agencies	381,827	135,208
Residential property	2,082,413	737,407
Commercial property	1,135,471	402,083
Personal guarantees and others	230,445	81,603
	3,917,830	1,387,348

The Group
As at 31 December 2019

	Loans and advances to customers €000	Undrawn credit facilities and other commitments to lend €000
Loans collateralised by:		
Prime bank guarantees	83	31
Cash or quasi cash	108,289	40,807
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or Public agencies	381,946	143,929
Residential property	2,111,861	795,823
Commercial property	1,099,471	414,319
Personal guarantees and others	243,269	91,672
	3,944,919	1,486,581

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral (continued)

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

The Group
As at 31 December 2020

	Gross carrying amount	Impairment allowance	Net carrying amount	Fair value of collateral held post haircut
	€000	€000	€000	€000
Credit-impaired assets				
Loans to individuals:				
- Personal Loans	6,226	(4,068)	2,158	2,926
- Home Loans	47,523	(21,844)	25,679	36,897
- Personal Overdrafts	996	(735)	261	-
- Credit Cards	1,398	(1,345)	53	-
Loans to corporate entities:				
- Business Loans	140,232	(69,386)	70,846	101,639
- Business Overdrafts	40,231	(20,500)	19,731	33,317
- Encroachments	883	(877)	6	-
Total credit-impaired assets	237,489	(118,755)	118,734	174,779

The Group
As at 31 December 2019

	Gross carrying amount	Impairment allowance	Net carrying amount	Fair value of collateral held post haircut
	€000	€000	€000	€000
Credit-impaired assets				
Loans to individuals:				
- Personal Loans	4,956	(2,885)	2,071	2,882
- Home Loans	40,665	(8,871)	31,794	30,438
- Personal Overdrafts	942	(534)	408	680
- Credit Cards	1,361	(1,269)	92	-
Loans to corporate entities:				
- Business Loans	115,922	(44,520)	71,402	78,658
- Business Overdrafts	52,578	(20,420)	32,158	44,176
- Encroachments	1,524	(1,272)	252	-
Total credit-impaired assets	217,948	(79,771)	138,177	156,834

Fair value of collateral refers to architect's valuation less applicable haircuts.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.5 Collateral (continued)

Lending covered by Residential Property

The table below stratifies credit exposures, covered by residential property, to customers by ranges of loan-to-value ('LTV'). LTV is calculated as the ratio of the gross amount of loan or the amount committed for loan commitments to the value of the collateral. The gross amounts exclude any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for these loans is based on the collateral value at origination updated based on changes in house price indices.

Lending and commitments covered by residential lending	2020	2019
	€000	€000
Less than 25%	146,061	151,964
25% to 50%	475,775	477,560
51% to 75%	915,452	905,468
76% to 90%	975,710	1,018,472
	2,512,998	2,553,464

The following table classifies the Group's mortgage credit - impaired exposures which are covered by residential property by ranges of loan-to-value (LTV). The value of collateral for these loans is calculated by taking into consideration the eligibility of collateral pursuant to Article 208 of the CRR.

	2020	2019 - Restated
Mortgage portfolio - LTV distribution	Credit Impaired (Gross carrying amount)	Credit Impaired (Gross carrying amount)
	€000	€000
Lower than 25%	963	757
25% to 50%	6,941	3,905
51% to 75%	10,198	10,126
76% to 90%	3,182	1,985
Total	21,284	16,773

39.2.2 The expected credit loss provision and write-offs of exposures

39.2.2.1 Reconciliation of ECL

The following tables explain the changes in the loss allowance between the beginning and the end of the annual 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 due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- 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 (see note 39.2.2.4)

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 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
Home Loans				
Allowances at 1 January 2020	1,773	1,824	8,871	12,468
Transfer to/(from):				
Stage 1	(11)	628	563	1,180
Stage 2	4	(716)	1,478	766
Stage 3	-	2	(58)	(56)
New financial assets originated*	1,045	368	22	1,435
Financial assets that have been derecognised	(130)	(202)	(277)	(609)
Write-offs	-	-	(504)	(504)
Changes to model assumptions and methodologies	(147)	(13)	-	(160)
Post-Model Adjustments	1	(16)	9,219	9,204
Other movements	(311)	(492)	2,530	1,727
Allowances on home loans at 31 December 2020	2,224	1,383	21,844	25,451
Personal				
Allowances at 1 January 2020	896	451	3,419	4,766
Transfer to/(from):				
Stage 1	(15)	230	338	553
Stage 2	1	(79)	122	44
Stage 3	-	4	(77)	(73)
New financial assets originated*	231	69	820	1,120
Financial assets that have been derecognised	(83)	(104)	-	(187)
Write-offs	-	-	(116)	(116)
Changes to model assumptions and methodologies	(58)	(7)	-	(65)
Post-Model Adjustments	-	(1)	473	472
Other movements	(139)	25	(176)	(290)
Allowances on personal at 31 December 2020	833	588	4,803	6,224
Credit Cards				
Allowances at 1 January 2020	1,679	1,156	1,269	4,104
Transfer to/(from):				
Stage 1	(142)	378	202	438
Stage 2	113	(595)	292	(190)
Stage 3	3	40	(436)	(393)
New financial assets originated*	29	7	6	42
Financial assets that have been derecognised	(58)	(125)	(358)	(541)
Changes to model assumptions and methodologies	(80)	(15)	(1)	(96)
Other movements	(69)	(85)	371	217
Allowances on credit cards at 31 December 2020	1,475	761	1,345	3,581
Business				
Allowances at 1 January 2020	4,797	15,974	66,212	86,983
Transfer to/(from):				
Stage 1	(779)	11,403	6,188	16,812
Stage 2	367	(2,987)	3,003	383
Stage 3	41	924	(4,731)	(3,766)
New financial assets originated*	5,261	1,643	3,785	10,689
Financial assets that have been derecognised	(192)	(2,085)	(3,853)	(6,130)
Write-offs	-	-	(3,214)	(3,214)
Changes to model assumptions and methodologies	(353)	(222)	-	(575)
Post-Model Adjustments	9,610	242	27,502	37,354
Other movements	(5,922)	2,934	(4,129)	(7,117)
Allowances on business at 31 December 2020	12,830	27,826	90,763	131,419
Total allowances at 31 December 2020	17,362	30,558	118,755	166,675

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total allowances at 1 January 2019	9,210	18,345	79,508	107,063
Home Loans				
Allowances at 1 January 2019	1,458	1,158	7,796	10,412
Transfer to/(from):				
Stage 1	(9)	428	455	874
Stage 2	2	(109)	93	(14)
Stage 3	-	117	(546)	(429)
New financial assets originated*	840	427	4	1,271
Financial assets that have been derecognised	(165)	(156)	(490)	(811)
Write-offs	-	-	(47)	(47)
Changes to model assumptions and methodologies	(260)	(12)	-	(272)
Other movements	(93)	(29)	1,606	1,484
Allowances on home loans at 31 December 2019	1,773	1,824	8,871	12,468
Personal				
Allowances at 1 January 2019	835	451	3,175	4,461
Transfer to/(from):				
Stage 1	(7)	85	165	243
Stage 2	1	(42)	45	4
Stage 3	-	9	(69)	(60)
New financial assets originated*	325	79	408	812
Financial assets that have been derecognised	(101)	(117)	(180)	(398)
Write-offs	-	-	(191)	(191)
Changes to model assumptions and methodologies	(133)	(15)	-	(148)
Other movements	(24)	1	66	43
Allowances on personal at 31 December 2019	896	451	3,419	4,766
Credit Cards				
Allowances at 1 January 2019	1,676	1,106	721	3,503
Transfer to/(from):				
Stage 1	(155)	466	242	553
Stage 2	117	(364)	350	103
Stage 3	1	11	(85)	(73)
New financial assets originated*	73	20	13	106
Financial assets that have been derecognised	(62)	(57)	(101)	(220)
Changes to model assumptions and methodologies	(275)	(132)	-	(407)
Other movements	304	106	129	539
Allowances on credit cards at 31 December 2019	1,679	1,156	1,269	4,104
Business				
Allowances at 1 January 2019	5,241	15,630	67,816	88,687
Transfer to/(from):				
Stage 1	(532)	2,215	1,162	2,845
Stage 2	41	(1,733)	1,930	238
Stage 3	2	431	(3,485)	(3,052)
New financial assets originated*	937	3,222	5,276	9,435
Financial assets that have been derecognised	(283)	(1,516)	(7,670)	(9,469)
Write-offs	-	-	(747)	(747)
Changes to model assumptions and methodologies	(676)	(584)	-	(1,260)
Other movements	67	(1,691)	1,930	306
Allowances on business at 31 December 2019	4,797	15,974	66,212	86,983
Total allowances at 31 December 2019	9,145	19,405	79,771	108,321

