

Bank of Valletta p.l.c.

Annual Report

2021

BOV

Bank of Valletta

Contents and General Information

BOARD OF DIRECTORS

Gordon Cordina (Chairman)
Stephen Agius
Kevin J Borg
Miguel Borg
Diane Bugeja
Elizabeth Camilleri
James Grech
Rick Hunkin
Alfred Lupi
Anita Mangion
Alfred Mifsud
Antonio Piras
Godfrey Swain

COMPANY SECRETARY

Ruth Spiteri Longhurst

EXECUTIVE COMMITTEE

as at 31 December 2021

Rick Hunkin (Chief Executive Officer)
Ernest John Agius (Chief Operations Officer)
Joseph Agius (Chief Technology Officer)
Simon Azzopardi (Chief Wealth Management Officer)
Izabela Banas (Chief Financial Officer)
Miguel Borg (Chief Risk Officer)
Vanessa Borg (Chief People and Change Officer)
Kenneth Farrugia (Chief Retail Banking Officer)
Albert Frendo (Chief Business Banking Officer)
Anatoli Grech (Group Chief Compliance Officer)
Peter Halsor (Chief Marketing & Customer Intelligence Officer)
Theodoros Papadopoulos (Chief Digital Officer)

Rudolph Gatt (Secretary)

AUDITORS

KPMG

LEGAL ADVISORS

Camilleri Preziosi

NOTICE OF MEETING

The Annual General Meeting of the Bank will be held on Thursday 2 June 2022. 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.

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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 enrolled 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.

Since last publication there were no changes to the name of the reporting entity.

Board of Directors and Group Company Secretary

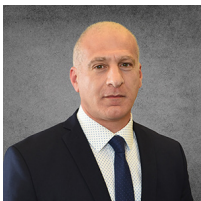


Gordon Cordina
Chairman
CAFC NG NED *

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.

Gordon 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
RC NED *

Stephen Agius is currently a member of the Nominations and Governance Committee and of the Remuneration Committee. Stephen works as Chief Operating Officer at Mater Dei Hospital and for the last twelve months he was the Head of the COVID-19 national vaccination programme. For five years, Stephen served as member of the board of directors of Enemalta p.l.c. Prior to his current role, Stephen 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. Stephen 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.



Kevin J Borg
Director
CAFC NED*

A graduate in Economics, Kevin J Borg is an accomplished professional with almost 25 years experience in leadership of the business community with the Malta Chamber of Commerce, Enterprise and Industry, having occupied the position of Director General for almost 15 years and various other roles within the Chamber prior to that. Over the years, through these positions, Kevin built himself a distinct reputation for integrity and professionalism with all stakeholders he has connected with including entrepreneurs, political leaders and social partners.

Kevin is currently the Chief Executive Officer of the Malta Maritime Forum and Consultant to the Malta Employers' Association.

Through his previous position, Kevin sat on a number of national boards including the MCESD, MEUSAC, Education Malta, Malta Business Bureau, and the Retail Price Index Board besides BusinessEurope and Eurochambres at the European level. Amongst other projects during his time at the Chamber, Kevin was actively involved in the EU accession preparations for Malta as well as in the merger process with the Federation of Industry which took place in 2009.

Appointed to the Board in May 2021, Kevin also serves on the Compliance and Anti-Financial Crime Committee since July.



Miguel Borg
Director
ED

Miguel Borg is the Chief Risk Officer and an Executive Director 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. Miguel 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. Miguel 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.

Appointed to the Board in August 2017.



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. Diane 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, Diane 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.

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

Appointed to the Board in December 2019.



Elizabeth Camilleri

Director
NG NED*

Elizabeth Camilleri is a digital growth and transformation specialist, working with boards and C-Level executives across a number of B2C and B2B2C sectors worldwide.

Born and educated in Malta, she subsequently moved to the UK for her MBA at London Business School specialising in strategy and digital innovation. It was there that she found her passion for data and digital transformation and its power to enable any organisation to compete in a fast-changing environment.

She currently sits on a number of boards and advises others on digital transformation and the creation of exponential growth through the use of data and technological innovation. Before that, she had founded and built a market tech company (Shopological) which she sold in 2019. Previous roles encompassed working at global organisations such as Gartner (Head of Strategy Consulting), Orange Global (Growth Strategist for the Board), PWC (Consultancy, Malta) and mid-sized companies such as eDreams (Marketing Director) and Biochemicals (Malta, Export Marketing Manager).

Appointed to the Board in May 2021.



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 Foreign Bank Relationships Department. James is also Chairman of Gozo Channel Holding Company Limited 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. James has lectured on Financial Services at the Malta College of Arts, Science and Technology, and on Corporate Governance at the University of Malta.

Appointed to the Board in 2004 till 2008. Re-appointed to the Board by the shareholders in the respective AGMs in December 2014 to date.



Rick Hunkin

Director & CEO
ED

Rick 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.

Rick chairs the BOV Executive Committee, the Change Management Committee, the Data Council and the Asset Liability Management Committee and is also a member of various other management committees. He is a director on the board of MAPRE MSV Life p.l.c. and is currently Chairman of the Malta Bankers' Association.

Rick, 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.

Appointed to the Board on 1 January 2020.



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, Alfred was the Chief Financial Officer on 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. Alfred has held a number of board appointments mainly in the financial sector.

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



Alfred Mifsud
Director
A R NED*

Alfred Mifsud currently chairs the Risk Committee and is a member of the Audit Committee. He was previously a member of the Compliance and Anti Financial Crime Committee. Alfred holds a Masters in Business Administration from Sheffield Hallam University and a Financial Studies Diploma by the former Chartered Institute of Bankers. From 2015 to 2017 he was Deputy Governor of the Central Bank of Malta, with main responsibilities of the monetary policy and banking operations. Prior to that, Alfred 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 Malta Financial Services Centre which now is MFSA. From 1996 to 1998, Alfred was Chairman of Mid-Med Bank.

Appointed to the Board in December 2019.



Anita Mangion
Director
A RC CAFC 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 chairperson of the Compliance and Crime Prevention Committee and in 2020 was reappointed member of the Audit Committee.

Anita 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. Anita graduated: 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, Anita 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.



Antonio Piras
Director
R RC NED *

Antonio Piras is currently the chairman of the Remuneration Committee and a member of the Risk Management Committee. He was previously a member of the Audit Committee. Antonio 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, Antonio 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.



Godfrey Swain

Director
R NED *

Godfrey Swain is an international executive with thirty years of banking experience, recently serving as CEO of Myanmar Citizens Bank (MCB) based in Yangon tasked with executing a banking transformational strategy in partnership with the International Finance Corporation (IFC), an arm of the World Bank. He previously served as Deputy CEO, Head of Retail Banking and Marketing focused on a growth and modernization mission for Vietnam International Bank (VIB), a large-scale bank with Vietnamese and Australian shareholding.

Godfrey served as a senior HSBC executive for twenty years holding key roles as Managing Director and Country Head of Retail Banking and Wealth Management for HSBC in Japan, in Vietnam and previously in Malta where he also held roles of Head of Marketing and Communications and founding CEO/MD of HSBC Life Assurance (Malta). He was a member of the Hong Kong based Asia Pacific Regional Management team, director on various boards including Life Assurance and Fund Management subsidiaries and EXCO, ALCO, Risk Management and Governance Committee member in the countries and territories where he worked. He started his financial services career in Adelaide and Sydney with National Mutual Life, Australia.

Godfrey is a business graduate from Monash University, holds a diploma in strategic management from Henley School of Management and participated in HSBC executive programmes in London, Hong Kong and Singapore.

Appointed to the Board in May 2021.



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. Ruth is also the company secretary of MAPFRE MSV Life p.l.c., BOV Asset Management Limited and BOV Fund Services Limited.

Ruth graduated Doctor of Laws from the University of Malta in 2001 and obtained Master of Arts in Financial Services in 2004. Ruth has been employed with the Bank for the past twenty years.

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

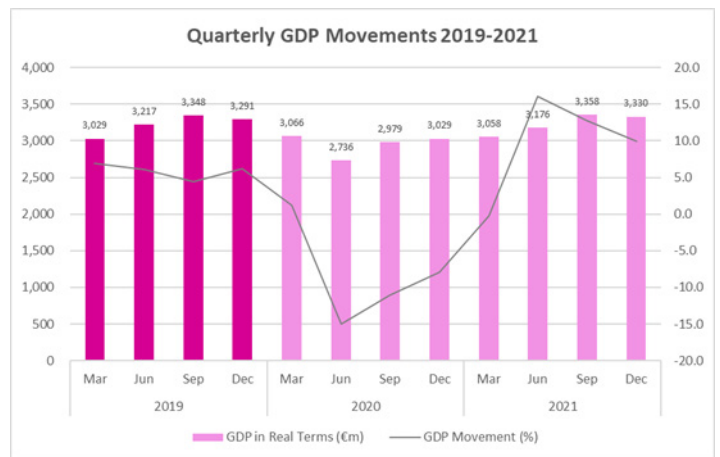
Chairman's Statement

Gordon Cordina

Economic Overview

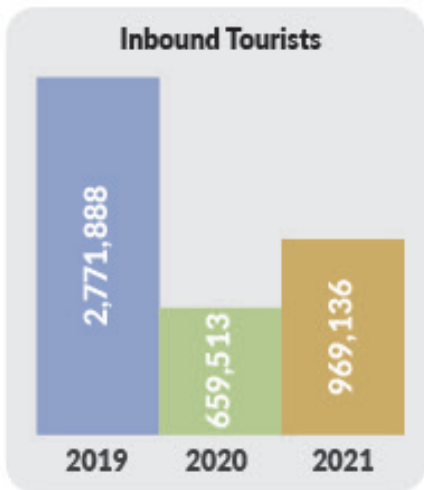
Uncertainty and instability continued to dominate the global economic scene in 2021, and these are likely to persist, if not intensify, in 2022. While the world was staging a tentative recovery from the COVID-19 shock last year, the spectre of growthless inflation raised its head. The geopolitical instability in Europe in the first quarter of 2022 will, most likely, intensify these threats, in a scenario of ballooning public debt levels and uncertain demand.

The Maltese economy is not immune from these forces. GDP levels during 2021 were back up to the equivalent levels of 2019¹, following the pandemic shock of 2020. The Central Bank of Malta (CBM) anticipates the Maltese economy to continue on its recovery path, with an average projected growth of 5.0 percent for the years 2022 through 2024². Headwinds to recovery remain in the uncertainty of global demand, external inflationary shocks, and the challenges to sustain competitiveness across economic sectors. While Malta fares better than most EU economies in terms of its fiscal resilience, this strength cannot be relied upon indefinitely to meet surmounting external shocks.



Sectorial Vulnerability and the Effect on Bank Lending

The recovery rate in economic activity in 2021 varied greatly between the different economic sectors.



The sectors reliant on inbound tourism were the worst hit by the pandemic in 2020, and continued to lag behind during the year under review. The number of inbound tourists between January and December 2021 stood at 968,136 – an improvement over 2020 but only 35.2 percent of tourist arrivals for 2019³.

As a result of the muted performance in tourism, the accommodation and food service activities and the transportation and storage sector, registered the poorest recovery rates out of all sectors in terms of gross value added (GVA). The accommodation and food service activities achieved 46.9 percent of the output registered in the same period in 2019, while the transportation and storage segment achieved 74.6 percent. Administrative and support services, which includes the rental of cars to incoming tourists, registered the second consecutive annual contraction in 2021, and its output now stands at 85.5 percent of that in 2019.

On a positive note, the wholesale and retail sector and other service activities, accounting respectively for 18.7 and 6.9 percent of business units in Malta, generally recovered the ground lost in 2020. The wholesale and retail sector expanded by 11.8 percent over 2020 (2020: -8.0 percent) and other services activities grew by 10.3 percent (2020: -7.8 percent), despite being forced shut for a number of weeks during the first half of the year. The wholesale and retail trade of motor vehicles remains hampered by supply side disruptions due to a global chip shortage leading to substantial upward pressure on new and used car prices.

Collectively, the sectors regarded as the most vulnerable to the pandemic, saw their direct share of GVA contract from 29.1 percent in 2019 to 23.9 percent in 2021, as their aggregate output declined by 17.0 percent in real terms. During 2021, the collective output of these industries increased by 14.5 percent over 2020, however this was still insufficient to recover the lost ground and catchup with other sectors.

¹ National Statistics Office, News Release 037/2022 – Gross Domestic Product: Q4/2021 dated 1 March 2022

² Central Bank of Malta, Outlook for the Maltese Economy dated 2022:1

³ National Statistics Office, News Release 019/2022 – Inbound Tourism: December 2021 dated 14 February 2022

On the other hand, a number of segments continued to grow and outperform other economic sectors, despite the disruption caused by 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 output for the second year running. In 2020, these industries saw their collective contribution to GVA increase to 39.5 percent, from 34.9 percent in 2019. During 2021, the collective output of these sectors grew by a further 8.1 percent, when compared to 2020.

