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**BOV/438**

***COMPANY ANNOUNCEMENT***

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

**Quote**

During a meeting held on Thursday 28 July 2022, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank condensed Half Yearly Financial Statements for the six-month financial period commencing 1 January 2022 to 30 June 2022. These financial statements have been reviewed by KPMG Malta in accordance with ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Loss before tax for the six months amounts to €76.6 million (June 2021: Profit before tax of €25.9 million). This result includes €102.7 million in net settlement of the Deiulemar litigation which took place in May 2022. Excluding the impact of Deiulemar settlement, the interim results for the first six months of the year 2022 were €26.1 million profit before tax.

The Board has decided that, notwithstanding the resolution of the Deiulemar litigation and the sustained commercial performance of the Bank during the first half of 2022, no interim dividend is being declared. This decision took account of the net loss reported for the period arising from the settlement of the Deiulemar litigation, and the need to remain aligned with regulatory expectations within this context.

The Half Yearly Statements including the Interim Directors' Report for the period ended 30 June 2022, are available for view and download on the Bank's website under the Investor Relations section and are also attached herewith:

https://www.bov.com/documents/interim-results-fy2022

**Unquote**

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

28 July 2022

# Bank of Valletta p.l.c.

Half Yearly Report

1 January 2022 to 30 June 2022

BOV

Bank of Valletta

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# Chairman's Statement

**Gordon Cordina**

*"Grounds being set for a bright future for BOV"*

I am pleased to present to our shareholders the Financial Statements for the first half of 2022. The mid-year performance of the Bank was impacted by the out-of-court settlement of the Deiulemar case. Although this cost will condition the Bank's financials this year, the resolution of this case has eliminated a serious litigation risk, thereby allowing the Board to work in a more serene manner towards future dividend recommendations.

The announcement that Malta will no longer be subject to the FATF's increased monitoring process is also a positive development. This has eliminated the risk of a prolonged grey listing status, which could eventually have impacted BOV's performance and its ability to service clients effectively. The Bank will continue to collaborate fully with authorities to strengthen Malta's AML/CFT regime and its implementation, and in this manner safeguard Malta's financial sector reputation, which is key to BOV's success.

Malta's progressive economic recovery from the downturn caused by the pandemic has enabled the Bank to release all of the remaining credit risk provisions associated with COVID-19. However, this impact was outweighed by the additional credit risk provisioning which the Bank has cautiously undertaken to cater for the new risks created by the war in Ukraine. This conflict has amplified international inflationary pressures and dampened the economic growth outlook among Malta's main trading partners.

*"We are embedding Environment, Social and Governance principles in all our operations"*

The suite of real GDP growth forecasts available for Malta all suggest that the country is expected to continue growing this year, albeit at a slower pace than in pre-pandemic years. So far, the overall price shock experienced by households and business in Malta has been less severe than in other European countries. This follows the Government's decision to provide subsidies to cushion the impact such as on utility bills, fuel, and basic food items. However, should international prices remain high for a prolonged period, some adjustment may be unavoidable. This could potentially extend the period when inflation remains high in Malta and slow the country's economic growth. Throughout the pandemic, economic activity and the labour market have been extensively supported in Malta through the accumulation of public debt. However, this assistance cannot be applied indefinitely to address all types of shocks.

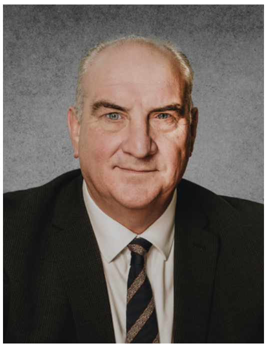
The announcement by the European Central Bank that it intends to progressively raise interest rates, is a major departure from the very accommodating monetary policy experienced over the past decade. This development offers BOV the opportunity to save the costs incurred due to the negative rates which were charged to banks when depositing excess liquidity with the central bank. BOV will be evaluating how financial and liquidity conditions evolve internationally and in Malta, to consider the appropriate interest rates on the loans and deposits offered to our clients. The objective remains that of striking the right balance among stakeholders.

The Bank has recently approved its ESG strategy, which is built on seven strategic pillars. As part of the Environment pillar, BOV will strive towards net zero emissions in its operations, and gradually shift towards greener loans and financial asset holdings. Under the Social pillar, the Bank will focus on improving financial literacy and the preservation of cultural heritage. The Governance pillar will aim towards more ethical behaviours, together with simplifying and digitising the Bank's operations.

I thank our Shareholders for their continued support, as well as the Executive Team and staff for their valuable work and commitment to support the Bank's performance and to become more customer centric. The grounds are being set for a bright future for BOV

**Gordon Cordina**
Chairman
28 July 2022

# Chief Executive Officer's Message



**Rick Hunkin**

We have seen an encouraging commercial performance in our core banking activities in the first half of the year driven by volume growth, solid customer activity and continuing strength in credit quality. Our main income lines continue to show steady growth, despite the negative interest rate impact – rising interest rates will provide some welcome relief for the Bank here. Offsetting this, we continue to face rising costs driven in particular by rising staff costs and the increasing contributions we have to make to the Depositor Compensation Scheme, which grew in line with our significant deposit growth. Rising inflation forecasts have an impact on future estimated credit losses and, therefore, although we have been releasing Covid related credit provisions, we have increased those reflecting inflationary impact on credit quality. Market volatility has also impacted BOV's associate companies with valuation adjustments hitting our profitability.

The operating profit before net litigation settlement charge, including share of results from associates, of €26.1 million, was obviously overshadowed by final settlement of the Deiulemar litigation, resulting in a net loss before tax of €76.6 million for 1H 2022 reporting period. Post-settlement, our capital position remains strong with resulting capital ratios maintained well above regulatory requirements. Settlement of this litigation also means the Bank no longer needs to hold additional capital against a potentially more adverse outcome, resulting in having more capital utilisation options available in the future.

*“Our main income lines continue to show steady growth”*

*“Our key focus remains to deliver service improvements and efficiencies”*

Throughout the first six months of 2022, our strategic priority was to balance the delivery of regulatory and compliance requirements whilst continuing to progress initiatives aimed at improving our customer service and efficiency. Our key focus remains on streamlining and simplifying processes for our clients through continued digitalisation, together with process re-engineering across customer journeys to deliver service improvements and efficiencies.

We are very conscious of the need to continually evolve for our customers and our staff, adapting to the ever-changing world and readying the bank for a more sustainable and stable outlook. The removal of the significant contingent liability associated with Deiulemar is a very positive element in this, notwithstanding its one-off impact in this period's results.

**Rick Hunkin**
Chief Executive Officer
28 July 2022

# Interim Directors' Report

For the six months ended 30 June 2022

## GROUP FINANCIAL PERFORMANCE

Bank of Valletta Group reported a loss before tax for the first half of the financial year 2022 of €76.6 million (1H 2021: Profit of €25.9 million). This result includes a negative impact of the agreement reached in settling the Deiulemar litigation in May 2022. The financial impact of this resulted in an extraordinary expenditure of €102.7 million, inclusive of legal fees, during the period (refer to the Litigation section further below).