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

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
Home Loans				
Provisions at 1 January 2020	483	465	249	1,197
Transfer to/(from):				
Stage 1	(13)	208	210	405
Stage 2	-	(10)	1	(9)
Stage 3	-	-	-	-
New financial assets originated*	610	444	123	1,177
Financial assets that have been derecognised	(66)	(53)	(149)	(268)
Write-offs	-	-	(9)	(9)
Changes to model assumptions and methodologies	(60)	(2)	-	(62)
Post-Model Adjustments	-	-	28	28
Other movements	(236)	(312)	(39)	(587)
Provisions on home loans at 31 December 2020	718	740	414	1,872
Personal				
Provisions at 1 January 2020	60	48	117	225
Transfer to/(from):				
Stage 1	(1)	5	6	10
Stage 2	-	-	-	-
Stage 3	-	-	(20)	(20)
New financial assets originated*	42	15	3	60
Financial assets that have been derecognised	(17)	(17)	-	(34)
Write-offs	-	-	(91)	(91)
Changes to model assumptions and methodologies	(4)	-	-	(4)
Post-Model Adjustments	-	-	2	2
Other movements	(21)	(26)	62	15
Provisions on personal at 31 December 2020	59	25	79	163
Credit Cards				
Provisions at 1 January 2020	440	36	44	520
Transfer to/(from):				
Stage 1	(18)	15	24	21
Stage 2	17	(24)	15	8
Stage 3	2	1	(24)	(21)
New financial assets originated*	10	1	2	13
Financial assets that have been derecognised	(24)	(4)	(9)	(37)
Changes to model assumptions and methodologies	(27)	(1)	-	(28)
Other movements	13	3	(3)	13
Provisions on credit cards at 31 December 2020	413	27	49	489
Business				
Provisions at 1 January 2020	2,553	2,546	8,761	13,860
Transfer to/(from):				
Stage 1	(141)	4,331	1,708	5,898
Stage 2	80	(677)	125	(472)
Stage 3	-	79	(374)	(295)
New financial assets originated*	6,716	1,786	409	8,911
Financial assets that have been derecognised	(344)	(285)	(223)	(852)
Write-offs	-	-	(202)	(202)
Changes to model assumptions and methodologies	(146)	(59)	-	(205)
Post-Model Adjustments	6,488	(1)	3,118	9,605
Other movements	(7,372)	915	(44)	(6,501)
Provisions on business at 31 December 2020	7,834	8,635	13,278	29,747
Total Provisions at 31 December 2020	9,024	9,427	13,820	32,271

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.1 Reconciliation of ECL (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Provisions at 1 January 2019	3,918	4,743	10,106	18,767
Home Loans				
Provisions at 1 January 2019	363	360	390	1,113
Transfer to/(from):				
Stage 1	(1)	27	67	93
Stage 2	-	(2)	-	(2)
Stage 3	-	-	(10)	(10)
New financial assets originated*	400	199	-	599
Financial assets that have been derecognised	(63)	(7)	(87)	(157)
Write-offs	-	-	(2)	(2)
Changes to model assumptions and methodologies	(71)	10	-	(61)
Other movements	(145)	(122)	(109)	(376)
Provisions on home loans at 31 December 2019	483	465	249	1,197
Personal				
Provisions at 1 January 2019	62	61	104	227
Transfer to/(from):				
Stage 1	(3)	1	7	5
Stage 2	-	(18)	-	(18)
Stage 3	-	-	(14)	(14)
New financial assets originated*	45	45	43	133
Financial assets that have been derecognised	(9)	(5)	(9)	(23)
Write-offs	-	-	(10)	(10)
Changes to model assumptions and methodologies	(9)	(1)	-	(10)
Other movements	(26)	(35)	(4)	(65)
Provisions on personal at 31 December 2019	60	48	117	225
Credit Cards				
Provisions at 1 January 2019	388	22	15	425
Transfer to/(from):				
Stage 1	(16)	14	14	12
Stage 2	15	(13)	10	12
Stage 3	1	-	(6)	(5)
New financial assets originated*	29	1	-	30
Financial assets that have been derecognised	(26)	(1)	(4)	(31)
Changes to model assumptions and methodologies	(72)	(5)	-	(77)
Other movements	121	18	15	154
Provisions on credit cards at 31 December 2019	440	36	44	520
Business				
Provisions at 1 January 2019	3,105	4,300	9,597	17,002
Transfer to/(from):				
Stage 1	(49)	152	207	310
Stage 2	3	(350)	62	(285)
Stage 3	3	43	(548)	(502)
New financial assets originated*	1,212	1,137	1,836	4,185
Financial assets that have been derecognised	(347)	(1,469)	(768)	(2,584)
Write-offs	-	-	(2)	(2)
Changes to model assumptions and methodologies	(349)	(116)	-	(465)
Other movements	(1,025)	(1,151)	(1,623)	(3,799)
Provisions on business at 31 December 2019	2,553	2,546	8,761	13,860
Total Provisions at 31 December 2019	3,536	3,095	9,171	15,802

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- Gross loans and advances increased by 7% during the year (2019: 2%). The high volume of new loans originated during the period, aligned with the Group's organic growth objective, increased the gross carrying amount of the loan book by 14% (2019: 15%), with a corresponding €13.3 million increase in loss allowance (2019: €10.8 million).
- There were no significant changes to the modification of facility contracts following renegotiation with customers facing financial difficulties.
- The write-off of loans with a total gross carrying amount of €4.3 million (2019: €2.5 million) resulted in the reduction of the Stage 3 expected credit losses by €4.1 million (2019: €1.0 million).

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

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Gross Carrying Amount at 1 January 2020	4,127,997	347,610	217,948	4,693,555
Home Loans				
Gross carrying amount as at 1 January 2020	2,089,969	43,725	40,665	2,174,359
Transfer to/(from):				
Stage 1	(19,540)	18,382	4,087	2,929
Stage 2	5,675	(10,706)	5,066	35
Stage 3	265	410	(672)	2
New financial assets originated*	295,754	2,089	45	297,889
Financial assets that have been derecognised	(92,310)	(2,230)	(2,491)	(97,030)
Write-offs	-	-	(428)	(428)
Other changes in carrying amount	(73,938)	(35)	1,251	(72,722)
Home loans gross carrying amount as at 31 December 2020	2,205,875	51,635	47,523	2,305,034
Personal				
Gross carrying amount as at 1 January 2020	158,555	6,044	5,898	170,497
Transfer to/(from):				
Stage 1	(3,435)	2,223	557	(655)
Stage 2	245	(649)	218	(186)
Stage 3	324	63	(171)	216
New financial assets originated*	30,114	1,123	919	32,156
Financial assets that have been derecognised	(17,814)	(699)	-	(18,513)
Write-offs	-	-	(640)	(640)
Other changes in carrying amount	(23,083)	(353)	441	(22,995)
Personal gross carrying amount as at 31 December 2020	144,906	7,752	7,222	159,880

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

Credit cards				
Gross carrying amount as at 1 January 2020	43,522	9,822	1,361	54,705
Transfer to/(from):				
Stage 1	(3,863)	3,914	357	408
Stage 2	3,187	(4,918)	569	(1,162)
Stage 3	71	286	(437)	(80)
New financial assets originated*	670	79	15	764
Financial assets that have been derecognised	(1,465)	(831)	(359)	(2,655)
Other changes in carrying amount	(5,707)	(948)	(108)	(6,763)
Credit cards gross carrying amount as at 31 December 2020	36,415	7,404	1,398	45,217
Business				
Gross carrying amount as at 1 January 2020	1,835,951	288,019	170,024	2,293,994
Transfer to/(from):				
Stage 1	(260,376)	305,188	29,780	74,592
Stage 2	76,988	(94,700)	12,547	(5,165)
Stage 3	1,549	8,250	(13,151)	(3,352)
New financial assets originated*	287,388	37,404	7,886	332,678
Financial assets that have been derecognised	(66,506)	(18,488)	(11,610)	(96,604)
Write-offs	-	-	(3,277)	(3,277)
Other changes in carrying amount	(45,306)	(13,034)	(10,853)	(69,193)
Business gross carrying amount as at 31 December 2020	1,829,688	512,639	181,346	2,523,672
Total Gross carrying amount as at 31 December 2020	4,216,884	579,430	237,489	5,033,803
Less Allowances	(17,362)	(30,558)	(118,755)	(166,675)
Net Loans and Advances to customers	4,199,522	548,872	118,734	4,867,128

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Total Gross Carrying Amount at 1 January 2019	4,063,331	298,278	243,547	4,605,156
Home Loans				
Gross carrying amount as at 1 January 2019	1,964,414	38,043	43,739	2,046,196
Transfer to/(from):				
Stage 1	(12,997)	11,236	1,631	(130)
Stage 2	3,337	(4,198)	883	22
Stage 3	274	1,182	(1,577)	(121)
New financial assets originated *	367,436	2,252	-	369,688
Financial assets that have been derecognised	(146,075)	(2,928)	(3,965)	(152,968)
Write-offs	-	-	(46)	(46)
Other changes in carrying amount	(86,420)	(1,862)	-	(88,282)
Home loans gross carrying amount as at 31 December 2019	2,089,969	43,725	40,665	2,174,359
Personal				
Gross carrying amount as at 1 January 2019	147,946	5,554	5,562	159,062
Transfer to/(from):				
Stage 1	(1,492)	990	295	(207)
Stage 2	125	(314)	109	(80)
Stage 3	73	200	(301)	(28)
New financial assets originated *	46,924	605	1,012	48,541
Financial assets that have been derecognised	(20,333)	(643)	(655)	(21,631)
Write-offs	-	-	(12)	(12)
Other changes in carrying amount	(14,688)	(348)	(112)	(15,148)
Personal gross carrying amount as at 31 December 2019	158,555	6,044	5,898	170,497

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.2 Contributors to changes in provision (continued)

	Stage 1 12-month ECL €000	Stage 2 Lifetime ECL €000	Stage 3 Lifetime ECL €000	Total €000
Credit cards				
Gross carrying amount as at 1 January 2019	43,553	8,806	721	53,080
Transfer to/(from):				
Stage 1	(4,569)	5,136	352	919
Stage 2	3,211	(4,444)	463	(770)
Stage 3	41	94	(160)	(25)
New financial assets originated *	1,616	224	17	1,857
Financial assets that have been derecognised	(1,612)	(519)	(110)	(2,241)
Other changes in carrying amount	1,282	525	78	1,885
Credit cards gross carrying amount as at 31 December 2019	43,522	9,822	1,361	54,705
Business				
Gross carrying amount as at 1 January 2019	1,907,418	245,875	193,525	2,346,818
Transfer to/(from):				
Stage 1	(71,812)	64,096	6,218	(1,498)
Stage 2	29,062	(38,301)	5,624	(3,615)
Stage 3	262	9,322	(13,118)	(3,534)
New financial assets originated *	183,821	50,777	16,843	251,441
Financial assets that have been derecognised	(242,422)	(23,944)	(17,301)	(283,667)
Write-offs	-	-	(2,397)	(2,397)
Other changes in carrying amount	29,622	(19,806)	(19,370)	(9,554)
Business gross carrying amount as at 31 December 2019	1,835,951	288,019	170,024	2,293,994
Total Gross carrying amount as at 31 December 2019	4,127,997	347,610	217,948	4,693,555
Less Allowances	(9,145)	(19,405)	(79,771)	(108,321)
Net Loans and Advances to customers	4,118,852	328,205	138,177	4,585,234