As noted in previous communications, some of the most vulnerable sectors happen to be capital intensive sectors, and as such amongst the Bank's most important segments in terms of loans and advances. 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 37.7 percent (2020: 36.3 percent) of the Bank's lending to business customers or 18.6 percent (2020: 18.4 percent) of total loans and advances to customers as at the end of 2021.

Provisioning for COVID-19

The different measures introduced by both the authorities and the banking sector, to support Maltese households and the business community, enabled the number of defaulting customers to be limited. While some residual credit risk may still arise from firms which did not successfully adapt to the new normal, the worse appears to be behind us and the vast majority of customers are meeting their scheduled commitments despite loan moratoria being discontinued and government support being tapered off.

As a result of the decrease in the Bank of Valletta's expected credit loss (ECL), the Bank released €18.9 million in impairment provisions.

“The different measures introduced by both the authorities and the banking sector, to support Maltese households and the business community, enabled the number of defaulting customers to be limited.”

Corporate Social Responsibility (CSR)

Despite the various challenges, Bank of Valletta still maintained an active role within the Maltese community during the past year. As a responsible employer, the Bank ramped up its hygiene standards in all its customer-facing and back-office areas and implemented various solutions to protect its employees and clients. All solutions were accompanied with extensive internal and external communications to our staff and customers. Split operations and remote working ensured that the Bank was in a position to continue to serve the community, albeit at times in a limited manner, during the worst phases of the pandemic, but always within reach.

As a responsible corporate citizen, Bank of Valletta piloted an initiative designed to help more people own their own homes. The Bank continued to pioneer the shift to digital payments, through an extensive educational campaign across a number of channels, that resulted in a 20 percent increase in digital payments effected through BOV's channels. The Bank is committed to continue launching green initiatives, that include lending to support sustainable operations. We will continue to step up our efforts towards paperless banking, improving efficiency in the use of energy, water and other resources in our own operations, and supporting community initiatives that help conserve the environment.



During 2021, we took one of our biggest strides towards sustainability with the opening of a new concept branch in Tas-Sliema, featuring all-natural, fast renewing materials, with a focus on energy and water efficiency. Green walls provide better air quality, besides their aesthetic and mental health benefits, while clients are greeted to a customer-centric, modern and welcoming environment, in line with the Bank's environmental, social and governance (ESG) ambitions. Additionally, the colours of the traditional Maltese luzzu flow throughout the premises. This is a first step that will see all the Bank's branches transformed to this model and in fact our Paola, Iż-Żurrieq and Is-Siġġiewi branches were refurbished during the first months of 2022. Bank of Valletta has long been committed to sustainability and in recent years, this issue has steadily gained more importance in our discussions with investors, suppliers, customers and the broader public.

The Bank's major initiatives and its involvement within the community can be found in the CSR section of this report.

Post-Pandemic Strategy

In June 2021, Malta launched its National Post-Pandemic Strategy⁴, focusing on:

- improving the quality of life and wellbeing,
- sustaining business and employment and driving a strong recovery, and
- remaining resilient and competitive.

The pandemic provided society with an opportunity to stop and think about the kind of future we want, and sustainability is at the core of that future. The Bank intends to be at the forefront in supporting Maltese society to transition towards a greener and more sustainable way of life.

Bank of Valletta p.l.c. embarked on the implementation of the BOV 2023 strategic plan during this financial year. This has seen significant investment in our people through training programmes, in our data capability, which is being reviewed and will be enhanced, and in our branch network.

The framework for the digitisation of our customer processes as well as the reengineering of internal processes will be embedded in 2022. The Bank aims to increase its efforts to rebalance its balance sheet by introducing a number of measures geared at increasing the efficiency of customer behaviour and improving overall welfare. The Bank will also ensure that these transformational changes take into account the necessary controls that are key to meeting our regulatory requirements.

We are confident that as a direct result of the transformation spurred by BOV 2023, you will see Bank of Valletta becoming increasingly digital, increasingly effective, and increasingly customer focused.

“The framework for the digitisation of our customer processes as well as the re-engineering of internal processes will be embedded in 2022.”

The Evolving Banking Business Model

The past years were characterised by a low interest rate scenario which turned the traditional banking model on its head. Interest rate spreads declined, while simultaneously, regulation and compliance costs increased. Investment opportunities with adequate risk-return ratios shrank, for both customers and the Bank, leading to an increase in excess liquidity in the banking system. New market entrants targeted specific segments of the industry, while strategically choosing not to service the mass market. Also, a significant portion of the Bank's customer base shifted to digital services, while only the minority continues to rely exclusively on the Bank's numerous branches for their daily banking needs.

All this necessitated a rethink, and as announced last year, 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.

Twenty twenty-one witnessed a considerable improvement in the Bank's profitability over the previous year, albeit not quite to pre-pandemic levels. However, despite the Bank's best efforts to improve profitability, the major hurdle remains the low interest rate scenario, which has resulted in the Bank's €12.2 billion deposit base becoming a costly liability, challenging the very core of our business model. Narrowing interest rate spreads, increased contributions in relation to the Deposit Guarantee Scheme (DGS) and the single resolution mechanism, the preclusion on local banks from passing on any negative interest rates imposed by the Maltese authorities, and the negative interest rate charged to banks when depositing excess liquidity with the central bank, are straining the profitability of local banks. As Malta's largest deposit-taker by far, the strain on Bank of Valletta's profitability is further intensified.

The inability to pass on the true costs of deposits to the relative customer segments has created market distortion. High deposit balances holders are unimpacted by the underlying costs, and thus have no incentive to shift these deposits towards more productive outlets and in turn gaining a better return and benefitting the Maltese economy overall. To the contrary, the costs of deposits is being borne by the Bank, and in turn our shareholders.

“We aim to restructure our banking model in order to achieve a true return to long-term sustainable profits, while as always safeguarding the welfare of all our stakeholders.”

During 2022, Bank of Valletta aims to implement a number of measures intended to nudge high deposit balance holders towards more efficient behaviour. We aim to restructure our banking model in order to achieve a true return to long-term sustainable profits, while as always safeguarding the welfare of all our stakeholders.

⁴ National Post-Pandemic Strategy dated June 2021

Dividend Policy

The Bank is still operating in an environment characterised by heightened risks, brought about both by external risks, such as the changes brought about by the pandemic and the current geopolitical tensions, as well as risks specific to Bank of Valletta, particularly the Deulemar case.

Given the circumstances, the Board of Directors has decided to adopt a cautious approach and is not recommending a final dividend for 2021. Nonetheless, the Board continues to actively work towards maximising shareholder value.

Looking Ahead

During 2022, we expect the Maltese economy to continue on its path to recovery, and consequently business sentiment to pick up, particularly in the tourism related sectors. This recovery period will present an opportunity for all stakeholders to embark on the implementation of their post-pandemic plans, and as such, further strengthening the recovery momentum. The Bank aims to be our customers' partner of choice when it comes to financing the transition towards cleaner technology.

The Bank is very much aware of the difficulties posed by rising inflation, demand uncertainty, and the latest geopolitical threats. The Bank will continue with its drive to shift excess liquidity to more efficient purposes and in the process affording depositors better returns and a degree of protection against rising inflation. During the current year, Bank of Valletta will proceed with the implementation of its own strategic transformation. As highlighted, we will continue with our digital transformation, which will this year focus on the revision of customer and internal processes. We will also intensify our efforts to transform the compliance function, increasing the use of technology and data driven approaches to compliance, in order to improve efficiency and value.

Twenty twenty-one was another challenging year in which the Bank continued to provide its support to Maltese households and the business community. I would like to thank all our staff for their hard work and dedication. I also thank, the Executive team for their headship, 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.

Signed by Gordon Cordina (Chairman) on 22 March 2022



CEO's Commentary

Rick Hunkin

STRONG FINANCIAL RESULTS IN 2021 DESPITE VARIOUS CHALLENGES

Whilst the financial year 2021 was another challenging year for the Maltese and global economy, it is pleasing to be able to report much improved net results for the Bank. Although the COVID-19 pandemic continued to impact our trading capabilities, the Bank demonstrated strong support for our customers and kept branches open to provide the necessary financial support to our clients - paving their way back to a new normality.

Alongside the pandemic, the Bank continued to work within a negative interest rate environment which continues to prove punitive for BOV, particularly in relation to interest margins. Malta's greylisting has created some pockets of market nervousness and recent inflationary increases (fuelled further by the geo-political instability) may mean we will continue to see some uncertainty for a while longer.

Although our bottom line is stronger, we remain committed to further improving the underlying trading position of BOV to deliver longer term sustainability. Our Transformation journey has initially focused on improving the way we serve customers and good initial progress has been made in some key areas, with more to come during 2022. Strong increases in demand for digital channels are already evident with these supporting 95% of transactions, with much lower manual processing. Our focus on Investments delivered one of its strongest performances in recent years reflected in double digit commission growth as well as improved returns through our MMSV Life partnership. We will continue to invest in this area to simplify customer servicing and implement more efficient ways of working, whilst balancing a desire to digitise with the need to continually evolve our risk and compliance frameworks.

The underlying operating performance of the Bank demonstrates a resilient income stream with good recovery from pandemic-impacted 2020 and growth in some areas, partly offset by higher operating costs.

Financial performance of the Group

Profit before tax for financial year 2021 was €80.7 million compared to €15.2 million last year. This figure translates into a pre-tax return on equity of 7.3% (2020: 1.4%) and earnings per share of €9.6 cents compared with €2.4 cents in the same period 2020.

The underlying operating performance of the Bank demonstrates a resilient income stream with good recovery from the impact of the pandemic in 2020 and growth in some areas, partly offset by higher operating costs. The much stronger profitability benefited from a net expected credit losses ('ECLs') release reflecting better economic conditions relative to 2020 and individual client asset improvements.

Operating Income

At a Group level, total operating income saw a recovery from 2020 lows as net interest income remained stable and net commission income grew strongly exceeding 2019 levels, however foreign exchange income was down due to lower turnover. Overall operating income was up 4.9% to €242.9 million (compared to €231.6 million in 2020).

Interest Income

Net interest income of €156.3 million was up €9.5 million versus prior year, and still provides the main revenue source representing circa 65% of operating income, despite the costs from negative interest being charged to BOV on surplus liquidity and lower average yields on debt securities. Strong growth in total credit provided to customers was offset by declining average returns on treasury investments as higher-yield assets matured to be replaced with new securities at lower rates coupled with negative interest charges on persistently high (and growing) liquidity levels. Steps were taken to lower our cost of funding and this supported the net interest margin as interest paid on interest earning deposits continued to decrease.

Commissions and other income

Net Commissions for the year 2021 exceeded pre-COVID-19 levels at €74.6 million which represents an increase of €7.3 million, or 10.9% on financial year 2020. Higher income was registered across the main business pillars primarily credit and Investment related. A strong recovery in commission income was also noted in the payments-related business as volumes began to near to historic levels. The results were also impacted by a one-off €1.5 million refund of customer fees introduced late in 2020, however consequently those fees came under review by the regulator. Furthermore, lower turnover registered in the foreign exchange business at €9 million, resulted in less trading revenues compared to last year at €11.3 million.

Costs

Total costs were €195.6 million, increasing by €25.2 million or 14.8%, inclusive of strategy costs which were up by €7.3 million year over year.

The Bank invested a total of €23.1 million during the year in strategic initiatives, up from €15.8 million in the previous year. We continued to drive forward with our Strategy which involved investments in the digitisation of processes and data quality, and continuous improvements in our risk, compliance and control environments. These investments will continue during the transformation journey that the Bank has embarked on. This included enhanced investment processes, a new credit underwriting tool and soon to be delivered digital-based Home Lending and Customer Onboarding processes. However, a significant element of this investment has also been on Risk and Compliance areas, such as a new platform for Anti-Money Laundering and continually enhancing credit management processes which include BCBS 239 Compliance and Environmental Risk Management.

Operating costs, excluding strategy, were €172.5 million, up €17.9 million or 11.6%. Employee compensation increased by 2.7% from 2020 to €81.6 million, which reflected requirements for a additional expertise (through training and headcount) in areas such as risk, compliance and digital based skills. Our strategy is seeking to ensure digitalisation and simplification will combine to offset some of the potential future impact of this.

Excluding above-mentioned strategy costs, operating administrative expenses saw a significant increase year on year, to €70.8 million (2020: €55.4 million). These expenses included a total of €6.1 million in specific one-off items such as the €2.6 million fine imposed by Financial Intelligence and Analysis Unit ('FIAU') and €1.4 million disbursements on card fraud. Furthermore, costs payable to the Deposit Guarantee Scheme ('DGS') increased by €4.8 million during the year as we saw continuing growth in retail deposits. This cost is outside the Bank's control and may see further increases if deposit balances continue to grow at current levels. Excluding the impact of items that are not expected to recur and the contribution to the DGS, the administrative costs increased by €4.5 million. Higher IT investments were the main contributor due to the Bank's constant efforts to modernise and digitise key systems whilst continuing to meet ongoing regulatory requirements and aligning with the latest IT security solutions.

Adjusting for non-recurring items and increase in contribution to the DGS, underlying operating costs increase was €5.7 million, or 3.7%.