Excluding the impact of Deiulemar settlement, the interim results for the first six months of the year 2022 were €26.1 million profit before tax. The financial performance was led by strong underlying gross profit comprised of:

- An increase of €17.5 million or 15.4% in Group's revenue over the comparable period in 2021, mainly as a result of consistent growth in lending, particularly in home loans, coupled with increased revenues from payments and cards business. Net interest income ('NII') continued to be the main revenue driver with €87.2 million (1H 2021: €73.4 million), an increase of 18.8% versus the same period in 2021. Core performance is mainly due to increased business banking income, continued growth in home loans and further benefits from actions taken to lower costs of funding and partially offset by higher costs on liquid assets. Furthermore, NII results were enhanced by a one-off alignment of effective interest rates for stepped-up type loans. Fees and Commissions, Foreign Exchange Trading and Other income revenues were at €44.1 million for the period ended 30 June 2022 (1H 2021: €40.4 million). The period-on-period increase resulted mainly from the solid growth in payment fees and increased cards commission as a result of higher turnover partially muted by weaker performance in investment services.

- Year-to-date operating costs amounting to €87.7 million (1H 2021: €81.5 million) were up by €6.2 million or 7.6% compared to the same period in 2021. In Q2 2022, the Bank incurred cost associated with external specialist support to embed ESG requirements (refer to the ESG section further below). Adjusting for this specific non-recurring item, the underlying cost growth was €4.6 million or 5.6%. Costs payable to the Depositor Compensation Scheme ('DCS') increased by €1.8 million during the first half of this year as we saw continuing growth in retail deposits. The remaining growth was mainly due to higher employee compensation reflecting requirements in areas such as risk, compliance and digital based skills.

The Net Expected Credit Losses were a €9.0 million net charge (1H 2021: €3 million net release). The Group anticipates evolving risks emanating from geo-political instability which may potentially impact the local economy and the Bank's business. Against these developments, the Group factored in expectations of higher inflation and lower GDP growth based on the published Central Bank of Malta ('CBM') forecasts in its assessment of expected credit losses which resulted in an ECL impact of €19.4 million. This, coupled with other movements stemming from changes in balances, collateral, and asset quality, gave rise to an overall net model outcome of €25.9 million charge. The Bank shall continue to monitor closely the current economic situation for the remaining year of 2022.

From the COVID-19 perspective, economic data has shown good recovery reaching an average economic activity observed in 2019 across majority of sectors with some surpassing pre-COVID-19 levels. Nearly all moratoria extended have now expired, with the vast majority of clients repaying in line with contractual plans. Business clients, with loans issued over the last two years through BOV MDB COVID-19 assist scheme, are also repaying on schedule. Based on this, coupled with the assumption that remaining risks and uncertainties were factored in the most recent CBM forecasts, a total of €24.9 million of COVID-19 overlays held against the high and medium-risk sectors was released. This amount represented all management overlays held related to COVID-19.

A further charge of €7.4 million (1H 2021: €8.3 million) was taken in respect of long-outstanding non-performing loans ('NPLs'). This is over and above the IFRS9 model charge due to the number of years in the non-performing status, low prospects of recovery and the lengthy time to sell the collateral held as security coupled with the costs to sell. These provisions would be released either on settlement or upon improvements in clients' performance. A net charge of €0.6 million as at first half of the year was reported from bad debts written off and recoveries from debts previously written off.

The pace of transformational change continued to be critically balanced with the Bank's obligation to deliver superior controls in line with regulatory requirements. To this end, strategic investments were €4.9 million versus €17.1 million in H1 2021.

The share of profit from insurance associates for the first six-month period was a loss of €3.7 million (2021: Profit of €7.6 million), resulting from a decrease in the value of in-force business primarily due to the impact of volatile market conditions effecting asset values and a year-to-date reduction in the underlying valuation interest rate (for technical provisions).

# Interim Directors' Report (continued)

For the six months ended 30 June 2022

## FINANCIAL POSITION

Total assets for the Group stood at €14.4 billion as at June 2022, which was in line with December 2021 levels. The funding of the Bank remains through customer deposits which grew by a further 1.5% in the past six months, with more than half of these driven by retail deposits. Customers continued to prefer short-term deposit products and channelled their savings into the banking system due to the lack of more beneficial opportunities in the market.

Net loans and advances to customers as at end June 2022 stood at €5.3 billion, a growth rate of 4.3% over December 2021 was fuelled by a continued growth in retail loans which accounted for most of the increase, while the corporate lending portfolio also increased but at a lower rate. The Bank continued to support its customers, through the payment moratoria, and the provision of government guaranteed funding to business customers through the BOV MDB COVID-19 assist scheme which had been extended to June 2022. These measures, which were granted to eligible customers in line with CBM Directive 18, were key in alleviating business-specific liquidity shortages inevitably brought about by the pandemic.

The liquidity position remained very strong with cash and short-term funds decreased moderately by €226.1 million or 4.9% in the first half of 2022.

The pressure of excess liquidity continued to be mitigated, to the extent possible, by investments in both local and foreign securities increasing slightly by €60.5 million or 1.7% when compared to December 2021. The vast 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. No significant changes in the credit rating analysis of bond portfolio were recorded during the year. The risk appetite for investment quality remained unchanged with asset quality of more than 92% in A- or higher.

During first half of 2022, the Bank continued strengthening its Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') position in line with ongoing regulatory requirements. Post Deiulemar settlement, the Group's capital ratios remained strong, with the CET 1 and total capital ratios as at June 2022 of 20.34% (December 2021: 21.90%) and 24.05% (December 2021: 25.53%), respectively. The planned issuance of a senior preferred bond on the international market will be specifically undertaken to meet our MREL regulatory targets in the foreseeable future.

## LITIGATION UPDATE

In February 2022, the first court in Torre Annunziata decided against the Bank and in favour of the Deiulemar bankruptcy and ordered the Bank to pay a sum equivalent to around €370 million. The Bank proceeded to immediately appeal this judgement on the strong merits of its legal case. However, in May the Bank reached an out-of-court settlement agreement without any admission of fault, bringing all legal claims surrounding the issue to an end. The Bank shall not have any further ongoing contingent or actual liability relating to this claim.

A total of €363 million in securities previously held with an Italian bank following a garnishee order were released and are now free from any encumbrance. Resultant released capital and Risk Weighted Assets may be used to explore additional business opportunities and improve Shareholders' value.

## RUSSIA / UKRAINE CONFLICT AND INFLATIONARY PRESSURES – AN UPDATE

The Bank continues to monitor and assess new developments for potential impact on the Bank's position and asset quality following the Russian invasion of Ukraine earlier this year. Within its loan book, the Bank is not significantly exposed to Russia or Russian nationals. Additionally, exposures stemming from Ukraine, or its bordering countries, are also low and insignificant when compared to the total lending portfolio.

The Bank is reviewing closely the possible economic and business effects as both Russia and Ukraine are major exporters of key global inputs, in areas such as energy, metals and crops. Malta's direct trade links with both countries are small and concentrated in specific products. However, the indirect effects, stemming from the price dynamics of products traded in international markets, as well as Malta's other trading partners' economic dependence on Russia and Ukraine, make this adverse supply shock of direct relevance to businesses and households in Malta.