Gross carrying amount comprises of 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:
- In stage 2 - assets that have been originated to counterparties in stage two that are still subject to the Bank's cure/probation criteria,
- In stage 3 - include €1.7 million (2019: €15.8 million) of originated credit impaired assets which relate to new facilities granted to counterparties in default as part of existing commitments.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.3 Impairment Allowances on Total/Forborne Exposures

	The Group		The Group	
	Total	of which Forborne	Total	of which Forborne
	2020	2020	2019	2019
	€000	€000	€000	€000
Performing				
Stage 1	17,362	-	9,145	-
Stage 2	30,558	1,716	19,405	1,962
	47,920	1,716	28,550	1,962
Non-performing				
Stage 3	118,755	29,364	79,771	34,963
Total Impairment Allowances	166,675	31,080	108,321	36,925

The movement in allowance accounts for loans and advances to customers are as follows:

	The Group	
	Allowances	Allowances
	2020	2019
	€000	€000
Change in allowances for uncollectability:		
At 1 January	108,321	107,063
Additions	92,545	44,356
Reversals	(34,191)	(43,098)
At 31 December	166,675	108,321

Interest income recognised during the year ended 31 December 2020 in respect of forborne assets amounted to €6.5 million (2019: €6.3 million).

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 The expected credit loss provision and write-offs of exposures (continued)

39.2.2.4 Write-off policy

Loans and debt securities are written off in full when there is no realistic prospect of recovery. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could be subject to enforcement activities on order to comply with the Group's procedures for recovery of amounts due.

39.2.2.5 Contractual amounts outstanding on assets that were written off

The contractual amount outstanding on financial assets that were written off during the year ended 31 December 2020 and that are still subject to enforcement activity is €4.3million (2019: €2.5million).

39.2.3 Modification of financial assets' terms

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in note 1.4.2.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting data based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

For financial assets modified as part of the Group's policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 39.2.1.1.2). A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer considered to be credit-impaired in default or a period of 3 months before the exposure's PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

During the current financial year there were no significant modification of financial assets.

39.2.4 Equity instruments designated as at FVOCI

The fair value of equity instruments designated at FVOCI and the dividend income recognised is detailed below.

	Fair value 2020 €000	Dividend income recognised 2020 €000	Fair value 2019 €000	Dividend income recognised 2019 €000
Local Other	20,090	128	22,073	515
Local Banks	106	-	130	3
Local Public	1,587	62	1,587	62
	21,783	190	23,790	580

During financial year ending 2020 a number of equity instruments were sold in line with the Bank's risk appetite strategy. The fair value of these equity instruments upon disposal was €0.6 million. Transfers of cumulative gains within equity amounted to €0.2 million. There were no sales in previous year.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Group monitors and manages this risk by maintaining sufficient cash and, where possible, financial assets for which there is a liquid market and that are readily saleable to meet liquidity needs. The Group is exposed to daily calls on its available cash resources from overnight deposits, current and call deposits, maturing term deposits, loan drawdowns, guarantees and from margin and other calls on cash-settled derivatives. In order to ensure that maturing funds are always available to meet expected demand for cash, the Board sets parameters within which maturities of assets and liabilities may be mismatched. Unmatched positions potentially enhance profitability, but also increase the risk of losses. In addition, the Group manages its risk to a shortage of funds by monitoring forecast and actual cashflows, by monitoring the availability of raising funds to meet commitments associated with financial instruments and by holding financial assets which are expected to generate cash inflows that will be available to meet cash outflows on liabilities.

The table below analyses Group financial liabilities into relevant maturity groupings, based on the remaining period at the reporting date to the contractual maturity date. The balances in this table will not agree directly to the balances in the statement of financial position as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments. Furthermore, loan commitments do not meet the criteria for recognition in the statement of financial position.

Financial liabilities at fair value through profit or loss and derivatives designated for hedge accounting, disclosed below, represent amounts for which net cash flows are exchanged.

The Group

At 31 December 2020	Due within 3 months €000	Due between 3 and 12 months €000	Due between 1 and 5 years €000	Due after 5 years €000	Gross Nominal outflow €000	Carrying amount €000
Financial liabilities at fair value through profit or loss	506	2,410	8,062	3,198	14,176	12,391
Amounts owed to banks	88,056	8	-	-	88,064	88,031
Amounts owed to customers	10,089,314	817,723	374,582	5,438	11,287,057	11,272,289
Subordinated liabilities	1,953	3,828	22,623	191,619	220,023	163,237
Derivatives designated for hedge accounting	128	2,325	10,979	2,652	16,084	16,015
Other financial liabilities	172,124	82,063	12,374	15,828	282,389	281,683
	10,352,081	908,357	428,620	218,735	11,907,793	11,833,646
Loan commitments	1,782,528					
At 31 December 2019						
Financial liabilities at fair value through profit or loss	633	2,841	9,823	5,565	18,862	10,907
Amounts owed to banks	66,209	-	-	-	66,209	66,047
Amounts owed to customers	9,331,012	869,378	447,024	4,574	10,651,988	10,629,719
Subordinated liabilities	73,633	3,828	22,623	197,275	297,359	234,230
Derivatives designated for hedge accounting	288	1,666	8,934	3,997	14,885	13,963
Other financial liabilities	180,889	102,099	13,751	15,817	312,556	313,438
	9,652,664	979,812	502,155	227,228	11,361,859	11,268,304
Loan commitments	1,768,695					

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

Assets available to meet these liabilities, and to cover outstanding commitments, include balances with Central Bank of Malta, treasury bills and cash, cheques in course of collection, loans to banks and to customers and marketable securities and undrawn credit lines.

The table below analyses the assets and liabilities that are recognised in the statement of financial position into relevant maturity groupings, based on the remaining period at the reporting date to their contractual maturity date.

The Group

	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
At 31 December 2020						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,605,436	122,689	-	-	70,324	3,798,449
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	8,222	1,174	34	-	9,430
- Equity and other non-fixed income instruments	-	-	-	-	31,369	31,369
- Loans and advances	-	-	4,582	121,103	-	125,685
- Derivative financial instruments	2,016	-	-	-	-	2,016
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	18,077	17,167	89,035	-	124,279
- Amortised cost	118,118	328,806	1,675,927	1,010,499	-	3,133,350
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	21,783	21,783
Loans and advances to banks	479,409	-	-	-	-	479,409
Loans and advances to customers	466,240	43,799	391,119	3,840,285	-	4,741,443
Investments in equity-accounted investees	-	-	-	-	111,999	111,999
Other assets	-	-	-	-	331,559	331,559
	4,671,219	521,593	2,089,969	5,060,956	567,034	12,910,771
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	4,024	250	790	7,327	-	12,391
Amounts owed to banks	88,023	8	-	-	-	88,031
Amounts owed to customers	10,087,441	811,585	368,140	5,123	-	11,272,289
Other liabilities	-	-	-	-	281,683	281,683
Derivatives held for hedging accounting	-	-	-	16,015	-	16,015
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,077,125	1,077,125
	10,179,488	811,843	368,930	191,702	1,358,808	12,910,771

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Group

	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
At 31 December 2019						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,539,435	32,018	-	-	98,127	3,669,580
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	23,118	9,845	98	-	33,061
- Equity and other non-fixed income instruments	-	-	-	-	31,381	31,381
- Loans and advances	-	385	7,048	131,989	-	139,422
- Derivative financial instruments	1,252	23	-	-	-	1,275
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	5,712	44,003	94,296	-	144,011
- Amortised cost	202,294	478,460	1,466,196	756,409	-	2,903,359
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	23,790	23,790
Loans and advances to banks	501,686	-	-	-	-	501,686
Loans and advances to customers	504,181	25,375	344,431	3,571,825	-	4,445,812
Investments in equity-accounted investees	-	-	-	-	101,479	101,479
Other assets	-	-	-	-	335,753	335,753
	4,748,848	565,091	1,871,523	4,554,617	590,530	12,330,609
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	3,045	154	1,274	6,434	-	10,907
Amounts owed to banks	66,047	-	-	-	-	66,047
Amounts owed to customers	9,328,539	860,065	436,806	4,309	-	10,629,719
Other liabilities	-	-	-	-	313,438	313,438
Derivatives held for hedging accounting	180	-	-	13,783	-	13,963
Subordinated liabilities	70,993	-	-	163,237	-	234,230
Equity holders of the Bank	-	-	-	-	1,062,305	1,062,305
	9,468,804	860,219	438,080	187,763	1,375,743	12,330,609

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 31 December 2020	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,605,436	122,689	-	-	70,324	3,798,449
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	8,222	1,174	34	-	9,430
- Equity and other non-fixed income instruments	-	-	-	-	31,209	31,209
- Loans and advances	-	-	4,582	121,103	-	125,685
- Derivative financial instruments	2,016	-	-	-	-	2,016
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	18,077	17,167	89,035	-	124,279
- Amortised cost	118,118	328,806	1,675,927	1,010,499	-	3,133,350
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	21,783	21,783
Loans and advances to banks	479,409	-	-	-	-	479,409
Loans and advances to customers	466,240	43,799	391,119	3,840,285	-	4,741,443
Investments in equity-accounted investees and subsidiaries	-	-	-	-	59,100	59,100
Other assets	-	-	-	-	329,513	329,513
	4,671,219	521,593	2,089,969	5,060,956	511,929	12,855,666
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	4,024	250	790	7,327	-	12,391
Amounts owed to banks	88,023	8	-	-	-	88,031
Amounts owed to customers	10,092,844	811,585	368,140	5,123	-	11,277,692
Other liabilities	-	-	-	-	280,462	280,462
Derivatives held for hedge accounting	-	-	-	16,015	-	16,015
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,017,838	1,017,838
	10,184,891	811,843	368,930	191,702	1,298,300	12,855,666