GROUP 2021 HIGHLIGHTS

€80.7m
Reported profit
before tax
(2020: €15.2 million)

7.3%
Return on
equity (pre-tax)
(2020: 1.4%)

4.1%
Non-performing
exposures ratio
(2020: 4.7%)

21.9%
Common
equity tier 1
capital ratio
(2020: 20.9%)

Specific increases in credit provisions

During the year, the Group reported a net release of Expected Credit Losses, ('ECLs') of €18.9 million, compared to the 2020 substantial net charge of €65.1 million which was driven by COVID-19 and Legacy Non-Performing Loans ('NPLs'). A focus on the legacy NPLs during 2021 resulted in some good net recovery in this space and as the economic conditions improved, we have seen positive momentum in credit risk of individual customers supported by enhancements to collateral. These reversals of ECLs were partly offset by required charges associated with persisting uncertainty related to COVID-19. The Bank continues to monitor and closely manage the portfolio of non-performing loans and as at December 2021, the non-performing exposures ('NPE') ratio improved from 4.7% in 2020 to 4.1% and the stock of NPLs decreased by €16.9 million. The ECL coverage of the credit impaired assets also improved year on year from 50.0% to 54.1%.

Share of profit from Associates

The Group's share of the insurance associates' results was €14.5 million, up by €4 million on prior year, attributable to strong economic recovery, solid growth in investments business and significant liquidity in the local market.

Balance Sheet position

As at December 2021, total assets of the Group continued to grow and exceeded the €14 billion mark (an 11% increase on last year). Customer deposits were the main source of funding for the Group's business and investment, and remain at surplus levels. Year on year growth in deposits was €905 million or 8%. 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. Growth was registered in both business and retail deposits. Although at face value deposits may be deemed to be a low-cost source of funding to the Bank, it is effectively extremely costly. The on-going low interest rate environment offered limited opportunities to the Bank to manage interest rate exposure any more effectively, forcing BOV to place high levels of excess funds at negative rates. This burden was accentuated with the increasing Deposit Guarantee Scheme related costs covered earlier. For the benefit of both the depositors and the Bank, the challenge in the foreseeable future is to implement a number of measures that will help shape the depositors' behaviour towards more sustainable investments.

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The Group's treasury investment portfolio increased by €260 million to €3.7 billion and remained composed of highly rated securities. Due to limited opportunities within the Bank's risk appetite, the investments were primarily in local government and other sovereign bonds at much lower market rates than those which matured throughout the year. The vast majority of treasury assets continued to be measured at amortised cost reflecting the Bank's primary business model to hold securities until maturity, with a view to collect interest revenues over the life of the investment.

Notwithstanding the healthy increases across the Group's investments, the liquidity position remained materially high with cash and short-term funds reaching €4.6 billion by the end of year, an increase of €828 million or 21.8% over the previous year. This extraordinary increase primarily arose after the Bank participated in the TLTRO III Eurosystem funding during the first quarter of 2021. Such funding was offered at attractive rates which were offered to support the provision of finance to local businesses and households.

Net Loans and advances to customers stood at €5.2 billion, €335 million or 6.9% higher than December 2020 with strong growth across business lending and home loans portfolios. The Bank continued to support requests for financial assistance from customers through the payment moratoria and the provision of government guaranteed funding through our BOV MDB COVID-19 assist scheme. We conducted systematic reviews of COVID-19 impacted portfolios and worked closely with clients as they emerged from financial support, with 95% of total moratoria expired and repayments initiated by year end. The demand for financial assistance significantly declined in the second half of the year and the Bank issued +30% more of business loans to support new investments over 2020.

A solid growth in home loan lending was registered over the last twelve months. In order to offer a product suite which continued to meet the various customers' needs, the Bank streamlined home loans into four core products meeting various requirements such as primary, secondary, investment and rental purposes. The interest rates applicable to each product were also revised and the option for the payment of interest only for the initial period of the loan, between one to five years, was introduced. The HomeEnergy loan was also launched last year together with the Personal Energy Loan. In November 2021 Malta Development Bank officially selected Bank of Valletta to implement the scheme for Further Studies Made Affordable Plus, ('FSMA+'), through which the Bank will continue to offer the BOV Studies Plus+ product with an additional €15 million allocation.

The Bank's liquidity ratio at year end stood at 444%, marginally lower from the 463% as at December 2020 reflecting the high deposit growth over the years consistently outpacing the demand for loans. The Group's net advances to deposits ratio stood at 44.1%.

The Group's capital ratios improved and were above regulatory requirements. Both the CET 1 and the total capital ratio increased since December 2020 with the CET 1 ratio reported at 21.9% from 20.9% and the total capital ratio at 25.5% from 24.5%.

Deiulemar Update

The Deiulemar claim remains outstanding and continues to be significant. Post year end, a judgement against the Bank was granted by the Tribunal of Torre Annunziata with regards to this case. In line with advice received from legal counsel, and consistent with robust legal opinions (including one from Italy's leading independent and specialist authority in these areas), as to the underlying strength of our case, the Bank since appealed this decision. This outcome does not change the Group's expectations, based on the opinions from both local and Italian lawyers' and thus did not impact financials. Furthermore, the Bank still considers that it makes commercial sense to seek to resolve this claim at a level not exceeding the potential cost of servicing additional capital requirements. For this reason, the Bank has retained the same settlement offer to the counterparty (the offer was not accepted), without prejudice and with no admission of liability. No further litigation provision was deemed necessary for the year ending 2021.

Anti-Financial Crime Transformation

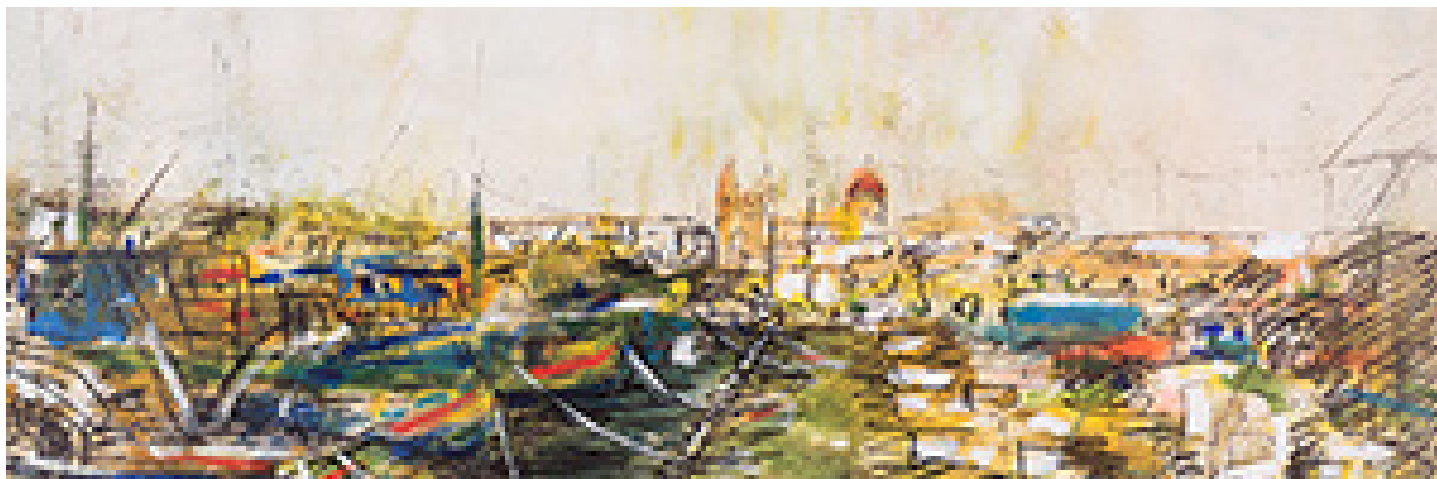
On 17 December 2021, the Financial Intelligence and Analysis Unit ('FIAU') imposed a fine of €2.6 million on the Bank as an administrative penalty for failing to report Beneficial Ownership information for 2,442 corporate customers in the Central Bank Account Register (CBAR) reporting to the FIAU. There is no suggestion that any of the affected accounts were involved in money laundering or financing of terrorism. The Bank took immediate action and collaborated with the FIAU in a full and transparent manner. The Bank continues to invest heavily in a transformation program and today is able to combat financial crime much more effectively and sustainably over the long-term.

The fine imposed by the FIAU on the Bank did not have any significant impact on the Bank's financial or capital position and the Bank remains well capitalised and profitable. We are transforming in line with greater changes across Malta and are continuously investing to meet new standards set by regulators and the international community, as well as to deliver more resilient, long-term sustainable growth and profits.

Correspondent Banking and Greylisting

The greylisting of Malta has not materially impacted the Bank's operations. However, if prolonged, the greylisting could impact relationships with foreign banks and counterparts, including significant increase in monitoring requirements. We hold periodic meetings with our international trading partners and as of year-end, the feedback received was that they closely examine developments being implemented on a national level to address the matters raised by the Financial Action Task Force ('FATF').

In first half of 2021, the Bank addressed the issue of correspondent banking relationships in US Dollar and ensured business continuity. To safeguard payment capabilities across major currencies, the Bank remains proactive in developing suitable contingency measures with our current and potential correspondent banks.



Further Update on the Strategic Plan BOV 2023

In 2020 the Board approved a strategy which plans to take BOV on a digital transformation journey over the coming years and we have been working hard on this with some demonstrable progress achieved. We embarked upon a major transformation programme for our branches, both operationally, with staff re-training and re-skilling, and with new improved branch composition that saw the launch of the new Sliema branch. This flagship branch is more efficient at serving our customers and better meeting their needs through enhanced technology solutions. The branch refurbishment programme will continue with the unveiling of further branches being converted from the more traditional layout to a new service model that is designed to meet the needs of the 21st century. These branch layouts offer increased privacy for customers requiring more complex wealth or credit advice.

We have also focused on migrating transactions towards more efficient electronic means of payment and progress here has been substantial, as we have seen significant volumes of transactions processed electronically and cheques processed down by more than 50%.

Our transformation process is supported by 'digital factories' that we have created, in which our internal teams, supported by digital experts, re-imagine some outdated processes. For Investments and Credit Underwriting we have already launched new digitalised processes which are having a positive impact on time to serve customers and are reducing complexity. We are following quickly with our Homeloans customer service model to deliver much quicker response times and are also now working on removing internal administrative processes so that we have even more time to serve our customers.

Although we have made good progress in a number of areas, we have had to balance the pace of change we would like to make with both managing our staff through a major transformation and the need to ensure our risk and control environment is continually improved to ensure we are able to meet current, new and emerging regulatory requirements. The Bank invested significantly in its credit management and wealth management back-office processes to deliver stronger control without impacting customer service.

Alongside the transformation we have been significantly enhancing our internal data capabilities, to improve customer understanding and enable us to make better and more informed decisions. We currently have a number of data quality enhancements underway, which will support future product development and customer value propositions.



For the benefit of both the depositors and the Bank, the challenge in the foreseeable future is to implement a number of measures that will help shape the depositors' behaviour towards more sustainable investments.

INCREASE IN VOLUME OF ELECTRONIC PAYMENTS

50% DECREASE IN CHEQUES PROCESSED

Digital transformation is clearly a major investment for the Bank and will be part of a continuous improvement journey

Digital transformation is clearly a major investment for the Bank and will be part of a continuous improvement journey, but we firmly believe that such investment is right for the Bank's longer-term sustainability. We are monitoring our investment in this space closely to ensure we continue to see growing returns and benefits over time, but this focus has already seen early signs of benefit in terms of the faster growth of our investment and lending businesses – we will continue improving so more customers benefit from quicker, easier service and enjoy a more positive customer experience.

Closing statement

The Bank is going through a significant and necessary period of transformation which will leave it better placed for a more sustainable future. This transformation places a significant workload and uncertainty upon our teams. I wish to dedicate a well-deserved thank you to all employees who face these challenges and are responding so well, reflecting their loyalty to BOV. I remain confident that our ambitious strategic plan, which has already started showing early signs of marked improvement in the way we operate and in the quality of service that we offer to our customers, will transform Malta's largest bank into a more effective, efficient and sustainable bank for the future.

Signed by Rick Hunkin (Chief Executive Officer) on 22 March 2022



Executive Committee & Group Chief Internal Auditor

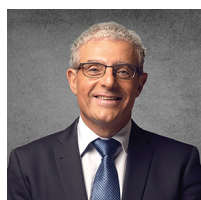


Rick Hunkin
Chief Executive Officer

Rick Hunkin was appointed to the Board on 1 January 2020 as Executive Director. Rick 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.

Rick chairs the BOV Executive Committee, the Change Management Committee, the Data Council and the Asset Liability Management Committee and is also a member of various other Management Committees. He is a director on the board of MAPRE MSV Life p.l.c. and is currently Chairman of the Malta Bankers' Association.

Rick, 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.



Joseph Agius
Chief Technology Officer

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, Joseph has garnered over thirty-five 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 Core Banking Transformation programme.

In his role as Chief Technology Officer, Joseph is responsible for driving the Bank's IT strategy. He is a strong proponent for modernisation of IT infrastructure and applications whilst running IT as a business with its inherent business value. He supports fellow EXCO colleagues in their technology initiatives.