# Interim Directors' Report (continued)

For the six months ended 30 June 2022

## STRATEGY BOV 2023 – AN UPDATE

In the first six months of the financial year 2022, we have mainly focused our investments on finalising regulatory and mandatory projects. This has led to lower levels of overall investment during this period as many costs were front loaded, and now enables us to put even more emphasis on our strategic ambitions of digitalisation and simplification going forward. Despite the regulatory focus, we have still made some good progress in streamlining and simplifying our Home Loans process, with automation about to go live in some key areas, making our customer service delivery much quicker. We have also been implementing several quick wins on service delivery using latest techniques to provide low-cost-high speed improvements. Re-engineering processes to deliver service improvements and efficiencies will continue alongside digitalisation.

The Bank will continue with our branch modernisation programme where, building on the achievements from 2021, we have finalised works for the modernisation of a further three branches, giving them a refreshed, eco-friendly and customer-centric layout. Renovation work will now be extended to additional branches across the network in line with our strategy. The eco-friendly element is part of a much wider ESG strategy we have developed and already started implementing.

## ESG - AN UPDATE

During the first half of 2022, Bank of Valletta carried out various adjustments in its policies and procedures to incorporate environmental, social and corporate governance (ESG) sustainability factors. Climate and Environmental (C&E) risks received greater attention from BOV in the past year, given that they constitute a significant source of risk to the balance sheet of the Bank and also because of the potential impact this risk could impose on the Maltese economy. As of 2022, the main area of concern was to build the capacity to be able to identify, assess and mitigate the risks associated with the impact of climate change, including a deep-dive into the Bank's portfolios. The Bank created a climate score and aligned its targets, in some sectors, to progressively reduce its exposure to industries with very high C&E risks that do significantly harm the environment. BOV's approach to ESG sustainability is currently reflected in its recently approved strategy, which embeds the Bank's position and sets a blueprint for 2022-2024.

## CLOSING STATEMENT

The Board expresses its gratitude to all employees for their continued commitment in supporting and servicing our customers during this recent volatile macro-economic environment driven by geopolitical tensions, raising inflation and uncertainly related to interest rates. The Board together with the Executive management team firmly believe, post settlement of Deiulemar litigation, we will be able to use our capital more efficiently to invest in and grow our market-leading businesses to support our clients, customers and communities and pay a sustainable dividend in the future.

## STATEMENT OF RESPONSIBILITY BY THE DIRECTORS PURSUANT TO THE CAPITAL MARKETS RULES ISSUED BY THE MFSA

We, the undersigned, confirm that to the best of our knowledge the condensed interim financial statements as at 30 June 2022 have been prepared, in all material respect, in accordance with International Financial Reporting Standards as adopted by the EU applicable to IAS 34 Interim Financial Reporting and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Bank and its subsidiaries.

Approved by the Board of Directors and authorised for issue on 28 July 2022 and signed on its behalf by:

**Dr Gordon Cordina**
Chairman

**Mr Rick Hunkin**
CEO & Executive Director

# Statements of Profit or Loss

For the six months ended 30 June 2022

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Jun-22** | **Jun-21** | **Jun-22** | **Jun-21** |
| | **€000** | **€000** | **€000** | **€000** |
| Interest and similar income: | | | | |
| • on loans and advances, balances with Central Bank of Malta and treasury bills | 93,000 | 83,267 | 93,000 | 83,267 |
| • on debt and other fixed income instruments | 11,514 | 9,662 | 11,514 | 9,662 |
| Interest expense | (17,300) | (19,488) | (17,300) | (19,488) |
| **Net interest income** | **87,214** | **73,441** | **87,214** | **73,441** |
| Fee and commission income | 42,867 | 38,299 | 38,277 | 33,518 |
| Fee and commission expense | (5,647) | (4,030) | (5,647) | (4,030) |
| **Net fee and commission income** | **37,220** | **34,269** | **32,630** | **29,488** |
| Dividend income | 145 | 140 | 8,891 | 1,639 |
| Net trading income | 6,884 | 5,966 | 6,877 | 5,940 |
| Net (loss)/gain on investment securities and hedging instruments | (120) | 5 | (120) | 5 |
| **Operating income** | **131,343** | **113,821** | **135,492** | **110,513** |
| Employee compensation and benefits | (45,834) | (41,117) | (44,625) | (39,814) |
| General administrative expenses | (37,018) | (47,583) | (36,201) | (46,828) |
| Amortisation of intangible assets | (5,675) | (5,678) | (5,675) | (5,678) |
| Depreciation | (4,078) | (4,207) | (4,048) | (4,078) |
| Net impairment (charge)/reversal | (8,969) | 3,009 | (8,969) | 3,009 |
| **Operating profit before litigation settlement charge** | **29,769** | **18,245** | **35,974** | **17,124** |
| Net Litigation settlement charge | (102,701) | - | (102,701) | - |
| **Operating (loss)/income** | **(72,932)** | **18,245** | **(66,727)** | **17,124** |
| Share of results of equity-accounted investees, net of tax | (3,710) | 7,633 | - | - |
| **(Loss)/profit before tax** | **(76,642)** | **25,878** | **(66,727)** | **17,124** |
| Income tax credit/(expense) | 25,518 | (6,438) | 23,772 | (6,043) |
| **(Loss)/profit for the period** | **(51,124)** | **19,440** | **(42,955)** | **11,081** |
| **Earnings per share** | **(8.8c)** | **3.3c** | **(7.4c)** | **1.9c** |

# Statements of Profit or Loss and other comprehensive income

For the six months ended 30 June 2022

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Jun-22** | **Jun-21** | **Jun-22** | **Jun-21** |
| | **€000** | **€000** | **€000** | **€000** |
| (Loss)/profit for the period | (51,124) | 19,440 | (42,955) | 11,081 |
| **Other comprehensive income** | | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | | |
| Debt investments at FVOCI | | | | |
| • change in fair value | (5,171) | (282) | (5,171) | (282) |
| tax thereon | 1,810 | 99 | 1,810 | 99 |
| | (3,361) | (183) | (3,361) | (183) |
| **Items that will not be reclassified to profit or loss:** | | | | |
| Equity investments at FVOCI | | | | |
| • change in fair value | (2,112) | (1,509) | (2,112) | (1,509) |
| tax thereon | 739 | 528 | 739 | 528 |
| | (1,373) | (981) | (1,373) | (981) |
| Remeasurement of actuarial losses on defined benefit plans | 821 | (98) | 821 | (98) |
| tax thereon | (287) | 34 | (287) | 34 |
| | 534 | (64) | 534 | (64) |
| Other comprehensive income for the period, net of tax | (4,200) | (1,228) | (4,200) | (1,228) |
| **Total comprehensive income for the period** | **(55,324)** | **18,212** | **(47,155)** | **9,853** |