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 31 December 2019	Less than 3 months €000	Between 3 months and 1 year €000	Between 1 and 5 years €000	More than 5 years €000	Other €000	Carrying Amount €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,539,435	32,018	-	-	98,127	3,669,580
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	23,118	9,845	98	-	33,061
- Equity and other non-fixed income instruments	-	-	-	-	31,221	31,221
- Loans and advances	-	385	7,048	131,989	-	139,422
- Derivative financial instruments	1,252	23	-	-	-	1,275
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	5,712	44,003	94,296	-	144,011
- Amortised cost	202,294	478,460	1,466,196	756,409	-	2,903,359
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	23,790	23,790
Loans and advances to banks	501,686	-	-	-	-	501,686
Loans and advances to customers	504,181	25,375	344,431	3,571,825	-	4,445,812
Investments in equity-accounted investees and subsidiaries	-	-	-	-	59,100	59,100
Other assets	-	-	-	-	332,970	332,970
	4,748,848	565,091	1,871,523	4,554,617	545,208	12,285,287
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	3,045	154	1,274	6,434	-	10,907
Amounts owed to banks	66,047	-	-	-	-	66,047
Amounts owed to customers	9,331,080	860,065	436,806	4,309	-	10,632,260
Other liabilities	-	-	-	-	312,726	312,726
Derivatives designated for hedge accounting	180	-	-	13,783	-	13,963
Subordinated liabilities	70,993	-	-	163,237	-	234,230
Equity holders of the Bank	-	-	-	-	1,015,154	1,015,154
	9,471,345	860,219	438,080	187,763	1,327,880	12,285,287

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The ratio of net liquid assets to deposits from customers and short-term funding is used by the Group for managing liquidity risk. For this purpose, 'net liquid assets' includes cash and cash equivalents and high quality liquid assets for which there is an active and liquid market. 'Deposits from customers and short-term funding' includes deposits from banks, customers, debt securities issued, other borrowings and commitments due within 30 days from reference date. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows.

	2020	2019
At 31 December	46.59%	45.33%
Average for the period	46.84%	44.55%
Maximum for the period	48.23%	45.96%
Minimum for the period	45.74%	41.26%

Banking Rule 07 transposing the provisions of the EBA Guidelines on Disclosures of Encumbered and Unencumbered Assets (EBA/GL/2014/03) requires disclosure on asset encumbrance. The Group is in compliance with the contents thereof.

This disclosure provides details of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is considered as encumbered when it has been pledged as collateral against an existing liability, and as a result is no longer available to the Group to secure funding, satisfy collateral needs or be sold to reduce the funding requirement.

This disclosure is limited to assets available for central bank refinancing and securities that are transferable and is not designed to identify assets which would be available to meet the claims of creditors or to predict assets that would be available to creditors in the event of a resolution or bankruptcy.

Asset Encumbrance

	Carrying amount of encumbered assets €000	Fair value of encumbered assets €000	Carrying amount of unencumbered assets €000	Fair value of unencumbered assets €000
The Group				
As at 31 December 2020				
Equity instruments	-	-	53,152	53,152
Debt securities	405,447	419,854	3,019,830	3,075,847
Loans and advances	60,055	-	8,856,388	-
Other assets	-	-	515,899	-
	465,502	419,854	12,445,269	3,128,999
The Group				
As at 31 December 2019				
Equity instruments	-	-	55,171	55,171
Debt securities	448,038	460,967	2,729,446	2,761,712
Loans and advances	7,517	-	8,553,802	-
Other assets	-	-	536,635	-
	455,555	460,967	11,875,054	2,816,883
The Bank				
As at 31 December 2020				
Equity instruments	-	-	52,992	52,992
Debt securities	405,447	419,854	3,019,830	3,075,847
Loans and advances	60,055	-	8,856,388	-
Other assets	-	-	460,954	-
	465,502	419,854	12,390,164	3,128,839
The Bank				
As at 31 December 2019				
Equity instruments	-	-	55,011	55,011
Debt securities	448,038	460,967	2,729,446	2,761,712
Loans and advances	7,517	-	8,553,802	-
Other assets	-	-	491,473	-
	455,555	460,967	11,829,732	2,816,723

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

Asset Encumbrance (continued)

The Group does not encumber any of the collateral received or any of its debt securities issued.

For the financial years ended 31 December 2020 and 31 December 2019, the Bank has an outstanding liability with regards to significant claims associated with encumbered assets.
The Group and the Bank undertake the following:

i. Pledging of debt securities against the provision of credit lines by the Central Bank of Malta;
ii. Pledging of debt securities in favour of the Depositor Compensation Scheme.
iii. Pledging of assets in favour of the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deilumar Trust. This amount does not necessarily reflect BOV's potential financial exposure.

39.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk. It arises in all areas of the Group's activities and is managed by a variety of different techniques as detailed below.

The objective of the Group is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile consistent with the Bank's status as a leading Bank in providing financial products and services.

The market risk appetite is articulated in the Treasury Management Policy. It is defined as the quantum and composition of market risk that the Bank is currently exposed to and the direction in which the Bank desires to manage this risk. Market risk is managed through limits set in the Treasury Management Policy. The Policy is reviewed by Treasury department in co-ordination with Risk Management department and is approved by the Asset and Liability Management Committee (ALCO) and the Board of Directors.

39.4.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument would fluctuate because of changes in market interest rates.

The Group is exposed to fair value interest rate risk arising from financial assets and liabilities with fixed interest rates and to cash flow interest rate risk arising from financial assets and liabilities with floating interest rates. The Group is not directly exposed to interest rate risk on investment in equity instruments. The Group uses interest rate swaps to hedge the interest rate risk of certain financial instruments.

The analysis of interest rate risk has evolved from assessing the sensitivity of the treasury portfolio, using a modified duration method, to a more comprehensive methodology. The latter approach covers all interest sensitive assets and liabilities, as well as off-balance sheet items; this effectively widens the analysis and enables the stressing of various movements in the yield curve. The tables below depict the movement of stressed yield curves and the changes in the Report Equity and Net Interest Income to such movement. For further information related to the measurement of interest rate risk can be found in the Pillar 3 Disclosures Report.

	Basis points	Direction
Parallel Shock Up	200	Up
Parallel Shock Down	200	Down
Short Rates Up	250	Up
Short Rates Down	250	Down
Steepener	250	Short Rates Down
	100	Long Rates Up
Flattener	250	Short Rates Up
	100	Long Rates Down

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

	Parallel Shock Up € millions	Parallel Shock Down € millions	Short Rates up € millions	Short Rates Down € millions	Steepener € millions	Flattener € millions
Sensitivity of reported equity to interest rate movements						
2020						
At 31 December	(9)	14	8	5	(30)	11
Average for the period	11	20	63	14	(28)	52
Maximum for the period	54	32	113	20	(17)	83
Minimum for the period	(28)	13	8	5	(39)	11
2019						
At 31 December	22	23	37	-	(36)	33
Average for the period	50	2	42	(9)	(27)	28
Maximum for the period	83	23	54	-	(13)	35
Minimum for the period	22	(11)	37	(17)	(36)	14

	Parallel Shock Up € millions	Parallel Shock Down € millions
Sensitivity of projected net interest income to interest rate movements		
2020		
At 31 December	24	(64)
Average for the period	4	(67)
Maximum for the period	24	(56)
Minimum for the period	(25)	(77)
2019		
At 31 December	(29)	(63)
Average for the period	(17)	(64)
Maximum for the period	(4)	(63)
Minimum for the period	(29)	(66)

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.

As a result of the limited exposure to IBOR related financial instruments, the Bank does not expect the impact to be significant.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

(iv) Interest rate repricing gap

The table below summarises the Group's exposure to interest rate risk. Included in the table are Group assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

The Group's assets and liabilities are set to reprice as follows:

	Up to 1 Month €000	3 months or less but over 1 month €000	1 year or less but over 3 months €000	Over 1 year €000	Others €000	Total €000
Assets						
Balances with Central Bank of Malta, treasury bills and cash	3,572,421	33,027	122,678	-	70,323	**3,798,449**
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	8,222	1,208	-	**9,430**
- Equity and other non-fixed income instruments	-	-	-	-	31,369	**31,369**
- Loans and advances	125,685	-	-	-	-	**125,685**
- Derivative financial instruments	-	-	-	-	2,016	**2,016**
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	-	18,074	106,205	-	**124,279**
- Amortised cost	222,720	443,656	185,119	2,281,855	-	**3,133,350**
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	21,783	**21,783**
Loans and advances to banks	151,179	8,151	-	-	320,079	**479,409**
Loans and advances to customers	3,415,234	618,746	332,773	374,690	-	**4,741,443**
Investments in equity-accounted investees	-	-	-	-	111,999	**111,999**
Other assets	-	-	-	-	331,559	**331,559**
Total 2020	**7,487,239**	**1,103,580**	**666,866**	**2,763,958**	**889,128**	**12,910,771**
Total 2019	7,728,712	747,246	348,354	2,569,921	936,376	**12,330,609**
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	1,348	1,800	5,381	-	3,862	**12,391**
Amounts owed to banks	28,542	15,312	-	-	44,177	**88,031**
Amounts owed to customers	9,854,463	222,609	797,676	349,189	48,352	**11,272,289**
Other liabilities	-	-	-	-	281,683	**281,683**
Derivatives held for hedge accounting	-	-	16,015	-	-	**16,015**
Subordinated liabilities	-	-	-	163,237	-	**163,237**
Equity holders of the Bank	-	-	-	-	1,077,125	**1,077,125**
Total 2020	**9,884,353**	**239,721**	**819,072**	**512,426**	**1,455,199**	**12,910,771**
Total 2019	9,132,721	292,791	868,971	582,236	1,453,890	**12,330,609**
Interest rate swaps - 2020	**(25,370)**	**(54,646)**	**(75,784)**	**155,799**	**-**	
Interest rate swaps - 2019	29,786	62,874	90,723	(183,383)	-	
Gap - 2020	**(2,422,484)**	**809,213**	**(227,990)**	**2,407,331**	**-**	
Gap - 2019	(1,374,223)	517,329	(429,894)	1,804,302	-	
Cumulative Gap - 2020	**(2,422,484)**	**(1,613,271)**	**(1,841,261)**	**566,070**	**-**	
Cumulative Gap - 2019	(1,374,223)	(856,894)	(1,286,788)	517,514	-	

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Board of Directors sets limits on the level of exposure by currency and in total, which levels are monitored daily.