Joseph 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.

Joseph is a non-executive director on Malta Information Technology Agency's (MITA) Board of Directors.



Ernest John Agius
Chief Operations Officer

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

Ernest 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.

Ernest career in the financial services sector spans more than thirty-seven 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 & Risk Management Committee, Product Governance and Pricing Committee, Change Management Committee and the Incident Management Team, since January 2020. Ernest sits on the Board of Churchwharf Properties Ltd.



Simon Azzopardi
Chief Wealth Management Officer

Simon Azzopardi joined Bank of Valletta in 1987. He has served in various areas of the Bank including the retail network, corporate lending, strategic planning, and marketing. He holds a degree (B.Comm Hons) in Banking & Finance from the University of Malta, and a MSc International Securities, Investment and Banking from the University of Reading. Simon is also an Associate of the Chartered Insurance Institute and a fellow of the Chartered Institute of Bankers. Simon enjoys considerable experience in investment services. During his career at BOV, he has occupied various senior positions at Risk Management, International Corporate Centre, Chairman's Office and the various subsidiaries. He was also responsible for the setting up and running of the Cairo representative office. As Chief Wealth Management Officer (appointment date 22 January 2021), he is a member of the Bank's Executive Committee and currently sits on various Boards within and outside the BOV Group; these include Chairman of the BOV Asset Management Board and Director of the BOV Fund Services Board. He is also a member of various committees which include, the MMSV Investment Committee, the MMS Investment Committee, the Investment Committee BOV Asset Management and the Risk & Regulatory Committee BOV Funds Services.



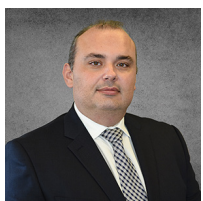
Izabela Banas
Chief Finance Officer

Izabela Banas was appointed as the Bank's Chief Financial Officer on 1 March 2021.

She serves as Deputy Chair of Asset and Liability Management Committee and is a member of the Bank's Executive Committee and a number of management committees. Izabela is a director on the Board of MAPFRE MMSV Life p.l.c., a member of MAPFRE MMSV Life p.l.c. Audit Committee and regular attendee at the BOV's Board of Directors as well as BOV and MAPFRE Middlesea p.l.c. Audit Committees.

Izabela is an experienced Finance professional and has held a number of senior positions within the Financial Services industry in the UK and Switzerland. Izabela joined Bank of Valletta after five years with HSBC Group in London where her last role was as a Chief Financial Officer for Private Bank EMEA. Having started her career at General Electric Company as part of Financial Management Programme, she has since covered wide span of organisations, industries and geographies including Credit Suisse Group, Willis Insurance Brokers and Private Equity owned industrial companies in Germany and in the UK.

She holds a degree in Economics with specialisation in Finance from University of Illinois at Urbana-Champaign and is a certified Lean Six Sigma Black Belt.



Miguel Borg
Chief Risk Officer

Miguel Borg was appointed to the Board in August 2017.

Miguel is the Chief Risk Officer and an Executive Director 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. Miguel 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. Miguel 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.



Vanessa Borg
Chief People and Change Officer

Dr. Vanessa Borg was appointed in 2021, as Chief People and Change Officer.

She has been active within the local international management field for over two decades, previously appointed as Director, Strategy Advisory with KPMG and has occupied the role of Chief Executive with Argus, an insurance entity having presence in Malta, Gibraltar and Bermuda. From 2007 till 2017, Vanessa founded and headed Consultancy and Training Acumen Centre Ltd, whereby since conception, the company enjoyed a string of international awards. Vanessa has also held corporate senior positions within the hospitality industry and during her tenure with Corinthia Hotels International, she was mainly involved in the development and implementation of HR strategic tools.

Within BOV, She is a driver of people and change strategic initiatives required to maintain overall financial and organisational health and acts as a steward and keeper of employee culture, wellness and engagement. She sits on the Bank's Executive Committee and a number of management committees.

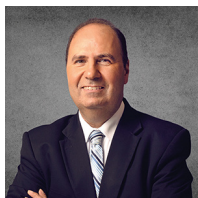
Throughout the years, Vanessa has also been appointed as an accredited lecturer both locally and internationally. She holds a Doctorate in Business Administration, a Master's in Philosophy, a Master's in Business Administration (Maastricht School of Management) and a Bachelor of Commerce (University of Malta).



Kenneth Farrugia
Chief Retail Banking Officer

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

Kenneth is responsible for Bank's personal and micro-business customer segments, the corresponding service channels as well as the suite of retail banking solutions Kenneth sits on a number of Management Committees to include the Asset and Liability Committee, Internal Control & Risk Management Committee, Credit Committee, Product Governance and Pricing Committee and Change Committee. He currently chairs the Board of Directors of BOV Fund Services Limited, sits on the Board of Directors of BOV Asset Management Limited, and is also a director on the board of the Vilhena Funds SICAV p.l.c. Kenneth is a Fellow of the Institute of Sales and Marketing Management in the UK.



Albert Frendo
Chief Business Banking Officer

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. Albert is a member of the Bank's Executive Committee and a number of management committees. Albert is responsible for Business Banking being one of the three key pillars of the revamped Business Model along with Retail Banking and Investments. Albert holds a degree in Accountancy from University of Malta and a Masters in Business Administration, with specialization in Management Consulting, from Grenoble Graduate School of Business in France. Albert also sits on the board of Tigne Mall p.l.c.



Anatoli Grech
Group Chief Compliance Officer

Anatoli Grech holds the position of Group Chief Compliance Officer. He previously held the position of Head of Strategy and Regulatory Affairs at BOV Asset Management Limited, the asset management of the Bank.

He also sits on the Executive Committee, the Internal Control and Risk Management Committee, Product Governance and Pricing Committee and Change Management Committee of BOV. Anatoli is a Director on the Board of BOV Asset Management Limited and the Chair of its Risk and Regulatory Committee.

Anatoli is also a member of the Risk and Regulatory Committee of BOV Fund Services Limited and MAPFRE MSV Life p.l.c. He is also a member of the board of the European Savings and Retail Banking Group, a member of the Banking Supervision Committee of the European Banking Federation, a member of the WSBI-ESBG Task Force on AML and the Secretary of the Malta Asset Servicing Association.



Peter Halsor
Chief Marketing and Customer Intelligence Officer

Peter Halsor holds a Bachelor of Science degree in Business from the University of Minnesota. He enjoys over 20 years' experience leading marketing teams in designing and implementing digital products, services and campaigns that underpin business strategy, enhance customer experience and drive profitability.

A passionate advocate of the customer, Peter has led Digital, Customer Experience, Marketing and Business Transformation teams to deliver market-leading propositions for several leading financial institutions in London, Continental Europe and the Middle East.

As an early digital innovator at Fidelity Investments, Peter led the design & delivery of the UK's first online fund supermarket. Later, as Head of Customer Experience at NEST, Peter led a digital team to define the e-business strategy and customer experience proposition for a new pension scheme used by over 11 million people to save for retirement.

As Chief Customer Experience Officer at Riyadh Bank, Peter led a business transformation programme to drive customer-centricity across the retail bank. He was responsible for defining the customer experience strategy across all channels and working within the C-Suite to drive CX transformational change and digital innovation. As part of this work, Peter implemented a state-of-the-art Customer Experience & Innovation Laboratory - the first bank in the region to do so.

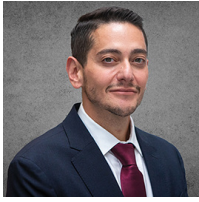
Peter is currently Chief Marketing & Customer Intelligence Officer at Bank of Valletta. As a member of the executive management team, he sits on several of the banks' management committees and carries responsibility for all marketing, customer experience and data analytics activities.



Anthony Scicluna
Chief Officer Human Resources & Ethics

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 was responsible for the Group's human resources, training, ethics and employee professional development.

Anthony 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. Anthony 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. Anthony Scicluna took early retirement from the Bank on the 31 December 2021.



Theodoros Papadopoulos
Chief Digital Officer

Theodoros Papadopoulos was appointed as Chief Digital Officer in September 2021 and sits at the Executive Committee of the Bank. He sits on different committees of the Bank (CMC, PGPC, ICRM, Data Council). He holds an MSc in Digital Communication and Media/Multimedia of Stockholm's University, an MSc in International Business (Public Policy) from Södertörn University in Sweden and a BA in Public Relations and Communication Policy.

He is a Digital Transformation, Digital Banking, Innovation and Technology Executive who has worked for Fortune 500 companies recognized for strong people leadership and Change Management. Prior to joining Bank of Valletta, Theodoros held the position of Director of User Experience at Eurobank EFG in Athens, Greece and helped the bank to increase the digital footprint in the market. Between 2011 and 2016, he was engaged with Booking.com in the Netherlands, initially as a Global Hotels Projects Team Member and appointed as Manager, Strategic Partnerships in 2013, a position which he occupied before moving to Eurobank, EFG. He has extensive experience in redesigning and implementing digital products, in Customer Experience, Voice of the Customer, Design Thinking and Customer Journey Mapping.

The appointment of Theodoros Papadopoulos is subject to regulatory approval.



Elena Dourou
Group Chief Internal Auditor

Elena Dourou joined BOV on 1 October 2020 as Group Chief Internal Auditor.

She has vast experience in the financial sector and internal audit and a successful international career. Among other major institutions, she has worked in Deloitte, ABN Amro Bank, National Bank of Greece, Piraeus Bank (Greece), Ferratum Bank (Malta) in positions relevant to internal audit, consulting and internal controls. Before joining the BOV, she was working at the Hellenic Corporation of Assets and Participations, where she was responsible to monitor the internal audit departments of its subsidiaries to ensure harmonisation of processes and application of Internal Audit Standards in 15 major Greek Public Sector organisations.

Elena is a Fellow Certified Chartered Accountant, a Certified Internal Auditor and holds an MBA from Oxford Brookes University.



Corporate Social Responsibility (CSR)

As Malta's largest Bank, delivering on our strategic priorities is our commitment. We believe that looking out for the best interests of all our stakeholders, that include our shareholders, customers, our colleagues and the Community in which we operate. Our success is directly proportional to the value we create for each of these stakeholders.



OUR STAFF

We foster building a strong internal culture based on our core values of corporate responsibility that result in meaningful and lasting relationships, and an environment where employees feel respected, included and heard. Our most valuable asset is our workforce, and our success is a direct reflection of the talent and tireless efforts of our people.

PROMOTING FINANCIAL WELL-BEING

We believe everyone should have the ability to make confident, well-informed money-related decisions resulting in financial security for both the short and long term. We place customers, and their needs, at the forefront and provide information about our products and services, and access to one's finances at the touch of a button through the Bank's online presence as well as through Internet and Mobile Banking. This is complemented by various educational initiatives, among different channels such as newspapers and television to promote new ways of managing money, and helping our customers meet their personal financial needs.

THE COMMUNITY

We have continued to support the Community in which we operate, through various initiatives, in line with our Environment, Social and Governance (ESG) principles. Although the COVID-19 pandemic continued to hamper various activities and initiatives along the island, the Bank extend its assistance, some at the forefront, and others in preparatory stage for when we come out of these trying times.

The main initiatives undertaken by the Bank during 2021 were:

ARTS & CULTURE

The Joseph Calleja Concert 2021 was one of the first public events held since the outbreak of the Pandemic in 2020. The Bank has been a main supporter of the Maltese Tenor since 2013, a collaboration that sees the BOV Joseph Calleja Foundation assist numerous talented youngsters achieve their artistic potential through financial support in furthering their artistic studies.



HERITAGE

The Bank sponsored restoration of the Gran Salon at the Auberge de Provence in Valletta. This yielded a major discovery when the restorers uncovered what is believed to be a part of the original decorations of this majestic hall from the times of the Knights, up till now the only surviving artefact from those times.

A set of paintings by Emvin Cremona, decorating the Main Altar of the Parish of the Blessed Virgin of Lourdes in Paola underwent a rigorous restoration process through the Bank's support. The Bank also maintained its long term collaborations with Malta's main heritage foundations being Fondazzjoni Wirt Artna, Fondazzjoni Patrimonju Malti and Din l-Art Helwa. New restoration projects will continue to be announced during 2022.



THE ENVIRONMENT

The Bank's new Concept Branch in Tas-Sliema which was inaugurated in 2021 focuses on energy and water efficiency, with the aim of minimising its carbon footprint through fast-renewing, all-natural materials, latest technology energy saving light fittings and green walls.

The New BOV's HomeEnergy Loan aims to assist new and existing home-owners to finance energy efficiency and renewable energy (EERE) projects.

The Bank supported a photography exhibition in collaboration with Din l-Art Helwa to highlight the current state of our surrounding seas and raise awareness about the pollution created.





SOCIAL

BOV staff, even those working remotely, shed off their work attire, and reported to work wearing purple, during a dress down initiative. This activity helped raise funds to help vulnerable women who, due to domestic violence, homelessness and other difficulties such as addiction, mental health, relationship and familial issues, are forced to live in shelters. A number of blood donation drives were also organised for BOV Staff members and these attracted numerous donors as a show of altruism towards the Maltese Community.