# Statements of Financial Position

As at 30 June 2022

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Jun-22** | **Dec-21** | **Jun-22** | **Dec-21** |
| | **€000** | **€000** | **€000** | **€000** |
| **ASSETS** | | | | |
| Balances with Central Bank of Malta, treasury bills and cash | 4,399,988 | 4,626,066 | 4,399,988 | 4,626,066 |
| Financial assets at fair value through profit or loss | 128,838 | 138,986 | 128,385 | 138,823 |
| Investments | 3,629,218 | 3,568,669 | 3,629,218 | 3,568,669 |
| Loans and advances to banks | 428,760 | 452,469 | 428,760 | 452,469 |
| Loans and advances to customers at amortised cost | 5,315,680 | 5,097,598 | 5,315,680 | 5,097,598 |
| Investments in equity-accounted investees | 139,985 | 145,501 | 72,870 | 72,870 |
| Investments in subsidiary companies | - | - | 6,230 | 6,230 |
| Intangible assets | 55,001 | 56,074 | 55,001 | 56,074 |
| Property and equipment | 130,107 | 130,622 | 129,997 | 130,484 |
| Current tax | 26,567 | 28,640 | 25,522 | 29,205 |
| Deferred tax | 108,358 | 84,563 | 108,358 | 84,563 |
| Assets held for realisation | 12,002 | 11,740 | 12,002 | 11,740 |
| Other assets | 5,848 | 5,423 | 7,892 | 5,423 |
| Prepayments | 10,340 | 12,091 | 8,246 | 10,165 |
| **Total Assets** | **14,390,692** | **14,358,442** | **14,328,149** | **14,290,379** |
| **LIABILITIES** | | | | |
| Derivative liabilities held for risk management | 1,313 | 5,485 | 1,313 | 5,485 |
| Amounts owed to banks | 542,675 | 560,117 | 542,677 | 560,117 |
| Amounts owed to customers | 12,364,653 | 12,176,854 | 12,370,733 | 12,185,989 |
| Deferred tax | 6,717 | 6,717 | 6,717 | 6,717 |
| Other liabilities | 213,470 | 203,141 | 213,255 | 202,522 |
| Provisions | 21,630 | 104,449 | 21,630 | 104,449 |
| Derivatives designated for hedge accounting | 6,036 | 12,157 | 6,036 | 12,157 |
| Subordinated liabilities | 163,237 | 163,237 | 163,237 | 163,237 |
| **Total Liabilities** | **13,319,731** | **13,232,157** | **13,325,598** | **13,240,673** |
| **EQUITY** | | | | |
| Called up share capital | 583,849 | 583,849 | 583,849 | 583,849 |
| Share premium account | 49,277 | 49,277 | 49,277 | 49,277 |
| Revaluation reserves | 53,704 | 58,438 | 53,592 | 58,326 |
| Retained earnings | 384,131 | 434,721 | 315,833 | 358,254 |
| **Total Equity** | 1,070,961 | 1,126,285 | 1,002,551 | 1,049,706 |
| **Total Liabilities and Equity** | **14,390,692** | **14,358,442** | **14,328,149** | **14,290,379** |
| **MEMORANDUM ITEMS** | | | | |
| **Contingent liabilities** | **354,254** | **351,362** | **354,254** | **351,362** |
| **Commitments** | **1,815,466** | **1,898,310** | **1,815,466** | **1,898,310** |

Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. The appropriation to the "Reserve for General Banking Risks" shall be effected from the profits for the year. As at the reporting date this reserve amounts to €3.1 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 28 July 2022 and signed on its behalf by:

**Dr Gordon Cordina**
Chairman

**Mr Rick Hunkin**
CEO & Executive Director

# Statements of Changes in Equity

For the six months ended 30 June 2022

| | Called up Share Capital | Share Premium Account | Revaluation Reserves | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| | €000 | €000 | €000 | €000 | €000 |
| **The Group** | | | | | |
| **At 1 January 2021** | 583,849 | 49,277 | 55,477 | 388,522 | 1,077,125 |
| Profit for the period | - | - | - | 19,440 | **19,440** |
| **Other comprehensive income** | | | | | |
| Debt investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (183) | - | **(183)** |
| Equity investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (981) | - | **(981)** |
| Remeasurement of actuarial losses on defined benefit plans, net of tax | - | - | - | (64) | **(64)** |
| **Total other comprehensive income** | **-** | **-** | **(1,164)** | **(64)** | **(1,228)** |
| **Total comprehensive income for the period** | **-** | **-** | **(1,164)** | **19,376** | **18,212** |
| **At 30 June 2021** | 583,849 | 49,277 | 54,313 | 407,898 | 1,095,337 |
| **At 1 January 2022** | 583,849 | 49,277 | 58,438 | 434,721 | 1,126,285 |
| Loss for the period | - | - | - | (51,124) | **(51,124)** |
| **Other comprehensive income** | | | | | |
| Debt investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (3,361) | - | **(3,361)** |
| Equity investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (1,373) | - | **(1,373)** |
| Remeasurement of actuarial losses on defined benefit plans, net of tax | - | - | - | 534 | **534** |
| **Total other comprehensive income** | - | - | (4,734) | 534 | **(4,200)** |
| **Total comprehensive income for the period** | **-** | **-** | **(4,734)** | **(50,590)** | **(55,324)** |
| **At 30 June 2022** | 583,849 | 49,277 | 53,704 | 384,131 | 1,070,961 |

# Statements of Changes in Equity (continued)

For the six months ended 30 June 2022

| | Called up Share Capital €000 | Share Premium Account €000 | Revaluation Reserves €000 | Retained Earnings €000 | Total Equity €000 |
|---|---|---|---|---|---|
| **The Bank** | | | | | |
| **At 1 January 2021** | 583,849 | 49,277 | 55,365 | 329,347 | 1,017,838 |
| **Profit for the period** | - | - | - | 11,081 | **11,081** |
| **Other comprehensive income** | | | | | |
| Debt investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (183) | - | **(183)** |
| Equity investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (981) | - | **(981)** |
| Remeasurement of actuarial losses on defined benefit plans, net of tax | - | - | - | (64) | **(64)** |
| **Total other comprehensive income** | - | - | (1,164) | (64) | **(1,228)** |
| **Total comprehensive income for the period** | **-** | **-** | **(1,164)** | **11,017** | **9,853** |
| **At 30 June 2021** | 583,849 | 49,277 | 54,201 | 340,364 | 1,027,691 |
| **At 1 January 2022** | 583,849 | 49,277 | 58,326 | 358,254 | 1,049,706 |
| **Loss for the period** | - | - | - | (42,955) | **(42,955)** |
| **Other comprehensive income** | | | | | |
| Debt investments at FVOCI | | | | | |
| • change in fair value, net of tax | - | - | (3,361) | - | **(3,361)** |
| Equity investments at FVOCI | | | | | |
| • change in fair value net of tax | - | - | (1,373) | - | **(1,373)** |
| Remeasurement of actuarial losses on defined benefit plans, net of tax benefit plans, net of tax | - | - | - | 534 | **534** |
| **Total other comprehensive income** | - | - | (4,734) | 534 | **(4,200)** |
| **Total comprehensive income for the period** | **-** | **-** | **(4,734)** | **(42,421)** | **(47,155)** |
| **At 30 June 2022** | 583,849 | 49,277 | 53,592 | 315,833 | 1,002,551 |