The following table summarises the Group's exposure to foreign currency exchange rate risk at the reporting date. Included in the table are the Group's assets and liabilities at carrying amounts, analysed into relevant currency groupings.

The Group 31 December 2020	EUR €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta treasury bills and cash	3,793,454	1,642	2,127	264	962	3,798,449
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments income instruments	9,430	-	-	-	-	9,430
- Equity and other non-fixed income instruments	16,260	15,108	-	-	-	31,368
- Loans and advances	125,686	-	-	-	-	125,686
- Derivative financial instruments	2,016	-	-	-	-	2,016
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	52,164	72,115	-	-	-	124,279
- Amortised Cost	2,705,706	183,216	125,171	114,258	4,999	3,133,350
- Equity and other non-fixed income instruments						
- measured at FVOCI	21,783	-	-	-	-	21,783
Loans and advances to banks	114,631	92,724	87,325	4,579	180,150	479,409
Loans and advances to customers	4,708,248	15,758	17,255	-	182	4,741,443
Other assets	443,999	(641)	177	-	23	443,558
	11,993,377	379,922	232,055	119,101	186,316	12,910,771
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	12,390	(86)	64	23	-	12,391
Amounts owed to banks	23,377	47,597	6,402	53	10,602	88,031
Amounts owed to customers	10,492,104	321,321	235,955	50,854	172,055	11,272,289
Other liabilities	165,952	(4,339)	3,391	445	2,354	167,803
Provision	113,880	-	-	-	-	113,880
Derivatives held for hedge accounting	-	16,015	-	-	-	16,015
Subordinated liabilities	163,237	-	-	-	-	163,237
Equity	1,075,856	27,913	14	-	(26,658)	1,077,125
	12,046,796	408,421	245,826	51,375	158,353	12,910,771
Net on balance sheet financial position		(28,499)	(13,771)	67,726	27,963	
Notional amount of derivative instruments		48,878	22,615	(68,183)	(154)	
Net open position		20,379	8,844	(457)	27,809	

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk (continued)

The Group 31 December 2019	EUR €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta treasury bills and cash	3,666,110	1,065	1,770	74	561	3,669,580
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	32,999	50	12	-	-	33,061
- Equity and other non-fixed income instruments	21,431	9,950	-	-	-	31,381
Loans and advances	139,422	-	-	-	-	139,422
- Derivative financial instruments	751	374	150	-	-	1,275
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	64,473	79,539	-	-	-	144,012
- Amortised cost	2,300,934	302,034	142,152	145,299	12,939	2,903,358
- Equity and other non-fixed income instruments						
- FVOCI	23,790	-	-	-	-	23,790
Loans and advances to banks	194,550	121,361	82,556	7,188	96,031	501,686
Loans and advances to customers	4,401,082	26,329	17,415	-	986	4,445,812
Other assets	437,706	(733)	250	-	9	437,232
	11,283,248	539,969	244,305	152,561	110,526	12,330,609
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	10,266	214	362	23	42	10,907
Amounts owed to banks	31,496	29,572	2,994	115	1,870	66,047
Amounts owed to customers	9,725,248	508,160	238,921	53,802	103,588	10,629,719
Other liabilities	194,814	(2,733)	1,880	166	1,202	195,329
Provision	118,109	-	-	-	-	118,109
Derivatives held for hedge accounting	181	13,782	-	-	-	13,963
Subordinated liabilities	234,230	-	-	-	-	234,230
Equity	1,060,993	27,186	14	-	(25,888)	1,062,305
	11,375,337	576,181	244,171	54,106	80,814	12,330,609
Net on balance sheet financial position		(36,212)	134	98,455	29,712	
Notional amount of derivative instruments		7,562	(1,336)	(99,003)	(3,473)	
Net open position		(28,650)	(1,202)	(548)	26,239	

Currency risk, commonly referred to as exchange-rate risk, arises from the change in price of one currency in relation to another where a possibility of losing money due to unfavourable moves in exchange rates can arise. The following table shows how a 1% change in the exchange rate of the Group's main three foreign currencies would impact the institution. The sensitivity analysis performed shows that the impact on the balance sheet is minimal. No other currency other than the domestic currency, exceeded the 5% aggregate amount of liabilities, thus only the euro-denominated currency is considered significant. In fact, 94.4% of total liabilities are euro-denominated and in principle, BOV does not finance its assets in a currency different from that in which the assets are denominated.

Currency Risk Sensitivity Analysis impact on Net Open position

	USD €000	GBP €000	AUD €000	Total €000
+1% change in foreign exchange	(202)	(87)	5	(284)
-1% change in foreign exchange	206	89	(5)	290

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group is exposed to equity price risks arising from the holding of equity instruments classified either as FVOCI or at fair value through profit or loss.

The carrying amounts of financial instruments at the reporting date which could potentially subject the Group to equity price risk are disclosed in the notes to the financial statements.

This risk is monitored and managed by the Risk management function of the Bank, as disclosed in more detail above.

39.5 Transferred financial assets that are not derecognised in their entirety

	The Group and the Bank	
	2020	2019
	€000	€000
Debt securities classified as		
- amortised cost	43,839	27,707
Amounts owed to banks	43,839	27,707

These transactions are covered by the TBMA/ISMA Global Repurchase Master Agreement ("the Agreement") and involve the sale of financial assets with a simultaneous agreement to repurchase them at a pre-determined price at a future date. The securities sold comprise investment securities. The counterparty's liability is included in amounts owed to banks. The Group and the Bank continue to recognise the transferred assets since all the risks and rewards of the assets will be substantially retained in a manner that does not result in the transferred assets being derecognised for accounting purposes.

Each party to a transaction is subject to the events of default listed in the Agreement. In the event that any of the events of default is/are triggered, transactions are immediately terminated. Consequently, performance of the respective obligations of the parties with respect to the delivery of securities, the payment of the repurchase prices for any equivalent securities and the repayment of any cash margin shall become due and payable.

39.6 Fair value of financial instruments

The Group's accounting policy for determining the fair value of financial instruments is described in note 1.3, 1.21 and 1.26 to these Financial Statements.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 inputs are unobservable inputs for the asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group and the Bank determine when transfers are deemed to have occurred between Levels in the hierarchy at the end of each reporting period.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Bases of valuing financial assets and liabilities measured at fair value

	Fair value measurement			
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
The Group				
At 31 December 2020				
Assets				
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	156,269	82,342	314,562
Liabilities				
Financial liabilities at fair value through profit or loss	-	12,391	-	12,391
Derivatives designated for hedge accounting	-	16,015	-	16,015
	-	28,406	-	28,406
The Group				
At 31 December 2019				
Assets				
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	159,939	95,675	372,940
Liabilities				
Financial liabilities at fair value through profit or loss	-	10,907	-	10,907
Derivatives designated for hedge accounting	-	13,963	-	13,963
	-	24,870	-	24,870

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Control Framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk taker and that they are appropriately performed and reviewed by competent personnel. To this end, the determination of fair values is a process which is performed by Financial Markets and Investments and reviewed by Finance. Finance establishes the accounting policies and, in conjunction with Financial Markets and Investments, it establishes the procedures governing valuation, and is responsible for ensuring that they comply with all relevant accounting standards. The valuation techniques and procedures applied are subject to a process of due diligence, which process was duly approved by the Board and the Audit Committee and documented accordingly.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to valuation techniques, independent price determination or validation is utilised, to the extent practicable. In inactive markets, direct observation of a traded price may not be possible. In these circumstances, the Bank sources alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors which are mainly considered are the following:

- the extent to which prices may be expected to represent genuine traded or tradable prices;
- the degree of similarity between financial instruments;
- the degree of consistency between different sources;
- the process followed by the pricing provider to derive the data;
- the elapsed time between the date to which the market data relates and the end of the reporting period; and
- the manner in which the data was sourced.

In determining the fair values for financial instruments measured at fair value the credit risk adjustment for the counterparty, the Bank or both, as the case may be, is deemed to be immaterial and hence no adjustment to the fair value of financial instruments at fair value through profit or loss was effected.

The Group calculates the credit risk adjustment by applying the probability of default of the counterparty to the expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. The calculation is performed over the life of the potential exposure.

Financial instruments at fair value through profit or loss and financial assets which are held for investment purposes as FVOCI are carried at their fair value.

The Treasury Bills captioned with Balances with Central Bank of Malta and cash are held as FVOCI.

Financial instruments not measured at fair value:

(i) Investments - Debt and other fixed income instruments held to collect
This category of asset is carried at amortised cost. Their fair value is disclosed separately in the respective note to the financial statements.

(ii) 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 re-priced to take into account changes in both benchmark rate and credit spreads. Their fair value measurement is a Level 2 input.

(iii) Loans and advances to banks, 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.

(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) Subordinated liabilities
These liabilities are carried at amortised cost. Their fair value is disclosed separately in the respective notes to the financial statements.