Fund raising by philanthropic organisations also suffered as a result of the pandemic. The Bank continued to support main philanthropic organisations such as the Malta Community Chest Fund Foundation, Caritas (Malta), the Malta Hospice Movement and Puttinu Cares.

SPORTS

BOV is committed to the UN Strategic Development Goal 03 supporting good health and well-being. The Bank is the main sponsor of sporting initiatives in Malta that include football, basketball and water polo, sailing, bowling, and horse-racing among others. Despite the interruptions due to the pandemic, most competitions were still held thanks to resilience, commitment and dedication of Malta's sports enthusiasts.





EDUCATION

The Dean's List of the Faculty of Arts within the University of Malta yielded the largest group of inductees in its 25 year history in 2021. Supported by Bank of Valletta since its inception, a mention in the Dean's list signifies excellence through its very rigorous requirements.

Literacy from infancy is high on BOV's agenda through its support of Read with Me. The platform that has gone online due to the pandemic, but saw an increase in participation by young students and their parents.



Directors' Report as at 31 December 2021

The Directors present their 48th 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 2021.

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 – A Future Proof Bank

During FY 2020 the Board of Directors approved a comprehensive strategic plan, entitled BOV 2023, covering a strategic plan for a three-year period between 2021 and 2023. The overarching strategic ambition was to transform the Bank into a more efficient, digital and customer-oriented organisation whilst continuing to strengthen the control functions. The long-term sustainability of the Bank and its support to the local economy was being ensured through a number of initiatives.

The Strategic Plan was based on 3 keys strategic pillars as follows:

- 1) Transform and digitise the operating model
- 2) Rebalance the balance sheet
- 3) Bring superior value to customers

Directors' report as at 31 December 2021 (continued)

During FY 2021 the Bank launched and implemented a number of initiatives in line with the captioned Strategy aimed at addressing regulatory requirements, building fundamental enablers and improve on customers network and experience. During the same year the Bank re-assessed and re-prioritised its initiatives to become a Future-Proof Bank, focusing on attaining the following strategic initiatives:

- 1) IT and Data Platform and Modernisation
- 2) A Human Resources Programme which included re-skilling
- 3) Value Based Management
- 4) F2B investment and Assets under Administration boost
- 5) Credit Transformation
- 6) Branch footprint and layout, transaction migration and new service model

The Bank's strategy has been re-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 – A Future Proof Bank 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 October 2021. 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 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 recognise 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 instill 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 2021 and an indication of future developments are provided in the Chairman's Statement and the CEO's Commentary, which can be found in the front section of this Annual Report.

Dividends

A gross interim dividend of €0.0264 per share was paid on 28 January 2022. The aggregate net dividend for the year is €0.0172 per share, amounting to €10,018,853.

Gross	€15,413,620
Tax at Source	(€5,394,767)
Net	€10,018,853

The Board of Directors has decided to adopt a cautious approach, within an operating environment that remains characterized by heightened risks, and hence does not intend to recommend a final dividend for Financial Year 2021. Dividend distribution remains a priority area of focus for the Board, taking into account risks, regulatory requirements and the business outlook.

Directors' report

as at 31 December 2021 (continued)

Board of Directors

The following Directors served on the Board during FY 2021:

Gordon Cordina (Chairman)
Stephen Agius
Kevin J. Borg*
Miguel Borg
Diane Bugeja
Elizabeth Camilleri*
James Grech
Rick Hunkin
Alfred Lupi
Anita Mangion
Alfred Mifsud
Antonio Piras
Godfrey Swain*

*Elizabeth Camilleri, Kevin J. Borg and Godfrey Swain were appointed Directors on the Bank of Valletta Board during the Annual General Meeting held on the 20 May 2021. Their appointment was subject to regulatory approval, which approval was received in the case of Godfrey Swain on the 14 December 2021, and in the case of Elizabeth Camilleri and Kevin J. Borg, on the 17 December 2021.

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 2021 (continued)

Going concern – Capital Markets Rules 5.62

The financial statements are prepared on a going concern basis. The Directors regard that pursuant to Capital Markets 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 Capital Markets 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 2021.

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 2021, 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 2021, 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' Service Contracts

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

Directors' report

 as at 31 December 2021 (continued)

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.

During FY 2021 no shares were issued from the authorised share capital of the Bank for the purpose of satisfying the obligations of the Bank pursuant to the Plan.

It is hereby declared that as at 31 December 2021, information required under Capital Markets Rules 5.64.7 and 5.64.10 was not applicable to the Bank.

Information pursuant to Capital Markets 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 the following Investment Services Rules for Investment Services Providers:

- Part BI: Rules applicable to Investment Services Licence Holders which qualify as MIFID firms (R1-2.2.3)
- Part BIV: Standard Licence Conditions applicable to Investment Services Licence Holders which qualify as Depositories (2.30)

Pursuant to the captioned Malta Financial Services Authority (MFSA) Investment Services Rules, 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.

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:

- 34 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

During the period under review, a number of Branches, Agencies and Centres around Malta and Gozo were constrained to close 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.

Directors' report

 as at 31 December 2021 (continued)

Events occurring after the end of the accounting period

On 8 February 2022, the Bank was informed that the Tribunal of Torre Annunziata delivered its decision against the Bank with respect of the Deiulemar case, for an aggregate amount of €371 million including legal interests and costs.

Under these proceedings the Bank was being requested to pay an amount equivalent to the value of the shares of a company which had been settled on trust with the Bank as Trustee, and which value the plaintiffs were alleging amounts to €363 million. Bank of Valletta disputed this claim as shares held were deemed worthless. The Bank held no other assets on behalf of the Deiulemar Group.

The Bank is well capitalised and its operations will not be adversely impacted by this decision. In 2018, the Bank had placed in excess of €363 million in the hands of an independent entity, following an order from the Tribunal of Torre Annunziata as precautionary security.

In line with advice received from legal counsel, and consistent with several legal opinions as to the underlying strength of our case, on 10 March 2022, the Bank appealed from this decision. The appeal was filed before the Court of Naples. The Bank has also filed a stay of execution of proceedings.

Related Party Transactions

On 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., 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 operates a customer centric model that is organised on 3 key customer service pillars. The Retail Banking pillar has been designed to service the requirements of personal customers, through the introduction of a service model underpinned by the presence of Universal Bankers that are assigned the servicing of designated customer cohorts. On the other hand, the Business Banking pillar is servicing the requirements of business customers, whilst the Wealth Management and Investments pillar addresses the investment and financial planning service needs of the Bank's customers.

Over the years, the Bank has continued to develop and evolve its comprehensive suite of products and service solutions aiming to meet the requirements of its clients as they progress through the different stages of their life-cycle. In parallel, the Bank has also continued to invest in its physical and digital channels to provide its customers with greater service flexibility and ease of access to the Bank's products and services. On this front the Bank has initiated a redesign and refurbishment program across its key branches to meet the service expectations of its customers.

Within this context, the presence of the Bank's strong branch footprint across Malta and Gozo, remains a critical service touchpoint for an array of personal banking customers and the delivery of retail products and services. At the same time, the Bank has continued to develop its internet and mobile banking channel functionalities, which together with its payment app, BOV Pay, have further empowered its customers to execute transactions with a degree of ease and comfort. The Bank has also very recently introduced a Virtual Branch, which is a hybrid physical and digital channel allowing customers the ability to purchase select products and services through a digital channel assisted by the presence of trained Universal Bankers.

The advent of COVID, has in no small way accelerated the use of digital and alternative payment options in lieu of the traditional cash and cheque-based payments. Cheque issuance and usage has markedly declined over these last two years and clients are increasingly recognising the efficiency of digital payments. This was also attributed to the fact that pursuant CBM Directive 19 on the use of cheques and backdrafts, as from 1 January 2022, cheques for amounts of less than €20 can no longer be issued in Malta.

The Bank is currently taking forward several business-led initiatives that are all collectively driven to strengthen the service experience of its customers, whether they decide to service their requirements through a physical customer service touchpoint, a digital one or a virtual branch. The aim is to deliver a consistent and seamless omnichannel service experience to our customers.

Directors' report

 as at 31 December 2021 (continued)

2. Environmentally Friendly Measures

Approach to Sustainability and Climate Change

Bank of Valletta aims to improve the financial wellbeing of customers and community at large. The Bank is experiencing an increased awareness and urgency to address the global climate crisis and the unprecedented depletion of natural resources and biodiversity. In this regard, the Bank recognises the need to mainstream environmental issues within business activity, against the backdrop of rapidly evolving scientific and community perspectives change.

As Malta's largest financial institution, BOV has the responsibility to support climate and environmental protection by the current generation and take the opportunity to safeguard and preserve the environment for future generations. BOV aims towards making a meaningful contribution to the community, mainly by empowering customers and businesses to act more sustainably. This calls for the transformation of finance into a lever for achieving ambitious climate change targets through a broad-based concerted action. The Bank is thus aiming to support EU Institutions in the implementation of the action plan towards financing sustainable growth, which includes compliance to the EU Taxonomy and standards, finance markets regulatory requirements, prudential regulation and strengthening of sustainability disclosures.

Sustainability and Climate and Environmental-Related Risk Governance

In accordance with Article 74 of the Capital Requirements Directive (CRD), the Bank shall have robust internal governance arrangements, which include organisational structure, management body, sound policies and procedures, adequate control and reporting for the risks they are or might be exposed to. The Bank commits to improve its governance by considering climate and environmental-related risks as material, even if they could not occur in the short to medium term. BOV is strengthening its governance to ensure an effective oversight of these risks, both on an individual and consolidated basis.

The climate and environmental-related risks will be included in the Risk Appetite Framework of the Bank, under the Environmental, Social and Governance (ESG) risks, in 2022.

(a) ESG Committee

In 2021, the Board has set up the ESG Committee (effective date 1 January 2022) to secure board-level oversight of strategic climate and environmental-related risks and opportunity management, as well as strengthening the governance structure in relation to ESG factors. The Committee acts as the approval board body for the decisions in relation to the Sustainability strategy and its implementation, and senior line management for points of escalation for decisions relating to climate work underway across the business line of the Bank. The ESG Committee is chaired by the Bank's Chairman and is composed of three Non-Executive Directors with representatives from relevant business functions extending the committees.

(b) ESG Management Committee

An ESG Management Committee is about to be established and foreseen to be convened by the first quarter of 2022. It is meant to be mandated by the Bank's Internal Control and Risk Management Committee and will assume the overall responsibility for adequately embedding climate and environmental-related risks in the holistic business strategy and risk management framework. This includes overseeing the development of the ESG framework and the process of the implementation on the agreeable strategy. The Bank considered the knowledge, skills, and experience of the identified members to ensure adequate understanding of the climate and environmental-related risks and encompasses different personnel covering different areas of the Bank.

(c) ESG Department

The Bank established the ESG Department with direct reporting to the Chief Risk Officer (CRO). This department complements the three risk distinct departments (Financial Risk Management, Credit Risk Management and Operational Risk Management) with providing an oversight and monitoring of the climate and environmental-related risks and analysing the impact on the material risks of the Bank. During the coming year, the Department will be working on the implementation of the Sustainability Risk Framework, whilst putting measurable monitoring targets in place to support management to exercise its risks, as well as taking timely decisions on a sound and well-informed basis. Performance in relation to these risks will be evaluated and reported as part of the Risk Appetite Framework dashboard. Moreover, the ESG Department is responsible for the development and overview of the ESG strategy, maximising the impact and deliverance of the Bank's environmental sustainability vision while engaging in dialogue with the key external stakeholders.

The ESG Department assumes the role to support and help the frontliners (i.e., business lines) to improve its capability in identifying and controlling the risks at source. In the coming future, the Department will be working closely with the business line to implement the identification, assessment and monitoring of the risks in their respective functional responsibilities. In addition, the ESG Department supports and engages with the Compliance Department, to aid in the implementation and technical assessment of the impact of the green regulations and standards, to avoid facing compliance-related risks and any reputational risks, especially in highly technical regulatory frameworks currently on the negotiations table.

Directors' report as at 31 December 2021 (continued)

The Bank intends to include climate and environmental-related risks in the overall risk management framework which includes policies and procedures, as well as internal controls. It aims to apply sustainability principles across the Bank. The ESG Department in collaboration with the other functions within the Bank will be responsible for meeting the requirements of the updated policies in terms of managing climate and environmental-related matters, whilst the senior management will be responsible for promoting and championing the sustainability culture throughout the Group.

Business Model and Strategy

Whilst the studies are showing that the Maltese islands are expected to suffer a moderate impact from climate change, these can be expected to have significant impacts on business competitiveness and the quality of life of the resident population. The Bank is also understanding the behavioural changes towards more climate friendly and sustainable practices. In this respect, BOV will be articulating its long-term commitment to sustainability, and placing it at the core of its business strategy through a Sustainability strategy which will be launched in 2022, and which will be aligned with the overall business strategy of the Bank. This project will drive an increased focus on digitization and on ESG-related projects.