# Statements of Cash Flows

For the six months ended 30 June 2022

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Jun-22** | **Jun-21** | **Jun-22** | **Jun-21** |
| | **€000** | **€000** | **€000** | **€000** |
| **Cash flows from operating activities** | | | | |
| Interest and commission receipts | 133,264 | 135,659 | 128,659 | 130,856 |
| Interest, commission and compensation payments | (19,994) | (20,631) | (20,054) | (20,631) |
| Payments to employees and suppliers | (79,534) | (90,868) | (76,848) | (86,384) |
| Operating profit before changes in operating assets and liabilities | 33,736 | 24,160 | 31,757 | 23,841 |
| (Increase)/decrease in operating assets: | | | | |
| Loans and advances | (214,224) | (187,135) | (214,224) | (187,135) |
| Reserve deposit with Central Bank of Malta | (6,031) | (6,501) | (6,031) | (6,501) |
| Fair value through profit or loss financial assets | (4,497) | (10,251) | (4,367) | (10,256) |
| Fair value through profit or loss equity instruments | (290) | (230) | - | (229) |
| Treasury bills with original maturity of more than 3 months | (138,452) | 45,507 | (138,452) | 45,507 |
| Other assets | (626) | (988) | (2,670) | (1,789) |
| Increase/(decrease) in operating liabilities: | | | | |
| Amounts owed to banks and customers | 206,713 | 284,741 | 203,658 | 287,320 |
| Other liabilities | (175,372) | 40,791 | (175,525) | 40,049 |
| Net cash from operating activities before tax | (299,043) | 190,094 | (305,854) | 190,807 |
| Tax received | 4,248 | 7,258 | 4,112 | 5,970 |
| Net cash (used in) / from operating activities | (294,795) | 197,352 | (301,742) | 196,777 |
| **Cash flows from investing activities** | | | | |
| Dividends received | 1,951 | 1,134 | 8,891 | 1,639 |
| Interest received from amortised and other fixed income instruments | 26,197 | 20,937 | 26,197 | 20,937 |
| Investment in equity-accounted investees | - | (20,000) | - | (20,000) |
| Purchase of debt instruments | (409,461) | (517,674) | (409,461) | (517,674) |
| Proceeds from sale or maturity of debt instruments | 335,873 | 246,718 | 335,873 | 246,718 |
| Purchase of property and equipment and intangible assets | (6,671) | (4,769) | (6,691) | (4,764) |
| Net cash used in investing activities | (52,111) | (273,654) | (45,191) | (273,144) |

# Statements of Cash Flows (continued)

For the six months ended 30 June 2022

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **Jun-22** | **Jun-21** | **Jun-22** | **Jun-21** |
| | **€000** | **€000** | **€000** | **€000** |
| **Cash flows from financing activities** | | | | |
| Proceeds from TLTRO III Borrowings | - | 500,000 | - | 500,000 |
| Interest paid on Long Term Borrowings | (2,892) | (2,887) | (2,892) | (2,887) |
| Payment of Lease Liability | (951) | (967) | (924) | (902) |
| Dividends paid to equity holders | (10,019) | - | (10,019) | - |
| Net cash (used in)/from financing activities | (13,862) | 496,146 | (13,835) | 496,211 |
| **Net change in cash and cash equivalents** | **(360,768)** | **419,844** | **(360,768)** | **419,844** |
| Effect of exchange rate changes on cash and cash equivalents | (161) | (120) | (161) | (120) |
| Net change in cash and cash equivalents after effect of exchange rate changes | (360,607) | 419,964 | (360,607) | 419,964 |
| **Net change in cash and cash equivalents** | (360,768) | 419,844 | (360,768) | 419,844 |
| Cash and cash equivalents at 1 January | 4,818,144 | 3,950,672 | 4,818,144 | 3,950,672 |
| **Cash and cash equivalents at 30 June** | **4,457,376** | **4,370,516** | **4,457,376** | **4,370,516** |

# Notes to the Condensed Half Yearly financial Statements

For the six months ended 30 June 2022

## 1. Reporting entity

Bank of Valletta p.l.c ('the Bank') is a credit institution incorporated and domiciled in Malta with its registered address at 58, Triq San Żakkarija, Il-Belt Valletta. The condensed interim financial statements of the Bank for the six months ended 30 June 2022 include the Bank, subsidiaries and equity-accounted investees (together referred to as the 'the Group').

The ESEF Annual Report and Financial Statements of the Group as at and for the year ended 31 December 2021 can be viewed on the Malta Stock Exchange website (the official appointed mechanism) at https://borzamalta.com.mt/, can be provided upon request from the Bank's registered office or are available for viewing on its website at www.bov.com.

## 2. Basis of preparation

The published figures have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU. The condensed half yearly financial statements have been extracted from Bank of Valletta's unaudited management accounts for the six months ended 30 June 2022 and have been reviewed in accordance with ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. The half yearly results are being published in terms of Chapter 5 of the Capital Markets Rules of the Malta Financial Services Authority.

These condensed half yearly financial statements should be read in conjunction with the Bank's audited financial statements for the year ended 31 December 2021. The significant accounting policies used in the preparation of these condensed half yearly financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2021 and are described in Note 1 of the said financial statements. New standards which came into effect as of 1 January 2022 are mentioned in note 2.1 below.

The amounts recognised in the financial statements are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of financial statements. Any changes to the judgements as at 31 December 2021 made by management in applying the Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements, together with information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period have been disclosed in the financial statements, if any.

As required by IAS 34 Interim Financial Reporting, these condensed half yearly financial statements include the comparative statements of financial position information as of 31 December 2021, and the comparative statements of profit or loss, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the period ended 30 June 2021.

Related party transactions with other components of the BOV Group covering the period from 1 January to 30 June 2022 have not materially affected the performance for the period under review.

### 2.1. Adoption of new standards / amendments:

The following amendments to standards were effective from 1 January 2022 but did not have a material effect on the Group's financial statements. The amendments include narrow-scope amendments which are changes that clarify the wording or correct minor consequences, oversights or conflicts between requirements in the Standards.

i. Amendments to IFRS 3 Business Combinations;
ii. Amendments to IAS 16 Property, Plant and Equipment;
iii. Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
iv. Annual Improvements making minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Example accompanying IFRS 16 Leases.

## 3. Segment information

### 3.1. Changes in reportable segments

Effective 1 January 2022, a change in the determination of reportable segments was required to better reflect the structure by which the Chief Operating Decision Maker now reviews the internal organisational information. This is in line with the new internal organisational structure. This revision to reporting segments has been reflected retrospectively with the restatement in comparative information representing the new segments as per note 3.2.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 3. Segment information (continued)

### 3.1. Changes in reportable segments (continued)

The Group's reportable segments as per the last annual financial statements as at 31 December 2021 were as follows:

| **Reportable** | **Operations** |
|---|---|
| Personal | Loans and other transactions and balances with retail customers, including wealth and asset management related. |
| Corporate | Loans and other transactions and balances with corporate customers. |
| Proprietary | Funding and centralised risk management activities through borrowings and issues of debt securities. |
| Liquidity | Investments in liquid assets such as short-term placements and corporate and government debt securities. |

The Group's revised reportable segments effective 1 January 2022 and as at 30 June 2022 are as follows:

| **Reportable** | **Operations** |
|---|---|
| Retail Banking | Loan products, cards, payment and other transactions for all client segments of the Bank. It also includes all deposit products for non-corporate and non-institutional client segments, internet/mobile banking activities, ATM activities and all Bank retail branches operations. |
| Wealth Management | Discretionary advisory and wealth management services, insurance and stock broking services, asset and fund management, prestige and private banking. |
| Business Banking | Financing and business deposit products for all business client segments including business and corporate centres. |
| Treasury | Proprietary investments, derivatives, and other investment related revenues. It also includes custody services and investment operations. |
| Associates & Others | Share of profits from associates and other assets and liabilities. |