(vi) 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.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

Bases of valuing financial assets and liabilities not measured at fair value

The following table provides 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
2020					
Financial assets					
Investments					
Debt and other fixed income instruments					
-Amortised	2,865,094	342,845	-	3,207,939	3,133,350
Financial liabilities					
Subordinated liabilities	163,251	-	-	163,251	163,237
	163,251	-	-	163,251	163,237
2019					
Financial assets					
Investments					
Debt and other fixed income instruments					
-Amortised	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 reconciliation of Level 3 fair value measurements of financial instruments is disclosed below:

	2020		2019	
	FVTPL	FVOCI	FVTPL	FVOCI
	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000
Opening balance	16,136	79,539	9,974	72,904
Total gains or losses				
- in profit or loss	(4,445)	-	6,097	-
- in other comprehensive income	-	(7,424)	-	6,635
Purchases	29	-	333	-
Sales	(1,493)	-	(268)	-
Closing balance	10,227	72,115	16,136	79,539

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.6 Fair value of financial instruments (continued)

The instruments classified within Level 3 comprise:
- an externally managed fund: the Bank has determined that the reported net asset value of the fund represents its fair value at the end of the reporting period;
- shares in a global payments technology company; the shares held in the technology company are valued using the intrinsic value of the conversion shares less a discount for liquidity and litigation risk; and
- debt placed with the institutional investors: the Bank values its holding in the bond on the basis of MGS yields to maturity on the premises that the bond is guaranteed by the Government of Malta. A haircut is also included in the pricing of the bond to factor in differences between the bond and the MGSs used as a comparable in relation to the price of other risks, including illiquidity premium, guarantee enforcement risk, currency risk and make whole call prepayment risk,

Unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at 31 December 2020 and 2019 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instruments	Fair value as at 31 Dec 2020 €000	Valuation technique	Significant unobservable input		Fair value measurement sensitivity to unobservable input
FVTPL Equity (unlisted fund)	5,341 (2019: 6,770)	Based on reported NAV	Reported share of assts representing the fair value at year-end		Significant increase in NAV would result in a higher fair value.
FVTPL Equity	4,886 (2019: 9,366)	Price-based adjusted with a discount	Discount for liquidity and litigation risk	50% (2019: 50%)	Significant increase in discount would result in a lower fair value.
FVOCI Debt	72,115 (2019: 79,539)	Price-based adjusted with a haircut	Haircut representative of the related risks	6% (2019: 3%)	Significant increase in haircut would result in a lower fair value.

39.7 Capital risk management

The Group's capital management approach ensures a sufficient level of capitalisation to manage the risk exposures whilst supporting business growth and providing adequate returns to the shareholders. Risk capital management does not in any way substitute risk mitigation measures. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Group's capital resources.

On 1 January 2014 the Capital Requirements Directive (CRD) and the Capital Requirements Regulations (CRR) came into effect, constituting the European implementation of the Basel capital and liquidity agreement of 2010. The Group has made the necessary changes in order to ensure that it is compliant with the Pillar I capital requirements set by the CRR. Other material risks are also allocated capital as part of the Internal Capital Adequacy Process (ICAAP) embedded in the Pillar II process. This process helps to measure with greater risk sensitivity the amount of regulatory capital which the Group requires to cover risks assumed in the course of its business, including risks not covered in Pillar I. The Board submitted the latest ICAAP capital document to the JST in April 2020.

Capital management is under the direct control of the Asset and Liability Committee (ALCO). During the financial period, ALCO has monitored the adequacy of the Group's capital and gave strategic direction on the most efficient use of capital.

During the period under review and during the comparative period, there were no reported breaches in respect of the externally imposed capital requirements. The Group uses the Standardised Approach for credit risk, the Basic Indicator Approach for operational risk and the Base Method with respect to the Group's foreign exchange risk in line with CRR requirements.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.7 Capital risk management (continued)

The following table shows the components and basis of calculation of the Group's and the Bank's own funds.

	The Group €000	The Bank €000
Own funds		
Tier 1		
-Paid up capital instruments	583,849	583,849
-Share premium	49,277	49,277
-Retained earnings*	311,564	315,237
-Accumulated other comprehensive income	11,231	11,119
-Other reserves	44,246	44,246
-Funds for general banking risk	4,109	4,109
-Deductions:		
Prudential Valuation fair valued assets and liabilities	(613)	(560)
Other intangible assets	(23,152)	(23,152)
Depositor Compensation Scheme Reserve	(42,350)	(42,350)
Total Tier 1 Capital	938,161	941,775

*Retained earnings include current period's profit which is subject to regulatory approval.

	The Group €000	The Bank €000
Tier 2		
-Capital instruments and subordinated loans	163,237	163,237
Total Tier 2 Capital	163,237	163,237
Total Own Funds	1,101,398	1,105,012

Further information on the Group's capital adequacy ratios may be found in the Pillar 3 Disclosures Report – section 4.2, table CC1. The report will be available on the Bank's website.

Notes to the financial statements 31 December 2020 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.8 Offsetting financial assets and financial liabilities

The derivative financial assets with a positive carrying amount and the derivative financial liabilities with a negative carrying amount do not meet the offsetting criteria in IAS 32 and hence they are presented separately in the Statement of Financial Position. These instruments are subject to the ISDA Master Agreement. The ISDA Master Agreement provides, amongst others, for the netting of termination values for purposes of determining a single lump-sum termination amount upon the insolvency of a counterparty. By virtue of the Set-off and Netting on Insolvency Act, 2003 (Chapter 459, Laws of Malta), the close-out netting provisions contained in the ISDA Master Agreement are valid and enforceable under Maltese law. The set-off provisions under the ISDA Master Agreement can be triggered where an event of default, credit event upon merger or any termination event has been declared.

The Bank also has in place credit support annexes "CSAs" with a number of its financial counterparties for purposes of the collateralisation of exposures between the Bank and its counterparties. The CSA is a schedule to the ISDA Master Agreement. By virtue of such CSAs, a party to a derivative that has an exposure to its counterpart, will post collateral to its counterpart to cover such exposure by way of an outright title transfer of such collateral. All CSAs that the Bank has in place are of a two-way nature.

In the case of non-financial counterparties, the Bank enters into pledging collateral arrangements with the counterparties, in favour of the Bank. Such pledging agreements are of a one-way nature, in favour of the Bank.

	The Group	
	2020	2019
	€000	€000
Derivative financial assets		
Gross amounts of recognised financial assets	4,339	3,728
Gross amounts of recognised financial liabilities set off in the statement of financial position	(2,323)	(2,453)
Net amounts of financial assets presented in the statement of financial position	2,016	1,275
Related amounts not set off in the statement of financial position:		
Financial instruments	(2,016)	(1,275)
Net amount	-	-

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Derivative financial liabilities		
Gross amounts of recognised financial liabilities	30,729	27,323
Gross amounts of recognised financial assets set off in the statement of financial position	(2,323)	(2,453)
Net amounts of financial liabilities presented in the statement of financial position	28,406	24,870
Related amounts not set off in the statement of financial position:		
Financial instruments	(2,016)	(1,275)
Financial collateral pledged	(26,390)	(23,595)
Net amount	-	-

Notes to the financial statements 31 December 2020 (continued)

40. ASSETS HELD FOR REALISATION

The assets held for realisation mainly comprise immovable properties that were held as collateral for outstanding loans, which properties were taken into the possession of the Bank following defaults by the counterparty. The Bank's policy is to dispose of such assets within a reasonable timeframe from the date of classification, unless events or circumstances which are beyond the Bank's control extend the period to complete the sale. Such assets meet the criteria for classification as non-current assets held for sale in accordance with IFRS 5.

41. TRUST ACTIVITIES

The Group acts as trustee and provides trust activities that result in the holding and placing of assets on behalf of third parties. Trust assets are not assets of the Group and therefore they are not included in its Statement of Financial Position.

Income derived from trust assets is excluded from revenue. Fees arising from the rendering of trustee services are recognised in the Group's profit or loss.

At 31 December 2020, the total assets held by the Group on behalf of its customers amounted to €90.6 million (2019: €104.9 million). Details on significant claims related to trusts are given in note 33.

42. REGULATORY COMPENSATION SCHEMES

As at 31 December 2020, no balances with Central Bank of Malta have been pledged in favour of the Depositor Compensation Scheme (refer to note 16).

In accordance with the provisions of the Investor Compensation Scheme Regulations, 2003, issued under the Investment Services Act, 1994, licence holders are required to transfer a variable contribution to an Investor Compensation Scheme Reserve and place the equivalent amount with a bank, pledged in favour of the Scheme. Alternatively, licence holders can elect to pay the amount of variable contribution directly to the Scheme.

Bank of Valletta p.l.c. has elected to pay the amount of the variable contribution directly to the Scheme.

Regulatory contributions amounting to €10.7 million (2019: €12.6 million), included with administrative expenses, reflect the Group's annual obligations arising from the recent EU Directives on Deposit Guarantee Scheme and Single Resolution Fund.

43. EVENTS SUBSEQUENT TO THE FINANCIAL REPORTING DATE

On the 25 March 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 from the Bank). Following this capital injection, the Bank continues retaining its 50% shareholding in MMSV and therefore, the Bank retains the same influence within MMSV. The capital injection of €20 million is a material related party transaction for the Bank. Audit Committee, Board approval and the necessary regulatory approval were all sought and obtained.

44. REGISTERED OFFICE

The registered and principal office of the Bank is 58, Triq San Zakkarija, Il-Belt Valletta, VLT1130, Malta.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c

1 Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Valletta p.l.c. (the "Bank" or the "Company") and of the Group of which the Company is the parent, which comprise the statements of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

(a) give a true and fair view of the financial position of the Bank and the Group as at 31 December 2020, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU; and

(b) have been properly prepared in accordance with the provisions of the Companies Act, 1995 (Chapter 386, Laws of Malta) (the "Act") and the Banking Act, 1994 (Chapter 371, Laws of Malta) (the "Banking Act") and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in accordance with the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Chapter 281, Laws of Malta), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year (selected from those communicated to the audit committee), and include a description of the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters, together with our response by way of the audit procedures we performed to address that matter in our audit, and key observations arising with respect to such risks of material misstatement.