(a) Understanding BOV's exposure to climate and environmental related risks

As part of setting the ESG strategy, during the year 2021, BOV commenced an analysis to identify how the Bank manages its financing activities at priority sector level. The scope was to develop an insight of the top emissions-intensive sectors of the Bank's credit portfolio, which are contributing negatively to climate change adaptation and climate change mitigation. The Bank adopted the United Nations Environmental Programme Finance Initiative (UNEP FI) Impact Analysis Tool to qualitatively assess the alignment of the credit portfolio with the Paris Climate Agreement goals and the United Nations Sustainable Development Goals (UN SDGs). The portfolio alignment analysis is also recognised by the European Banking Authority (EBA) as a method to analyse and evaluate climate and environmental-related risks. The top four sectors identified are construction, real estate, electricity production and transportation. This granular analysis is helping the Bank to understand the sustainability and climate impacts of its lending practices. The Bank intends to continue to evolve its approach as industry practices develop and measurement and methodological standards continue to emerge.

The Bank will integrate climate scenario analysis within the stress testing framework. BOV is building capabilities and tools to produce reputable and robust group-wide projections under different climate scenarios, including natural disasters for physical risks and transition circumstances for the accompanying transitional risks. As BOV's understanding of climate and environmental-related risks matures and climate science continues to evolve, the Bank will use scenario analysis to inform its overall climate strategy, which will in turn be reflected in its risk management and business development approaches.

(b) Pursuing sustainability opportunities

BOV wants to future proof its own business and clients by empowering reduction in carbon emissions and accelerate the transition to long-term sustainability. The Bank is doing this by offering sustainable finance products, supporting the retail, business, and institutional customers as they embark on this climate-friendly journey.

During the year 2021, BOV launched three energy efficient loan products; the Personal Energy Loan, the Home Energy Loan, and the Business Energy Loan. All sustainable financing can be defined as taxonomy aligned vis-à-vis climate mitigation since all the eligible investment costs contribute towards a reduction in carbon emissions and are designed in helping households and businesses to reduce their emissions and energy costs. The Bank provides these loans to encourage households to invest in clean energy technology that reduces their energy bills and make their homes more energy efficient. The Business Energy Loan provides financing for efficiency investments, including sustainable mobility and water efficiency among others. The ultimate objective of the Bank will remain to work and improve its relationship with businesses, as they harness these new climate and environmental-related opportunities and transit their business model from 'brown to green'. The Bank will adopt a risk-based approach to environmental matters, with additional due diligence being applied to lending in sectors where impacts are high or sensitive in accordance with the EBA Guidelines on loan origination and monitoring (EBA/GL/2020/06). The Bank's practices will align with consumer protection rules and respect fair treatment of consumers.

Moreover, BOV is integrating sustainability considerations in the investment decision-making process when providing investment advice and portfolio management services. The Bank recommends making environmentally responsible investment decisions, taking into consideration the ESG rating of the investment and the client's ESG preferences, encouraging more environmental-friendly considerations. The full details are available in the 'Wealth' section of the Bank's website, under 'ESG-Environmental Social Governance Solution'. This report is in line with the EU Sustainable Finance Disclosure Regulation (SFDR).

(c) Reducing the Bank's own carbon footprint

The Bank aims to reduce operational emissions and make progress on its climate ambitions. The Bank intends to focus on the reduction of the direct emissions from fuel and processes (Scope 1 emissions) and emissions from purchased electricity (Scope 2 emissions). This will be achieved through its considerate practices and continued investment in smart technologies to increase the energy efficiency of buildings and equipment and by using electricity from renewable sources. Scope 3 emissions relate to the indirect emissions that occur in the Bank's value chain, which the Bank will be studying further to obtain a complete assessment of the carbon footprint of its business activities.

Directors' report as at 31 December 2021 (continued)

(d) Prudential Disclosures

BOV's approach will be to transparently disclose material climate and environmental-related information. The Bank strongly believes that timely disclosures are important to ensure that its customers, community, regulators, and other stakeholders are aware of the work the Bank is doing to limit the wide damaging impacts of climate change.

The Bank's annual sustainability reporting reflects compliance to the Non-Financial Reporting Directive (NFRD) by disclosing the information in this Group's Annual Report. The reporting is aligned with the financial industry best practices in terms of guidelines, frameworks, and initiatives for disclosures such as the ECB report on institutions' climate and environmental-related risks disclosures. The Bank is also doing its effort to adopt recommendations by the Financial Stability Board's Task Force of Climate-related Financial Disclosures (TCFD). Furthermore in 2021, the Bank adhered to its regulatory requirements of non-financial disclosures by submitting its ESG report for year ending 2020 to the online Malta ESG Platform which is piloted by the Minister for Energy, Enterprise, and Sustainable Development. The platform illustrates the ESG credential of listed companies. BOV reported its carbon footprint and quantified its impact by efficient use of water and other resources. This information is available on <https://sustainabledevelopment.gov.mt>.

Risk Management

EBA defines climate and environmental-related risks as the risk of losses arising from any negative financial impact on the institution stemming from the current or prospective impacts on the institution's counterparties or invested assets including factors related to the transition towards the following environmental objectives;

- (i) climate change mitigation;
- (ii) climate change adaptation;
- (iii) the sustainable use and protection of water and marine resources;
- (iv) the transition to a circular economy;
- (v) pollution prevention and control and
- (vi) the protection and restoration of biodiversity and ecosystems.

Physical Risk: Pressure points from the physical risks arise largely from the permanent impairment due to more frequent and extreme weather events and long-term shifts in climate patterns. These could include droughts or heatwaves leading to fires as well as flooding from heavy rains or from rising sea levels. This results in the risk of reduced value of the Bank's assets, including those held as collateral or investments. Reduced asset values in affected locations or sectors could have implications on the Bank's customers' ability to repay loans, resulting to increasing losses for the Bank from more customer hardship cases. Moreover, severe weather events could potentially lead to negative operational implications related to buildings and infrastructure owned by the Bank as well as overall business continuity.

Transition Risk: Transition risks occur from the process of adjustment towards low carbon economy through abrupt implementation of green policies and regulations such as the introduction or increase of carbon prices or taxes, technological developments, shifting investor expectations and consumer sentiments. Transition risks will mostly affect the Bank's business clients which have carbon-intensive operations or products if they fail in diversifying, conducting efficient transition or reallocating capital. For instance, carbon prices could affect the business profitability. The cost of transition is likely to have an impact on the economic outlook of the countries, pushing up inflation and interest rates. Furthermore, increased supervisory focus could intensify the risk of compliance breaches or litigation fines. For this reason, BOV is closely following the negotiations in relation to the Fit for 55 Package, as well as the Climate Delegated Act, which proposes further adjustments in the business models of financial and non-financial undertakings in Europe.

(a) Risk Management Framework

Climate and environmental-related risks arising from physical and transitional risks have far-reaching implications. They pose potentially adverse direct and indirect impacts on the strategy, financial metrics, and operations (non-financial) of the Bank. BOV's reputation could be impacted by continuing to finance certain industries, activities, and customers, or by setting emissions reduction targets and strategies deemed by the community to be inadequate. Climate and environmental-related risks could manifest through the Bank's material risk types such as credit risk, operational risk, market risk and liquidity and funding risk. Climate change will also present opportunities for the Bank arising from the provision of support to emerging climate-friendly sectors and business practices.

The Bank is carrying a materiality assessment on climate and environmental-related risks covering physical and transitional risks to subsequently integrate into the material risks in the risk inventory and management framework of the Bank. This is foreseen to be concluded by March 2022. The Bank aims to adopt an enterprise view to identify the associated key risks and classify them as short term, medium term, and longer term. The evaluation of climate and environmental-related risks will play a key role in the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) processes of the Bank. The Bank will develop mechanisms to have a functioning risk management framework for these risks, which will offer further granularity of the analysis.

In the coming years, BOV strives to build knowledge and strengthen its capabilities and skills to keep refining the climate and environmental-related risks management approach in accordance with the changing regulatory landscape, while responding to new requirements as necessary. BOV is reaching out to environmental authorities to seek scientific facts, develop standards and identify pragmatic solutions for the eventual integration of the climate and environmental-related data into the risk inventory and the risk management framework of the Bank.

Directors' report

 as at 31 December 2021 (continued)

Metrics and Targets

Metrics and targets assist the appropriate management of the risks and opportunities associated with climate change and environmental issues. While metrics on climate and environmental-related risks are still in development, BOV is currently tracking metrics related to emissions from its own operations, to eventually develop targets for performance.

The Bank plans to develop metrics to routinely monitor the climate and sustainability performance of its portfolios. The Bank will be complying with further mandatory regulatory metrics, such as the Green Asset Ratio (GAR), and eventually the Banking Book Taxonomy Alignments Ratio (BTAR) as mandated under the Pillar 3 disclosures guidelines. The selected risk metrics and thresholds will be included in the Bank's Risk Appetite Framework in 2022.

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

2021 continued to present the challenges brought about by COVID-19, however the Bank had already laid all the groundwork for working during the pandemic during 2019, and continued to hone them to continue supporting the community and to drive the BOV2023 strategy.

The drive towards more digital banking was continued using different virtual tools both for our staff members as well as our customers. Safety was always on the top spot of our agenda, but we still found ways to encourage our staff to be socially responsible, through various initiatives related to health and philanthropy while continuing to support various initiatives through the Bank's extensive Community Programme.

The Bank aligned its efforts within the community to the United Nations Sustainable Development Goals, in line with its commitments towards sustainability while continuing to navigate through the disruptions brought about by the pandemic.

The Bank's Corporate Social Responsibility are described in further detail under Principle 12 within the Corporate Governance Statement of Compliance within this Annual Report.

c) Consumer Relationships

The Bank has in place an integrated business model that is customer centric and supported by a suite of banking products and services that are delivered to its customers through both physical and digital channels.

This enables our customers to engage with the Bank through their channel of choice or to simply self-service their requirements through the Bank's digital channels.

Over the course of this year, the Bank has introduced a new service model across its branch network that is underpinned by the presence of Universal Bankers who have been upskilled to provide customers with a breadth of banking services to include consumer finance and investments amongst others.

In addition, the Bank has also launched a Virtual Branch, which is a hybrid digital channel featuring the presence of a Universal Banker where select products and services may be acquired through this channel. The Bank has also introduced new functionality on its website which allows customers to open a personal bank account and also the ability to set an appointment with the branch of their choice to discuss specific products or services.

A number of initiatives are in progress which further strengthen the ability for customers to engage with the Bank through the choice of channel.

Directors' report as at 31 December 2021 (continued)

4. Employee Matters

The total headcount of all employees is 2,030. This includes all gender (both male and female) as well as both permanent and temporary employees. A similar breakdown of the total headcount of 2,030 is also provided by Nationality below.

The full-time employment rate (%) is 97.6%. With regards to gender, the percentage of Female Board of Directors stands at 23.1% and the percentage of Female Management Cohort is 51.4%. In total, the percentage of the Bank's Female Workforce is 63.2%. Over the past months, the percentage figure of multinational workforce increased to 0.8%.

Number of employees by employment contract	Number Head count			
	Permanent		Temporary	
By Gender	Male	Female	Male	Female
Employees in Management Workforce	376	399	6	6
	333	629	124	157
By Nationality	Male	Female	Male	Female
Maltese	690	1020	120	158
Foreign	19	8	10	5

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 General Data Protection Regulation (GDPR) requirements. The due diligence process in respect to recruitment and resourcing is laid down in the Bank's Resourcing Policy. 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, 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.

The ratio of the average basic remuneration, by gender is €32,680 for the Male Workforce and €29,797 for the Female Workforce. The reason for this variance is due to the difference in tenure, with that of Males being higher than Female (on average 2.5 years). The ratio of the average basic remuneration by gender was worked out as a sum of female (or male) salary per capita/sum of all salaries per capita. Moreover, the difference in percentage terms of the total remuneration (salary) is -8.8%. The difference in total remuneration was worked out taking into consideration all levels of employment type.

The Bank is covered by a Collective Bargaining Agreement which binds the relationship between the organisation and its employees. The percentage of employees under collective bargaining agreements is 97%. The employees under collective bargaining agreement includes all employees up to managerial role less those working on part time basis and definite contract. The prevailing Collective Agreement includes several 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. As the Collective Agreement expired in December 2021, the Bank is currently negotiating the next Collective Agreement with the trade unions. The following tables depict the number of employees entitled to parental leave, the number of employees who have taken up this family friendly measure, the latter also being compared to the total labour hours. The parental leave taken is 2.3%.

Parental leave	Male	Female
Parental leave hours taken	800	83,048
Total labour hours	1,749,800	2,372,760

The Bank also 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'. The different ability employment percentage is 1.4%.

Directors' report as at 31 December 2021 (continued)

Moreover, the Bank has an Employee Assistance Programme that assists employees resolve personal or work related problems that may impact their ability to carry out their work-duties. The Bank, in conjunction with the Richmond Foundation, also offers its staff members free Mental Health Care related services on a confidential basis. 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.

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 2021 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 2021.

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 2021. The Bank is in the process of updating its Disciplinary Policy.