### 3.2. Segment Information

| | Retail Banking | | Wealth Management | | Business Banking | | Treasury | | Associates & Others | | Total Reportable Segments | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun-22 | Jun-21 | Jun-22 | Jun-21 | Jun-22 | Jun-21 | Jun-22 | Jun-21 | Jun-22 | Jun-21 | Jun-22 | Jun-21 |
| | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| **The Group** | | | | | | | | | | | | |
| **Operating income for the six months** | 55,077 | 49,069 | 11,315 | 11,841 | 47,563 | 42,760 | 16,080 | 8,475 | 1,308 | 1,676 | 131,343 | 113,821 |
| **(Loss)/profit before taxation for the six months** | (609) | (4,729) | (1,936) | (2,421) | 20,391 | 21,666 | 13,160 | 4,715 | (107,648)* | 6,647 | (76,642) | 25,878 |

| | Retail Banking | | Wealth Management | | Business Banking | | Treasury | | Associates & Others | | Total Reportable Segments | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Jun-22 | Dec-21 | Jun-22 | Dec-21 | Jun-22 | Dec-21 | Jun-22 | Dec-21 | Jun-22 | Dec-21 | Jun-22 | Dec-21 |
| | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 | € 000 |
| **Total Assets** | 2,806,867 | 2,719,904 | 3,293 | 402 | 2,541,217 | 2,515,603 | 8,574,104 | 8,676,643 | 465,211 | 445,890 | 14,390,692 | 14,358,442 |
| **Total Liabilities** | 8,472,775 | 8,165,839 | 600 | 981 | 4,166,860 | 4,248,665 | 679,079 | 744,075 | 417 | 72,597 | 13,319,731 | 13,232,157 |

*The 'Associates & Other' segment includes the one-off Deiulemar settlement within Profit before taxation.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 4. Provisions and Contingent Liabilities

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

### a. Litigation Provisions

In February 2022, the first court in Torre Annunziata decided against the Bank and in favour of the Deiulemar bankruptcy and ordered the Bank to pay a sum equivalent to around €370 million. The Bank proceeded to immediately appeal this judgement on the strong merits of its legal case, however, in May the Bank reached an out of court settlement agreement of €182.5 million, without any admission of fault, bringing all legal claims surrounding the issue to an end. The Bank shall not have any further ongoing contingent or actual liability relating to this claim. This resulted in the reversal of €80.9 million provision as disclosed in Note 33 of the 2021 Financial Statements and a resultant impact of €102.7 million including legal fees in June 2022 statement of profit or loss.

A total of €363 million in securities previously held with an Italian bank following a garnishee order were released and are now free from any encumbrance.

As at 30 June 2022, no further litigation provisions were recorded.

### b. Contingent liabilities

Contingent liabilities are backed by corresponding obligations from third parties. The Bank has assessed the amount of the estimated contingent liabilities as not significant to be disclosed both on an individual and on an aggregate class level.

### c. Financial Guarantees and Loan Commitment Provisions

Refer to Note 8 for impact of expected credit losses on loan commitments and financial guarantee contracts during the six months to 30 June 2022.

## 5. Fair value measurement

### 5.1. Fair value hierarchy

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

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

Level 3 in the fair value hierarchy represents unobservable inputs.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 5. Fair value measurement (continued)

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

| The Group | Level 1<br>€ 000 | Level 2<br>€ 000 | Level 3<br>€ 000 | Total<br>€ 000 |
|---|---|---|---|---|
| **At 30 June 2022** | | | | |
| **Assets** | | | | |
| Treasury Bills | - | 451,383 | - | 451,383 |
| Financial assets at fair value through profit or loss | | | | |
| • debt and other fixed income instruments | 1,093 | 13 | - | 1,106 |
| • equity and other non-fixed income instruments | 871 | 23,591 | 9,401 | 33,863 |
| • loans and advances | - | 89,199 | - | 89,199 |
| • derivative financial instruments | - | 4,670 | - | 4,670 |
| Investments | | | | |
| • debt and other fixed income instruments - FVOCI | 29,531 | - | 72,361 | 101,892 |
| • equity and other non-fixed income instruments - FVOCI | 10,904 | 6,127 | - | 17,031 |
| | **42,399** | **574,983** | **81,762** | **699,144** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| - derivative financial instruments | - | 1,313 | - | 1,313 |
| Financial liabilities designated for hedge accounting | | | | |
| - derivative financial instruments | - | 6,036 | - | 6,036 |
| | **-** | **7,349** | **-** | **7,349** |

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 5. Fair value measurement (continued)

### 5.2. Fair Value hierarchy of assets and liabilities measured at fair value (continued)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | € 000 | € 000 | € 000 | € 000 |
| **At 31 December 2021** | | | | |
| **Assets** | | | | |
| Treasury Bills | - | 188,671 | - | 188,671 |
| Financial assets at fair value through profit or loss | | | | |
| • debt and other fixed income instruments | 1,133 | 15 | - | 1,148 |
| • equity and other non-fixed income instruments | 710 | 21,185 | 9,889 | 31,784 |
| • loans and advances | - | 104,850 | - | 104,850 |
| • derivative financial instruments | - | 1,204 | - | 1,204 |
| Investments | | | | |
| • debt and other fixed income instruments - FVOCI | 32,839 | - | 73,488 | 106,327 |
| • equity and other non-fixed income instruments - FVOCI | 12,073 | 7,070 | - | 19,143 |
| | **46,755** | **322,995** | **83,377** | **453,127** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| • derivative financial instruments | - | 5,485 | - | 5,485 |
| Financial liabilities designated for hedge accounting | | | | |
| • derivative financial instruments | - | 12,157 | - | 12,157 |
| | **-** | **17,642** | **-** | **17,642** |

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

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

| | Fair value measurement | | | | Carrying Amount |
|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | |
| | € 000 | € 000 | € 000 | € 000 | € 000 |
| **At 30 June 2022** | | | | | |
| Investments | | | | | |
| at Amortised cost | 3,064,078 | 216,399 | - | 3,280,477 | 3,510,295 |
| Financial liabilities | | | | | |
| Subordinated liabilities | 161,791 | - | - | 161,791 | 163,237 |
| **At 31 December 2021** | | | | | |
| Investments | | | | | |
| at Amortised cost | 3,201,300 | 263,440 | - | 3,464,740 | 3,443,199 |
| Financial liabilities | | | | | |
| Subordinated liabilities | 168,055 | - | - | 168,055 | 163,237 |

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 5. Fair value measurement (continued)

### 5.3. Fair Value hierarchy of assets and liabilities not measured at fair value (continued)

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

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

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

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

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

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

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of financial statements for the year ended 31 December 2021.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 5. Fair value measurement (continued)

### 5.4. Reconciliation of Level 3 fair values

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

| | Fair value through profit or loss | | Fair value through other comprehensive income | | |
|---|---|---|---|---|---|
| | Debt and other fixed income instruments | Equity and other non-fixed income instruments | Debt and other fixed income instruments | Equity and other non-fixed income instruments | Total |
| **2022** | **€ 000** | **€ 000** | **€ 000** | **€ 000** | **€ 000** |
| **Opening balance 1 January 2022** | - | 9,889 | 73,488 | - | 83,377 |
| Net change in fair value | - | (487) | (1,127) | - | (1,615) |
| **Closing balance 30 June 2022** | - | 9,402 | 72,361 | - | 81,762 |
| **2021** | **€ 000** | **€ 000** | **€ 000** | **€ 000** | **€ 000** |
| **Opening balance 1 January 2021** | - | 10,227 | 72,115 | - | 82,342 |
| Net change in fair value | - | 851 | - | - | 851 |
| Purchases | - | - | (793) | - | (793) |
| **Closing balance 30 June 2021** | - | 11,079 | 71,322 | - | 82,401 |

During the six months under review no change in levels was made in financial assets at fair value through profit or loss (June 2021: Nil) and financial assets classified as FVOCI (June 2021: Nil).