Measurement of impairment allowances on loans and advances to customers at amortised cost, including off-balance sheet elements of those exposures and related disclosures

Accounting policy notes 1.4.3 to the financial statements and notes 8, 17, 33, 34 and 39.2 for further disclosures.

Expected credit loss allowance on 'Loans and advances to customers at amortised cost' (Bank and Group: €4.7 billion) amounted to €166.7 million. Expected credit loss provision on 'Financial guarantees contracts and loan commitments' (Bank and Group: €2.1 billion) amounted to €32.4 million.

The calculation of the expected credit loss ('ECL') involves significant judgement and estimates. Of all the Group's financial instruments, the most significant impact in terms of complexities around the measurement of the ECL and of the materiality of the resultant allowances was in relation to the loans and advances to customers' portfolio (and the related off-balance sheet elements). In that regard, our key areas of audit focus in the Group's calculation of the ECL were the following:

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Key audit matters (continued)

- Model estimations – Inherently judgmental modelling is used to estimate ECL which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposures at Default ("EAD"). In particular, the PD models are the key drivers of the Group's ECL calculation and are therefore the most significant judgmental element of the Group's ECL modelling approach.
- Economic Scenarios - Significant management judgement is applied in determining the selection of (i) forward looking macroeconomic scenarios, (ii) the associated scenario probabilities and (iii) the material economic variables which drive the scenarios and the related weightings, especially when considering the current uncertain economic environment as a result of COVID-19.
- Qualitative adjustments to the model-driven ECL raised by the Group to address known impairment model limitations or emerging trends as well as risks not captured by the model. These adjustments are inherently uncertain and significant management judgement is involved in the estimation process especially in relation to economic uncertainty as a result of COVID-19.
- Identification of a significant increase in credit risk ('SICR') is also a key area of judgement within the Group's ECL calculation, which is heightened as a result of COVID-19 as the application of the SICR criteria determines whether a twelve month or lifetime provision is recorded.
- Individually assessed stage 3 exposures may be materially misstated if individual impairments are not appropriately identified and estimated. The calculation of expected credit losses on stage 3 exposures includes a range of estimates of future cash flows and valuation of collateral, which are inherently uncertain and judgmental.

The disclosures regarding the application of IFRS 9 are key to explaining the key judgements made, as referred to in this key audit matter, and inputs used to generate the IFRS 9 ECL results.

Our response

As part of our procedures:

- We tested the design and implementation as well as the operating effectiveness of relevant manual and automated controls (that is, Information Technology based). More specifically, the following controls were covered:

  - the Group's review and approval of loan credit ratings;
  - the monitoring control performed on delinquent personal facilities maintained across the Group;
  - the Group's review control over the completeness and accuracy of loan exposures' inputs, data and assumptions keyed into the ECL model;
  - The key controls relating to selection of material macro-economic variables and control over forward looking data sources selection;
  - the Group's review control over model validation and monitoring;
  - Management's review control over ECL movements, authorization and calculation of post model adjustments and management overlays;
  - Model estimations – Inherently judgmental modelling is used to estimate ECL which involves determining Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposures at Default ("EAD"). In particular, the PD models are the key drivers of the Group's ECL calculation and are therefore the most significant judgmental element of the Group's ECL modelling approach.

Testing the design and operating effectiveness of the key controls over the application of the staging criteria.

- We involved our own financial risk modelling specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies (including the SICR criteria used). We used our experience of the Group to independently assess PD, LGD and EAD assumptions. On a sample basis, we assessed the reasonableness of the model predictions by comparing them against actual results. We made enquiries of the Group as to the reasons for any significant variations identified and assessed the reasonableness of the explanations provided, against the specialists' expectations on the direction and extent of variations identified.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Key Audit Matters (continued)

- We involved our economics specialist to assist in assessing:
  - the appropriateness of the methodology for determining the macroeconomic scenarios used and the reasonableness of the probability weightings applied to them; and
  - the key macroeconomic variables (as set out in note 39.2.1.2.5 to the financial statements) as well as the accuracy of macroeconomic data feeding the ECL model.
  - The reasonableness of the Group's considerations of the ECL impact of the economic environment due to COVID-19
- In evaluating the Group's credit grading process, we performed credit reviews on a sample of corporate exposures selected qualitatively based on risk, including a sample of stage 3 loans and advances to customers. In performing those reviews, we:
  - considered relevant internal information available used in the Group's assessment and any external data in relation to those exposures;
  - evaluated whether those exposures were graded in line with the Group's credit policy; and
  - determined whether a SICR was appropriately identified.

In addition, for the selected stage 3 corporate exposures, we independently re-performed the impairment calculation to assess the reasonableness of the Bank's related ECL.

- On a sample of loans and advances to customers, we:
  - performed testing over key data elements (EAD, PD and LGD) impacting the ECL calculations to assess the accuracy of information used; and
  - re-performed model calculations for accuracy for all stages.
- We assessed the post model adjustments with a focus mainly on COVID-19 related overlays, in order to assess the reasonableness of the adjustments by challenging key assumptions, inspecting the calculation methodology and tracing a sample of the data used back to source data.
- We assessed whether the disclosures in relation to IFRS 9 adequately explain the key judgements made and significant inputs used in the recognition of expected credit losses as at the end of the financial reporting period. In particular, we assessed the appropriateness of the sensitivity analysis disclosures.

We have no key observations to report, specific to this matter.

Recognition and measurement of provisions for litigation and claims, including related disclosures

Accounting policy notes 1.16 and 1.26.6 to the financial statements and note 33 for further disclosures.

Litigation provision of €81.5 million (2019: €102 million) shown as part of 'Provisions' on the face of 'Statements of financial position' and included within the 'Provisions and Contingencies' note, together with significant claims disclosures.

The Group is exposed to various litigation and claims, which may potentially have a material impact on the financial statements as a whole, and which are subject to varying degrees of complexity.

Significant judgement is involved in determining whether an obligation is a present obligation or a possible one. That assessment determines whether such an obligation is recognised as a provision (in the statement of financial position), or is disclosed in the notes as a contingent liability. The measurement of any such provision, which is based on the determination of the extent of the outflow of economic resources, is subject to significant estimation uncertainty.

In the event that it is not probable that an outflow of resources will be required to settle a present obligation and there is more than a remote likelihood of an adverse outcome for a possible obligation, the related contingent liability disclosure is necessary to understand the risks and potential effects on the Group's financial statements.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Key Audit Matters (continued)

Our response

As part of our procedures, we evaluated the assessment made by the Group's internal legal counsel, the Chief Executive Officer, Chief Finance Officer, Chief Risk Officer and the Chairman of the Board on the (i) status of the litigation claims as well as the (ii) action being taken by the Group in relation to those claims.

Specifically, for the significant litigation claims, we directly obtained written opinions from, and held discussions with, the Group's external legal counsel, and evaluated their views on the outcome of such claims. Additionally, we challenged the directors' best estimate of the provisions recognised by corroborating their responses directly with the Group's external legal advisors.

We assessed whether the financial statements, in relation to the significant litigation claims adequately disclose the amount of provision, the potential liabilities and the significant uncertainties that exist.

We have no key observations to report, specific to this matter.

Other information

The directors are responsible for the other information which comprises the:

- Contents and General Information;
- Board of Directors & Group Company Secretary;
- Chairman's Statement;
- Chief Executive Officer's Commentary;
- BOV Response to COVID-19;
- Executive Committee;
- Corporate Social Responsibility;
- Directors' Report;
- Corporate Governance Statement of Compliance;
- Remuneration Report;
- Nominations Report;
- The Group's five year summary; and
- Group's Financial Highlights in US dollars.

but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and, other than in the case of the Directors' report on which we report separately below in our 'Opinion on the Directors' Report', we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that (a) give a true and fair view in accordance with IFRS as adopted by the EU, and (b) are properly prepared in accordance with the provisions of the Act and the Banking Act, and, additionally, specifically in relation to those of the Group, with the requirements of Article 4 of the Regulation on the application of IFRS as adopted by the EU. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company and/or the Group or to cease operations, or have no realistic alternative but to do so.

The directors are also responsible for overseeing the financial reporting process.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Consider the extent of compliance with those laws and regulations that directly affect the financial statements, as part of our procedures on the related financial statement items. For the remaining laws and regulations, we make enquiries of directors and other management, and inspect correspondence with the regulatory authority, as well as legal correspondence. As with fraud, there remains a higher risk of non-detection of other irregularities (whether or not these relate to an area of law directly related to the financial statements), as these may likewise involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and/or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

2 Opinion on the Directors' Report

The directors are responsible for preparing a directors' report in accordance with the provisions of article 177 of the Act and other applicable legal requirements, and is to include a statement that the Company is a going concern with supporting assumptions or qualifications as necessary, as required by Listing Rule 5.62 issued by the Listing Authority in Malta.

We are required to consider whether the information given in the directors' report for the accounting period for which the financial statements are prepared is consistent with those financial statements; and, if we are of the opinion that it is not, we shall state that fact in our report. We have nothing to report in this regard.

Pursuant to article 179(3) of the Act, other than for the non-financial information that is exclusively required to be disclosed by paragraph 8 of the Sixth Schedule of the Act with respect to the Bank, and paragraph 11 of the Sixth Schedule of the Act with respect to the Group (and on which we report separately below in our 'Report on Other Legal and Regulatory Requirements'), we are also required to:

- express an opinion on whether the directors' report has been prepared in accordance with the applicable legal requirements; and
- state whether, in the light of the knowledge and understanding of the entity and its environment obtained in the course of our audit of the financial statements, we have identified material misstatements in the directors' report, giving an indication of the nature of any such misstatements.