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 2021.

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 would be made available. There were no cases of sexual harassment in FY 2021.

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 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 duties for or on behalf of the Bank. The policy requires all the Bank entities and individuals to apply controls in order to protect against bribery and corruption risks particularly within activities such as the receiving and offering of gifts and hospitality, hiring, third party management, speaker events, sponsorships, donations, charitable giving, joint ventures, mergers, and acquisitions. Specific procedures, systems, and controls to manage bribery and corruption risks covering these activities have been outlined within the bank's procedures. Monthly controls are in place to review the 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. Additionally, specific training is delivered to employees who by nature, their role is exposed to higher risks of bribery and corruption.

Directors' report as at 31 December 2021 (continued)

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 practised 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) and Internal Control and Risk Management Committee (ICRM);
- ii) First line: revenue-generating business units – such ingrained frontline risk management internal control measures, with dedicated risk correspondents appointed to facilitate the implementation of the operational risk policies and the embedment of the Bank's risk culture across the network;
- 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 (example: 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 credit policies to reflect the Bank's Risk Appetite framework, credit scoring systems, an internal risk rating system supplemented by an Early Warning System to enable proactive monitoring, 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. The Bank's underwriting processes include a four-eye approach for business credit facilities and retail facilities of significant magnitude. The Bank has implemented more stringent policies relating to forbearance and nonperforming loans and has included more granular 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. The Bank is also currently enhancing its credit rating model, making it more granular, and whose outputs will feed into the pricing tool and the ECL model, as well as the Bank's underwriting tool. Furthermore, to mitigate the potential negative effects of COVID-19, a strategy has been implemented which enables closer monitoring of impacted customers and detailing the management and support afforded to these customers.

b) Operational Risk:

The Group defines operational risk, in line with the Basel framework, as the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events. It covers execution errors, fraud, legal, cyber, regulatory and conduct risk amongst its sub-categories.

Operational risk spans across all departments, products and channels of the Group and encompasses the entire value chain, including outsourcing service providers. 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 is timely identification, assessment and mitigation of material operational risks. This is achieved via the use of core risk management tools such as Risk and Control Self-Assessments that are required to be undertaken by every area of the Bank as well as Risk Event management, which allows to record and analyse failures and losses and derive lessons learned.

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. Over the last two years, the Bank has taken concrete measures to strengthen the Operational Risk Management Framework, enhance the core set of policies and implement robust governance arrangements and senior committees that are tasked to oversee the Operational risk portfolio of the Bank. Every area of the Bank has a dedicated Risk Correspondent, an essential role to support the embedding of Operational risk management across the whole organisation. The Group continues to invest 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. A dedicated IT solution 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.

Directors' report as at 31 December 2021 (continued)

c) Market Risk:

Market risk is the risk incurred as a result of changes in market factors such as interest rate, credit spreads and foreign exchange rates that affect the value of positions mainly in the investment portfolio). A robust and prudent Treasury Management Policy ensures that responsible and well-informed risk-taking is practiced by the Treasury function in line with the overall direction provided by ALCO and Risk Management Committee. 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). The Bank has its own Interest Rate Risk in the Banking Book (IRRBB) model to quantify risk arising under different stressed scenarios as prescribed by applicable regulatory dicta and which is premised on two approaches: the Economic Value of Equity approach and the Earnings Based approach.

d) Liquidity Risk:

Liquidity risk is the risk that the Group will be unable to meet its obligations when they fall due, or can only obtain them at an unreasonably high cost.

A range of liquidity risk management tools are used to monitor liquidity risk such as maturity ladder gap analysis and the regular updating of key metrics including: 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 and updated on an annual basis. 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 Group ensures that it is adequately capitalised to meet all regulatory requirements to achieve its strategic objectives in line with its risk appetite, and to be able to withstand unforeseen macroeconomic downturns. The Group insists that capital should be managed in a transparent and consistent manner to ensure the most efficient outcome for shareholders, whilst at the same time be compliant with all relevant regulatory conditions.

As part of the Internal Capital Adequacy Assessment 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 important capital related ratios, including the Common Equity Tier 1 capital, total Capital Adequacy Ratio and Leverage ratio.

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.

On December 17 2021, the Financial Intelligence Analysis Unit (FIAU) imposed a fine of €2.6 million on the Bank, as an administrative penalty for failing to report Beneficial Ownership information for 2,442 corporate customers in the Central Bank Account Register (CBAR) reporting to the FIAU. The Bank took immediate action to address the matter and is also carrying out a bank-wide data quality review exercise. There is no suggestion that any of the affected accounts were involved in money laundering or terrorism. The Bank continues to invest heavily in a transformation program and today is able to combat financial crime much more effectively and sustainably over the long-term.

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

Directors' report as at 31 December 2021 (continued)

(ii) Regulatory Compliance

Complying with the regulatory obligations and internal codes is the responsibility of all Group employees who must demonstrate compliance and integrity in their daily tasks. The Bank operates a three lines of defence governance model with the first line responsible for identifying and managing risk as part of their accountability for achieving objectives. The second line provides the policies, frameworks, tools, techniques and support to enable risk and compliance to be managed in the first line and conducts monitoring to assess the effectiveness of the risk management controls. The third line of defence provides independent assurance.

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 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.

Solvency	CET1	21.90%
	CAR	25.53%
	LCR	444.13%
Liquidity	NSFR	189.66%
Profitability	ROE*	5.10%

*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.

7. COVID-19

The COVID-19 pandemic continued to have an economic and social impact on a substantial number of our customers. The wide-ranging effects of the pandemic are multi-faceted and have re-defined the business model of a number of our business customers and the life style and social dynamics of our personal customers as well as that of our staff. As the largest bank in Malta, Bank of Valletta has continued to be a protagonist in taking immediate and wide-ranging actions to ensure business continuity to our commercial customers and also continued to ensure the least possible economic hardship for our personal customers.

Statement of Responsibility by the Directors pursuant to Capital Markets 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.

Signed on behalf of the Bank's Board of Directors on 22 March 2022 by Gordon Cordina (Chairman) and Rick Hunkin (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

Corporate Governance Statement of Compliance

A. INTRODUCTION

Pursuant to the Capital Markets 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 Capital Markets Rules. In terms of Capital Markets Rule 5.94, the Bank is obliged to prepare a report explaining how it has complied with the Code. For the purposes of the Capital Markets 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 ten 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 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 goes 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 competencies 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 2021, the Board consisted of the following Independent Non-Executive Directors:

- Between 1 January and 19 May 2021 there were seven (7) Independent Non-Executive Directors
- Between 20 May and 31 December 2021 there were ten (10) Independent Non-Executive Directors (three (3) of whom were approved by the regulatory authorities in December 2021)

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 in line with Code Provision 3.4 declaring that they undertake:

- to maintain in all circumstances his/her independence of analysis, decision and action;
- not to seek or accept any unreasonable advantages that could be considered as compromising his/her independence; and
- to clearly express his/her opposition in the event that s/he finds that a decision of the board may harm the company.

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.

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

Corporate governance statement of compliance (continued)

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).

The most senior Directors who have been longest in office, including persons who became Directors on the same day, due to retire during the 2022 AGM are Mr Stephen Agius (re-appointed on the Board in May 2018) and Mr James Grech (re-appointed on the Board in May 2019). Directors Stephen Agius and James Grech are both eligible for re-appointment on the Board.

Therefore, the Bank has two vacancies for Non-Executive Directors to be filled during the 2022 AGM. On the 9 February 2022, 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 four (4) individuals. An assessment of each nomination will be carried out by the Nominations and Remuneration Committee (previously Nominations and Governance Committee). As from 1 January 2022, the Remuneration Committee and the Nominations and Governance Committee were amalgamated into a single committee namely the Nominations and Remuneration Committee, with the functions currently being served by each committee to continue being carried out by the new committee. The Nominations and Remuneration Committee is co-chaired by Gordon Cordina and Antonio Piras. Stephen Agius is a member of the Committee.

Number of directorships held by members of the Board of Directors as at end December 2021, including the appointment on the Board of Bank of Valletta p.l.c.

Name of Director	Number of Directorships held: Executive Director (ED) & Non-Executive Director (NED)
Gordon Cordina (Chairman)*	2 NED and 1 ED
Stephen Agius	1 NED
Kevin J. Borg	1 NED
Miguel Borg**	3 NED and 1 ED
Diane Bugeja	1 NED
Elizabeth Camilleri	1 NED
James Grech	3 NED
Rick Hunkin	1 NED and 1 ED
Alfred Lupi	3 NED
Anita Mangion*	1 NED
Alfred Mifsud	1 NED and 1 ED
Antonio Piras	2 NED
Godfrey Swain	2 NED and 1 ED

*Gordon Cordina and Anita Mangion are not subject to the provisions of Article 91 of the CRD IV (Capital Requirements Directive) 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.

**Two of the directorships held by Miguel Borg refer to directorships of companies in the same group (BOV Group) and therefore count as a single directorship pursuant to Article 14 2A (c) (i) of the Banking Act.

Corporate governance statement of compliance (continued)

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 seventeen (17) 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.

Directors' attendance for Board Meetings during FY 2021 was as follows:

Directors' Name	Independent Directors/ Non-Independent Directors/ Executive Directors (ED)/ Non-Executive Directors (NED)	Number of Meetings held: 17 Meetings Attended by Directors:
Gordon Cordina (Chairman)	Independent NED	17
Stephen Agius	Independent NED	15
Kevin J. Borg*	Independent NED	11 (out of 12)
Miguel Borg**	ED	16
Diane Bugeja	Independent NED	16
Elizabeth Camilleri*	Independent NED	12 (out of 12)
James Grech	Non-Independent NED	17
Rick Hunkin**	ED	16
Alfred Lupi	Independent NED	15
Anita Mangion	Independent NED	17
Alfred Mifsud	Independent NED	16
Antonio Piras	Independent NED	17
Godfrey Swain*	Independent NED	12 (out of 12)

*Kevin J. Borg, Elizabeth Camilleri and Godfrey Swain were appointed to the Board during the Annual General Meeting held on 20 May 2021. Their appointment was subject to regulatory approval which was duly received on the 14 December 2021 in the case of Godfrey Swain, and on the 17 December 2021 in the case of Kevin J. Borg and Elizabeth Camilleri. Pending receipt of their regulatory approval, Mr Swain, Mr Borg and Ms Camilleri attended Board meetings as part of their directors' induction process.

**Both the Chief Executive Officer and the Chief Risk Officer were excused from attending one Board Meeting which was convened solely for Non-Executive Directors.

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 2021 were held via video conferencing. Accordingly, the attendance and participation of Directors as enlisted above during Board of Directors meetings, was in the majority of cases 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:

Corporate governance statement of compliance (continued)

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 Capital Markets 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 Capital Markets 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. More detail on his brief resume is found on pages (ii) to (iv) of the Annual Report.
- 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 the Capital Markets Rules 5.118.

Audit Committee Members' Attendance during FY 2021 was as follows:

Members	Meetings Held: 10 Meetings attended by member:
Alfred Lupi (Chairman)	10
Anita Mangion	9
Alfred Mifsud	10

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 2021 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.

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.

Corporate governance statement of compliance (continued)

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

Risk Committee Members' attendance during FY 2021 was as follows:

Members	Meetings Held: 13 Meetings attended by member:
Alfred Mifsud (Chairman)	13
Diane Bugeja (Member until 30 June 2021)	4 (out of 4)
Antonio Piras	12
Godfrey Swain (Appointed member on 1 July 2021)	7 (out of 7)

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 2021 were held via video conferencing. Accordingly, the attendance and participation of Members as enlisted above, during Risk Committee meetings, was in the majority of cases 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), Antonio Piras and Godfrey Swain.

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.

Compliance and Anti Financial Crime Committee Members' attendance during FY 2021 was as follows:

Members	Meetings Held: 6 Meetings attended by member
Diane Bugeja (Chairperson)	6
Kevin J. Borg (Appointed member on 1 July 2021)	2 (out of 2)
Alfred Mifsud (Member until 30 June 2021)	4 (out of 4)
Gordon Cordina	5

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 2021 were held via video conferencing. Accordingly, the attendance and participation of Members as enlisted above, during Compliance and Anti-Financial Crime Committee meetings, was in the majority of cases via video conferencing.

The CEO, the Chief Risk Officer, the Group Chief Compliance Officer 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 Anti-Financial Crime Committee.

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 (Directors & Executive Committee) 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 of mind and time-commitment (availability).

Corporate governance statement of compliance (continued)

Board Diversity Policy

This Policy was adopted by the Bank's Board during the period under review, to set out the approach towards gender diversity on the Board of Directors. The under-represented gender on the Bank's Board of Directors is currently the female gender. As at end of Financial Year 2021, the Bank had 3 female directors out of a total of 13 directors.

Through the implementation of this Policy the Bank is committed to maintain at least three female Directors and aims to achieve a minimum of 33% female representation on the Board of Directors by end of FY 2023.

The Policy has been drafted in line with European Securities and Markets Authority (ESMA) and European Banking Authority (EBA) guidelines on the assessment of suitability of members of the management body and key function holders, as well as in line with the requirements of Article 88 of the CRD V (Capital Requirements Directive).