The financial assets at fair value through profit or loss with a Level 3 input for the six-month period ended 30 June 2022 amounted to €0.49 million of realised/unrealised net losses compared to realised/unrealised net gains of €0.85 million in June 2021.

## 6. Investments in equity-accounted investees

Share of loss for the period amounted to €3.3 million compared to a share of profit of €7.6 million in the comparative period. This decrease in the value-in-force business primarily is due to the impact of volatile market conditions affecting asset values and a year-to-date reduction in the underlying valuation interest rate (for technical provisions).

## 7. Earnings per share

The earnings per share was calculated on loss attributable to shareholders of the Group €51,124,000 (2021: profit of €19,440,000) and loss on the Bank €42,955,000 (2021: profit of €11,081,000) divided by 583,849,270 shares outstanding as at 30 June 2022.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 8. Expected Credit Losses

### 8.1. Assumptions and judgements

ECL is sensitive to judgements and underlying assumptions particularly related to the forward-looking scenarios and their probability weighting. On an annual basis, the Group re-assesses the applicability of the key economic variables used by the model, which inputs impact the credit risk and thus the expected credit losses for each portfolio. Latest macro-economic factors that are found to be statistically significant for all portfolios are Inflation, GDP, Unemployment, and property prices. These are forecasted, by the IFRS 9 model. Since June 2020, the model generated forecasts have been replaced by the CBM forecasts for the key economic variables so that the national economic effects and expectations from specific circumstances, such as COVID-19 and Russia/Ukraine conflict, are reflected in a timely manner.

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

As at 30th June 2022, the Central Bank of Malta forecasts were retained instead of the model generated forecasts for GDP growth, inflation rate and unemployment rate for 2022-2024. The model generated forecasts were used for projections of these variables beyond 2024, as well as for the other macro-economic variables used in the model.

The following table compares the three key forecasts as per CBM issue Quarter 4: 2021 to those issued by the CBM in Quarter 2: 2022. The additional ECL required when embedding these forecasts in the model's PD curves is of €19.4 million across all exposures.

| | December 2021 | | | | June 2022 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | CBM Forecasts | | | | Actual | CBM Forecasts | | | ECL |
| | 2021 | 2022 | 2023 | 2024 | 2021 | 2022 | 2023 | 2024 | increase |
| **Macro variable** | % | % | % | % | % | % | % | % | **€ million** |
| GDP | 6.0 | 6.5 | 5.3 | 3.8 | 9.4 | 5.4 | 4.9 | 3.8 | 0.2 |
| Inflation | 0.7 | 2.1 | 1.9 | 1.8 | 0.7 | 5.0 | 2.9 | 1.8 | 17.3 |
| Unemployment | 3.4 | 3.4 | 3.6 | 3.6 | 3.5 | 3.3 | 3.4 | 3.5 | 1.9 |
| | | | | | | | | | 19.4 |

In comparison to the CBM outlook issued in 2021:4 and utilised by the Bank as at EOY 2021, GDP actuals for 2021 were higher than expected from 6.0 percent to 9.4 percent, reflecting the relaxing of some of the COVID-19 measures and the successful roll-out of booster vaccines during the end of 2021. Concurrently, GDP growth was revised downwards for 2022 and 2023 taking into consideration the Russian/Ukrainian conflict. The downward revision in growth in private consumption reflects the uncertainty brought about by the war.

The Harmonised Index of Consumer Prices (HICP) is the measure of inflation used in the Bank's IFRS 9 model. The HICP is based on a fixed basket of goods and services which weights are reviewed and updated annually to reflect consumption patterns over the previous 12 months. Generally, these weights vary only marginally from one year to the next, however, the Russian/Ukrainian conflict caused a dramatic shift in services inflation as well as food and non-energy industrial goods inflation.

The model applies a linear relationship between inflation and ECL based on historical observations. Generally, the relationship between inflation and probability of default is positively related in such a way that an increase in inflation decreases disposable income and leads to a higher probability of default resulting in higher ECL. If, on the other hand, inflation decreases, disposable income increases resulting in a lower probability of default. Owing to the exceptional economic conditions, additional considerations might need to be considered, to frame the inflation channel in a proper economic context. The outcome of the ECL model is judgemental and may be challenged more during such a period, however it follows a consistent approach and may only be adjusted at the time when more information becomes available. The Bank will continue monitoring closely the current economic situation as it unfolds during the rest of the year to ensure that proper provisioning coverage is maintained at all times.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 8. Expected Credit Losses (continued)

### 8.1. Assumptions and judgements (continued)

In its commentary to the Summer 2022 forecasts for Malta by the European Commission (published on 14 July 2022), the Commission attributes the inflationary pressures in Malta for 2022 to "the increases in food, transport and imported goods prices, and a continued recovery in the tourism and hospitality services". The high inflation scenario for 2022 is thus the result of imported inflation, and the recovery in tourism which in the latter case is permitting businesses to charge higher prices.

The unemployment rate projections were revised slightly downwards for the next 3 years when compared to the CBM projections issued for Q4 2021. The unemployment rate is expected to remain at historically low levels.

### 8.2. Asset Quality within the COVID-19 scenario

In line with the European Banking Authority (EBA) guidance 'Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures' dated 25th March 2020, the application of moratoria or deferral of payments, aimed at addressing the adverse systematic economic impact of the COVID-19 pandemic, was not by itself taken as a trigger to conclude that significant increase in credit risk occurred. However, this did 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.

The moratoria period was considered a suitable measure to give relief to borrowers who were temporarily unable to serve their loan obligations due to COVID-19 disruptions. Specific customer information available, coupled with expert judgement was applied to identify whether a significant increase in credit risk exists by distinguishing between borrowers taking up payment deferrals for temporary liquidity issues related to Government imposed restrictions and other borrowers taking up payment deferrals that shall lead to long-term financial difficulties over the life of the exposure.

Over the past two and a half years ongoing monitoring has been undertaken on customers and related facilities impacted by COVID market disruptions. This resulted in adjustments being made on the affected portfolios both in terms of credit grading and related ECL levels. One of the most material actions taken included downgrading a very high percentage of the Accommodation sector to stage 2 / 3 thus moving to a lifetime PD calculation and increasing the provisioning coverage. Despite that nearly all moratoria extended have now expired, and customers have started repaying their facilities, no material upgrade has been affected to date to allow time to market conditions to stabilise further and for operational metrics to continue to improve.

A review of the COVID impacted portfolio reveals that 98% of total moratoria have now expired and repayments have initiated. 10% of balances benefitting from a moratorium are not fully in line with schedule. A high number of facilities have now been repaying for a number of months. As at reporting date no major deterioration has been noticed and the absolute majority of COVID-19 loans are being repaid according to the established schedule. The number of balances with days in arrears over 90 days on this mostly impacted portfolio is circa 1% of total balances.