Pursuant to Listing Rule 5.62 of the Listing Rules issued by the Listing Authority in Malta, we are required to review the directors' statement in relation to going concern.

In such regards:

- in our opinion, the directors' report has been prepared in accordance with the applicable legal requirements;
- we have not identified material misstatements in the directors' report; and
- we have nothing to report in relation to the statement on going concern.

3 Report on Other Legal and Regulatory Requirements

Matters on which we are required to report by the Act, specific to public-interest entities

Pursuant to article 179B(1) of the Act, we report as under matters not already reported upon in our 'Report on the Audit of the Financial Statements':

- we were first appointed as auditors by the shareholders on 19 June 2015, and subsequently reappointed at the Company's general meetings for each financial period thereafter. The period of total uninterrupted engagement is six years;
- our opinion on our audit of the financial statements is consistent with the additional report to the audit committee required to be issued by the Audit Regulation (as referred to in the Act); and
- we have not provided any of the prohibited services as set out in the APA.

Independent auditors' report to the Shareholders of Bank of Valletta p.l.c (continued)

Report on Other Legal and Regulatory Requirements (continued)

Matters on which we are required to report by the Act, specific to large undertakings which are public-interest entities and public-interest entities which are parent undertakings of a large group that (individually and on a consolidated basis, respectively) exceed the criterion of an average number of five hundred employees during the financial year

Pursuant to article 179(3) of the Act, we report as under matters not already reported upon in our 'Opinion on the Directors' Report:

The Directors' Report contains the information required by paragraph 8 of the Sixth Schedule, with respect to the Bank and paragraph 11 of the Sixth Schedule with respect to the Group.

Matters on which we are required to report by the Banking Act and by exception by the Act

Pursuant to article 31(3)(a), (b) and (c) of the Banking Act, in our opinion:

- we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- proper books of account have been kept by the Bank so far as appears from our examination thereof; and
- the Bank's financial statements are in agreement with the books of account.

Furthermore, we have nothing to report in respect of the above matters, where the Act requires us to report to you by exception pursuant to articles 179(10) and 179(11).

Pursuant to article 31(3)(d) of the Banking Act, in our opinion and to the best of our knowledge and belief and, on the basis of the explanations given to us, the financial statements give the information required by law in force in the manner so required.

The Principals authorised to sign on behalf of KPMG on the audit resulting in this independent auditors' report are Noel Mizzi and Michael McGarry.

Noel Mizzi
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Michael McGarry
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behalf of
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30 March 2021

The Group's five year summary - extracted from the respective audited financial statements

A. STATEMENTS OF PROFIT OR LOSS

For the financials years

The calculation of the earnings per share for all periods presented was adjusted retrospectively in view of the increase in the number of ordinary shares outstanding as a result of the bonus issue of shares.

	2020	2019	2018	2017	2016
	12 months to Dec 2020	12 months to Dec 2019	12 months to Dec 2018	15 months to Dec 2017	12 months to Sep 2016
	€000	€000	€000	€000	€000
Interest and similar income	190,282	206,963	213,896	259,194	214,258
Interest expense	(43,476)	(54,113)	(57,350)	(76,247)	(65,429)
Net interest income	146,806	152,850	156,546	182,947	148,829
Other operating income	84,809	96,436	101,220	117,526	101,756
Gain on Visa transaction	-	-	-	-	27,511
Other operating charges	(170,382)	(162,540)	(130,598)	(151,251)	(112,778)
Net impairment reversal/(loss)	(65,136)	11,562	10,816	6,227	(23,142)
Litigation provision reversal/(charge)	8,584	(25,000)	(75,000)	-	-
Share of results of equity-accounted investees	10,520	15,897	8,214	19,287	3,730
Profit before tax	15,201	89,205	71,198	174,736	145,906
Income tax expense	(1,399)	(25,713)	(19,788)	(55,238)	(50,708)
Profit for the year	13,802	63,492	51,410	119,498	95,198
Attributable to:					
Equity holders of the Bank	13,802	63,492	51,410	119,498	94,742
Non-controlling interest	-	-	-	-	456
	13,802	63,492	51,410	119,498	95,198
Earnings per share	2.4c	10.9c	8.8c	20.5c	16.2c

The Group's five year summary - extracted from the respective audited financial statements (continued)

B. STATEMENTS OF FINANCIAL POSITION

	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	3,798,449	3,669,580	3,400,588	3,066,655	1,790,079
Investments and financial assets at fair value through profit or loss	3,447,912	3,276,299	3,521,161	3,700,832	4,128,702
Loans and advances to banks	479,409	501,686	490,644	524,412	479,410
Loans and advances to customers	4,741,443	4,445,812	4,362,983	4,162,032	4,001,656
Investments in equity-accounted investees	111,999	101,479	108,510	109,461	97,041
Property and equipment and intangible assets	188,312	186,659	161,198	133,675	102,846
Current tax	26,759	15,185	7,606	12,034	16,061
Deferred tax	91,259	76,017	71,769	60,217	67,188
Assets held for realisation	9,958	10,123	4,335	5,972	11,973
Other assets	5,251	42,627	7,880	5,955	4,818
Prepayments and accrued income	10,020	5,142	10,314	39,385	23,077
Total Assets	12,910,771	12,330,609	12,146,988	11,820,630	10,722,851
LIABILITIES					
Financial liabilities at fair value through profit or loss and derivatives held for hedging	28,406	24,870	19,018	24,010	40,976
Amounts owed to banks	88,031	66,047	146,021	192,196	250,155
Amounts owed to customers	11,272,289	10,629,719	10,414,908	10,100,625	9,181,047
Debt securities in issue	-	-	40,197	95,400	95,400
Deferred tax	6,186	5,736	5,743	4,519	4,318
Other liabilities	161,016	189,109	189,109	195,751	173,988
Provisions	113,880	118,109	118,109	2,000	-
Accruals and deferred income	601	484	539	12,451	16,215
Subordinated liabilities	163,237	234,230	234,241	231,591	231,591
Total Liabilities	11,833,646	11,268,304	11,152,855	10,858,543	9,993,690
EQUITY					
Called up share capital	583,849	583,849	530,772	525,000	390,000
Share premium account	49,277	49,277	49,277	45,427	988
Revaluation reserve	55,477	54,898	50,034	33,194	35,332
Retained earnings	388,522	374,281	364,050	358,466	302,841
Total Equity	1,077,125	1,062,305	994,133	962,087	729,161
Total Liabilities and Equity	12,910,771	12,330,609	12,146,988	11,820,630	10,722,851
MEMORANDUM ITEMS					
Contingent liabilities	285,775	341,618	335,405	253,851	225,407
Commitments	1,818,970	1,828,756	1,881,392	1,858,191	1,590,156

The Group's five year summary - extracted from the respective audited financial statements (continued)

C. STATEMENTS OF CASH FLOWS

	2020 €000	2019 €000	2018 €000	2017 €000	2016 €000
Net cash from operating activities	295,040	90,157	251,776	1,020,077	768,054
Cash flows from investing activities					
Dividends received from equity shares	219	24,186	10,774	8,794	5,628
Interest received from investing securities	40,332	50,840	54,953	74,725	59,783
Acquisition of non-controlling interest	-	-	-	-	(5,000)
Proceeds from Visa transaction	-	-	-	-	22,042
Proceeds from sale of equity instruments	562	-	12,296	4,350	3,043
Net inflow/(outflow) on investment securities	(259,471)	263,225	129,240	258,283	(388,362)
Purchase of property and equipment	(15,724)	(34,996)	(26,295)	(33,341)	(8,111)
Proceeds on disposal of property and equipment	-	330	2,000	-	598
Net cash (used in)/from investing activities	(234,082)	303,585	182,968	312,811	(310,379)
Cash flows from financing activities					
Proceeds from rights issue	-	-	-	149,439	-
Interest paid on debt securities and subordinated liabilities	(6,457)	(10,050)	(13,414)	(17,875)	-
Proceeds from issue of subordinated bonds	-	-	-	-	111,591
Repayment of debt securities	(70,993)	(40,208)	(55,400)	-	-
Payment of lease liabilities	(1,704)	(1,475)	-	-	-
Dividends paid	-	-	(17,678)	(33,883)	(30,575)
Net cash (used in)/from financing activities	(79,154)	(51,733)	(86,492)	97,681	81,016
Increase in cash and cash equivalents	(18,196)	342,009	348,252	1,430,569	538,691

D. PERFORMANCE EXPRESSED IN RELATION TO AVERAGE TOTAL ASSETS AND AVERAGE CAPITAL EMPLOYED

	2020 %	2019 %	2018 %	2017 %	2016 %
Operating income to total assets	184%	203%	220%	210%	240%
Operating expenses to total assets	135%	132%	110%	110%	110%
Profit before tax to total assets	12%	72%	60%	120%	110%
Profit before tax to capital employed	142%	840%	730%	1650%	1690%
Profit attributable to equity holders to total assets	11%	51%	40%	80%	70%
Profit attributable to equity holders to capital employed	129%	598%	530%	1130%	1100%

**Ratios exclude gain on Visa transaction.*

Group Financial Highlights in US dollars 31 December 2020

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2020. The rate used was €1 = US$ 1.2278. This does not reflect the effect of the change in the rate of exchange since 31 December 2019 which was €1 = US$ 1.1153.

	2020 US$000	2019 US$000
Net income attributable to equity holders of the Bank	16,946	70,813
Net income per share	3.0c	13.0c
Total assets	15,851,843	13,752,328
Liquid funds	4,663,736	4,092,683
Investments and financial assets at fair value through profit or loss	4,233,346	3,654,056
Advances	6,410,162	5,517,945
Investments in equity-accounted investees	137,512	113,180
Share capital	716,850	651,167
Capital reserves	128,617	116,186
Retained earnings	477,027	417,436

Notes

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Bank of Valletta

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