The table below presents the Group's credit portfolio grouped by type of COVID-19 assistance availed of and industry risk.

| | 30 June 2022 | | | | 31 December 2021 |
|---|---|---|---|---|---|
| **Industry Risk** | **Total Balance** | **MDB Covid Assist** | **Total moratoria** | **Of which expired moratoria** | **Total Balance** |
| | **€ 000** | **€ 000** | **€ 000** | **€ 000** | **€ 000** |
| High | 822,625 | 135,675 | 266,929 | 256,581 | 811,179 |
| Medium | 911,106 | 57,777 | 157,296 | 315,595 | 878,704 |
| Other | 3,848,071 | 72,234 | 316,757 | 154,816 | 3,676,350 |
| **Total** | **5,581,802** | **265,686** | **740,982** | **726,992** | **5,366,233** |

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

**8. Expected Credit Losses (continued)**

### 8.2. Asset Quality within the COVID-19 scenario (continued)

Industry risk is categorised as High, Medium, or Other as follows:
- High: Substantial negative downturn and medium-to-long term recovery
- Medium: Negative downturn and short-to-medium term recovery
- Other: Minimal impact and consumer finance, including circa 74% home loans.

In addition to specific downgrades resulting into higher provisioning levels, management had, during the last two years, held manual overlays to increase coverage against the remaining exposures operating in the high and the medium-risk sectors. As at June 22, economic data has shown good recovery reaching an average economic activity as observed in 2019 across majority of sectors with some surpassing pre-COVID-19 levels. Nearly all moratoria extended have now expired with the vast majority of clients repaying in line with contractual plans. Business clients, with loans issued through the BOV MDB COVID-19 assist scheme, are also repaying on schedule. Based on this, coupled with the assumption that remaining risks and uncertainties were factored in the most recent CBM forecasts, a total of €24.9 million of COVID-19 overlays held against the high and medium-risk sectors was released. This amount represented all management overlays held related to COVID-19.

### 8.3. Reconciliation of ECL and Gross Loan portfolio

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

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent “step up” (or “step down”) between 12-month and Lifetime ECL. Changes in the staging allocation of balances existing at 1 January 2022 (and associated ECL changes) are presented in “transfers to/(from)”, whereas subsequent changes in the staging allocation of new assets originated during the period are presented in “new financial assets originated”;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL to forward looking assumptions - the VAR forecasts for the main macro economic variables, GDP, Inflation and Unemployment for 2022, 2023 and 2024 were replaced with those of the CBM, baseline scenario;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 8. Expected Credit Losses (continued)

### 8.3. Reconciliation of ECL and Gross Loan portfolio (continued)

| Allowances on On-Balance Sheet Exposures | Stage 1<br>12-month ECL<br>€ 000 | Stage 2<br>Lifetime ECL<br>€ 000 | Stage 3<br>Lifetime ECL<br>€ 000 | Total<br>€ 000 |
|---|---|---|---|---|
| **Total allowances at 1 January 2022** | **23,940** | **19,789** | **120,056** | **163,785** |
| Transfer to/(from): | | | | |
| Stage 1 | (1,562) | 6,551 | 1,486 | **6,475** |
| Stage 2 | 221 | (3,256) | 4,336 | **1,301** |
| Stage 3 | 8 | 833 | (3,320) | **(2,479)** |
| New financial assets originated* | 2,977 | 1,326 | 1,107 | **5,410** |
| Financial assets that have been derecognised | (231) | (504) | (6,747) | **(7,482)** |
| Write-offs | - | - | (2,430) | **(2,430)** |
| Changes to model inputs and assumptions | 9,262 | 6,435 | 152 | **15,849** |
| Other movements** | (10,038) | (477) | 7,009 | **(3,506)** |
| **Total allowances at 30 June 2022** | **24,577** | **30,697** | **121,649** | **176,923** |

| Provisions on Off-Balance Sheet Exposures | Stage 1<br>12-month ECL<br>€ 000 | Stage 2<br>Lifetime ECL<br>€ 000 | Stage 3<br>Lifetime ECL<br>€ 000 | Total<br>€ 000 |
|---|---|---|---|---|
| **Total Provisions at 1 January 2022** | 9,676 | 5,560 | 7,061 | **22,297** |
| Transfer to/(from): | | | | |
| Stage 1 | (44) | 128 | 169 | **253** |
| Stage 2 | 26 | (134) | 337 | **229** |
| Stage 3 | 5 | 8 | (306) | **(293)** |
| New financial assets originated* | 3,216 | 1,088 | 446 | **4,750** |
| Financial assets that have been derecognised | (772) | (209) | (520) | **(1,501)** |
| Write-offs | - | - | (55) | **(55)** |
| Changes to model inputs and assumptions | 3,460 | 3,024 | 1,752 | **8,236** |
| Other movements** | (8,250) | (2,563) | (1,623) | **(12,436)** |
| **Total Provisions at 30 June 2022** | **7,317** | **6,902** | **7,261** | **21,480** |

# Notes to the Condensed Half Yearly financial Statements (continued)

For the six months ended 30 June 2022

## 8. Expected Credit Losses (continued)

### 8.3. Reconciliation of ECL and Gross Loan portfolio (continued)

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

| Carrying Amount | Stage 1<br>12-month ECL<br>€ 000 | Stage 2<br>Lifetime ECL<br>€ 000 | Stage 3<br>Lifetime ECL<br>€ 000 | Total<br>€ 000 |
|---|---|---|---|---|
| **Total Gross Carrying Amount at 1 January 2022** | **4,506,916** | **637,392** | **221,925** | **5,366,233** |
| Transfer to/(from): | | | | |
| Stage 1 | (100,138) | 93,744 | 5,403 | **(991)** |
| Stage 2 | 18,385 | (36,386) | 16,595 | **(1,406)** |
| Stage 3 | 1,829 | 6,679 | (9,289) | **(781)** |
| New financial assets originated* | 178,406 | 6,231 | 7,520 | **192,157** |
| Financial assets that have been derecognised | (117,779) | (7,739) | (12,279) | **(137,797)** |
| Write-offs | - | - | (3,971) | **(3,971)** |
| Other movements*** | 189,990 | (14,569) | (7,063) | **168,358** |
| **Total Gross Carrying Amount at 30 June 2022** | **4,677,609** | **685,352** | **218,841** | **5,581,802** |
| Less Allowances | (24,577) | (30,697) | (121,649) | (176,923) |
| **Net Loans and Advances to customers** | **4,653,032** | **654,656** | **97,192** | **5,404,879** |

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

* Newly originated financial assets during the period comprises of:

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

**Other movements are the result of changes in balances for exposures remaining in the same stage coupled with changes in the values of properties held as collateral.

***Other movements are the result of changes in balances for exposures remaining in the same stage.

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# Independent Auditors' Report on review of condensed interim financial statements

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

### Introduction

We have reviewed the accompanying condensed interim financial statements of Bank of Valletta p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the Condensed Half Yearly Financial Statements') which comprise the condensed statements of financial position as at 30 June 2022, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended and the notes to the condensed Half Yearly financial statements. Management is responsible for the preparation and presentation of the Condensed Interim Financial Statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Our responsibility is to express a conclusion on these interim financial statements based on our review.

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

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Half Yearly Financial Statements for the period ended 30 June 2022 are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

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

**KPMG**
Registered Auditors

28 July 2022

Bank of Valletta

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