The Policy prescribes that during the nomination process, both men and women shall be approached to submit their nominations, provided they meet the Bank's suitability criteria. All nominees will be assessed on the same criteria, irrespective of gender. On an annual basis the Nominations and Governance Committee will submit a report to the Board on the process implemented in relation to Board members appointment. Gender diversity balance will also be taken into consideration, when conducting the annual evaluation of the Board and its Committees effectiveness.

Learning and Self-Development Policy

The Bank's Learning & Development Centre is an integral part of the Bank's strategy to invest in human capital by providing professional training programs. Its main goal is to develop employees' skills, improve employee retention and address business and regulatory exigencies in an increasingly demanding and rigorous regulatory landscape. Internally developed training programs are blended with available external training opportunities to broaden our employees' existing skill sets, whilst bringing in new ways of thinking and problem-solving. To this end, the BOV Learning & Development Centre has an e-learning platform, intended to give its employees the opportunity to develop themselves further, both at the workplace and in the comfort of their home.

The Bank remains committed to keep supporting its employees both professionally and academically, thus it commits the necessary resources and time to ensure continuous development through the Learning and Self-Development Policy. This Policy encourages all Group employees both on indefinite and definite employment to continuously seek self-development. It offers assistance by way of grants, study loans and study/dissertation leave in line with the Bank's current business needs. The main scope is to broaden the knowledge and skills required for a suitable performance in their current role. The following table depicts the average hours of training undertaken by all employees.

	Hours
Average number of hours of training (per person) that the Group's employees have undertaken during FY 2021	40
Total number of hours of training during FY 2021	81,893

The Bank also has a performance management process which is aligned and consistent with the Bank's structure and objectives. This process aims to deliver open and continuous communication through various channels for both appraisers and appraisees, provide improved templates, hands-on training, and clearly defined timelines. At the end of 2021, employees were requested to complete their self-appraisal and reflect on their respective achieved targets, agree on a performance rating with their appraiser, as well as take this opportunity to discuss areas of future focus and objectives for 2022. The number of employees receiving regular performance and career development is 1786. Specifically, 40% of the performance reviews were conducted with male employees and 60% with female employees. 96% of the total employees who received a performance review were on a permanent employment contract.

Percentage of total employees by gender and by employee category who received a regular performance and career development review

Clerk	%	Level 1	%	Level 2	%	Level 3	%	Level 4	%
F	50%	F	27%	F	56%	F	67%	F	73%
M	50%	M	73%	M	44%	M	33%	M	27%

Level 5	%	Level 6	%	Level 7	%	Level 8	%	Level 9	%
F	68%	F	65%	F	50%	F	36%	F	43%
M	32%	M	35%	M	50%	M	64%	M	57%

Level 10	%	EXCO-1	%
F	38%	F	24%
M	62%	M	76%

Corporate governance statement of compliance (continued)

Number of employees receiving regular performance and career development reviews

Clerk	2	Level 1	15	Level 2	166	Level 3	131	Level 4	339	Level 5	381
F	1	F	4	F	93	F	88	F	246	F	258
M	1	M	11	M	73	M	43	M	93	M	123

Level 6	311	Level 7	184	Level 8	113	Level 9	74	Level 10	13	EXCO-1	54
F	201	F	92	F	41	F	32	F	5	F	13
M	110	M	92	M	72	M	42	M	8	M	41

Total employee headcount part of the performance review process is 1783.

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 Financial Year 2021, the Bank, through its Nominations and Governance Committee, engaged an independent third party to undertake 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. This assessment exercise commenced in January 2022 and the outcome of this exercise will be concluded by the end of March 2022.

Executive Committee

The Executive Committee 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.

During FY2021, the Bank has reviewed its organisation structure and has reviewed the composition of the Executive Committee by adding new roles that will enable the Executive Committee to deliver the Bank's strategy. 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 Business Banking Officer
- Chief Wealth Management Officer
- Group Chief Compliance Officer
- Chief Technology Officer
- Chief Digital Officer
- Chief People and Change Officer
- Chief Marketing & Customer Intelligence Officer

The appointment of Theodoros Papadopoulos as Chief Digital Officer is still subject to regulatory approval.

The Group Chief Internal Auditor has an open invitation to attend Executive Committee meetings at her discretion. 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 xix of this Annual Report.

Corporate governance statement of compliance (continued)

Executive Committees

Besides the Executive Committee, the Bank also has the following six (6) Executive Committees:

- Asset and Liability Management Committee
- Internal Control and Risk Management Committee
- Credit Committee
- Product Governance and Pricing Committee
- Change Management Committee
- Credit Sanctioning 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 by evaluating and approving the Internal Liquidity Adequacy Assessment Process (ILAAP) and Internal Capital Adequacy Assessment Process (ICAAP) respectively on an annual basis and 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 cautious management of balance sheet and market risks. The Committee is chaired by the Chief Executive Officer and is composed of members of Senior Management.

The **Internal Control and Risk Management Committee (ICRMC)** was set up with the responsibility for the oversight and coordination of risk management, internal controls, compliance, and AML/CFT across the Group. The ICRMC was originally constituted in February 2020 as an amalgamation of the Group Risk Compliance Committee and the Anti-Money Laundering Committee. It continued to meet regularly during 2021. The ICRMC 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 ICRMC is also responsible to advise and support the Executive Committee in the formulation of the Bank's risk appetite and to advise and support in the monitoring of the Group's actual and future risks. The ICRMC 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, whilst also taking a forward-looking perspective in respect of emerging risks. One such risk – Environmental, Social, and Governance – provides an example of the emerging risk landscape which is being focused upon by the ICRMC. 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 provides effective management oversight over the Group's main risks, AML and Compliance initiatives as well as the progress on any remediation action required by the supervisory authorities. The ICRMC is chaired by the Chief Risk Officer, whilst the Chief Compliance Officer serves as the Deputy Chair. All other ExCo members are members of the ICRMC. In late 2021, an ICRMC effectiveness review was conducted with recommendations made to further boost the Committee's effectiveness going forward. The implementation of such is expected by the end of Q1 2022.

The **Credit Committee** is responsible for assisting the Executive Committee in implementing and monitoring the credit strategy, Non-Performing Loan (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 whilst the Chief Executive Officer acts as Deputy Chair. The other members of the Committee are the Chief Business Banking Officer, Chief Retail Banking Officer, Chief Financial Officer and Executive Credit Underwriting. Other members of Senior Management may attend the Committee by invitation, when required.

The **Credit Sanctioning Committee (CSC)** was established to sanction/decide on credit facilities both in the performing and non-performing categories. The CSC is a management committee reporting to the Executive Committee with escalation to Board of Directors in line with the terms of reference. The Credit Underwriting Session, for assets within the performing category handles connected exposures above €10,000,000 whilst the Non-Performing Loans session, decides on Non-Performing exposures above €5,000,000. The CSC is chaired by the Chief Risk Officer and is made up of five members including the Chief Business Banking Officer. Three members represent the Risk function whereas the other two members represent the Corporate business side. The Executive Debt Management Department replaces one of the Risk members as a voting member for the Non-Performing Loans session. Non-voting representatives from Corporate Business and Risk may attend the Committee meetings by invitation.

The **Product Governance and Pricing Committee** 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; and
- 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.

Corporate governance statement of compliance (continued)

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 Business Banking Officer.

The **Change Management Committee's (CMC)** primary role 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. Throughout the progression of the year, the Committee absorbed within it the responsibilities previously carried out by the Strategy Implementation Steering Committee.

The above 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.

Succession Policy

During Q1 2022, the Bank established a Succession Policy for the BOV Board of Directors. The objectives of this Succession Policy are primarily the following:

- i) To establish guidelines and processes for a planned, orderly succession of Directors (both Executive and Non-Executive Directors) and filling any unplanned vacancy on the Board;
- ii) To enable new Board members to effectively succeed the Board's departing members and to contribute to governing the organization as quickly as possible;
- iii) To ensure that collectively the members of the Board have the knowledge and skills necessary to performance the governance role effectively whilst taking into account the objectives and targets defined in the Bank's Diversity Policy;
- iv) To effectively prepare Board members for leadership positions on the Board and prevent the risk of key people dependencies at the governing level.

Furthermore, in Q1 2022, the Bank established a Succession Policy for Executive Committee members and Key Function Holders. This policy aims to define and sustain the Bank's management and governance profiles through time, lessen any emerging gaps, identify and develop new talent in order to mitigate any risks that may arise from the change in the executive function and leadership whilst securing a sound and cautious management of the Bank during planned or inadvertent transitional periods.

The Nominations and Remuneration Committee is responsible for the Succession Policy for the BOV Board of Directors and the Succession Policy for Executive Committee members and Key Function Holders. Alignment with Code Provision 4.2.7 of the Capital Markets Rules is achieved given that the Chairman of the Board of Directors is also co-chairman of the Nominations and Remuneration Committee. Moreover, the Succession Policy for the BOV Board of Directors is approved by the Board of Directors, upon the recommendations of the Nominations and Remuneration Committee.

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.

The Bank has a Board Governance Manual which provides 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, Directors attended training on the roles and responsibilities of directors, conduct and ethics, regulatory expectations of banks' boards and compliance. Directors are also required to attend mandatory e-learning modules on a number of subjects including Anti-Financial Crime (AFC), Information Security Awareness, conflicts of interest, market abuse and GDPR.

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;
- Structured Induction training for new Non-Executive Directors; and
- More collaboration between Board and Management to enhance good governance and effectiveness

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 Code Provision 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 2021, the COVID-19 pandemic situation did not permit the holding of the AGM in the usual physical manner. Following health authority guidelines on the prohibition of mass gatherings, the AGM held on 20 May 2021 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.

The Chairman also ensures that arrangements are made for all Directors to attend the AGM and for the Chairman of the Audit Committee, Remuneration and Nominations and Governance Committees to be available to answer questions at the AGM.

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 an 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 on a quarterly basis, to coincide with the publication of its Financial Statements and the Interim Directors' Statement. 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 shareholding 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.

Corporate governance statement of compliance (continued)

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 2021 was as follows:

	Beneficial Interest*
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

The year 2021 ended in a very similar way as 2020, with people worldwide yearning for stability, and even though many accepted the fact that the 'old' lives would not be back anytime soon, if ever, major events throughout history have modelled the way of life for consequent years, maybe the latest most significant one being the September 11, 2001 terrorist attacks that transformed the way we travelled.

The COVID pandemic has disrupted life at its core, the way we interact with each other, the way we work, where most interactions are through a screen, that while being effective, have denied us the face-to-face contact that we have come to miss.

The COVID-19 pandemic continues to impact the community in which we operate, including subdued activity within the business community, which ultimately is impacting negatively the Bank's profitability. This notwithstanding, we, more than ever, felt the need to maintain our commitment as a socially responsible member of this community.

BOV's CSR Highlights for 2021 are detailed below:

Arts and Culture – The Artistic sector was one of the worst hit by the Pandemic, with very few events being held throughout the year. The Bank continued looking to the future through the collaboration with the Maltese Tenor through the BOV Joseph Calleja Foundation, supporting promising youths to further their studies in their art form. Since the Foundation was formed in 2013, many of its scholars have moved on to national acclaim, both locally and on the international scene.

Heritage – The Bank's Long Term collaboration with Heritage Malta for the restoration of the Gran Salon, a majestic hall within the Auberge de Provence in Valletta, is reaching its half-way mark, and this year we were rewarded with the discovery of part of the original decorations, from the times of the Knights by the restorers.

The Bank continued to support the Major Heritage trusts such as Fondazzjoni Wirt Artna, Fondazzjoni Patrimonju Malti and Din l-Art Helwa who have continued to work in the background to preserve our rich cultural and historical heritage throughout this period.

Environment – The Bank continued to create awareness about the importance of safeguarding the environment and its flora and fauna through its support of Dinja Wahda, Birdlife Malta's educational arm, with Birdlife also launching Dinja Wahda+, an action guide offering activities and resources tailor made for each age group.

The Bank introduced Green Financing Initiatives in the form of the BOV HomeEnergy Loan, a loan at subsidised interest rates for environmentally friendly upgrades for one's home. The loan benefits from the guarantee granted in the framework of the Energy Efficiency and Renewable Energy Fund of Funds ("EERE" Malta)

Social – The Pandemic continued to cause disruptions for philanthropic events during 2021, but the Bank's altruistic spirit was nonetheless kept alive through a number of initiatives organized by the Bank's CSR and Communications team for its staff.

Sport – Sports made a return in 2021, following the forced hiatus in 2020, and despite the restrictions, mainly due to the lack of supporters at the sporting venues, with sporting associations getting creative with online streaming and limited access in line with health authority directives.

The Bank continued to be the main supporter of sporting initiatives through its partnership with the main associations such as the Malta and Gozo Football Associations, the Aquatic Sports Association of Malta, the Malta Basketball Association, The Malta Ten Pin Bowling Association, the Malta Racing Club, The Malta Tennis Federation and the Royal Malta Yacht Club among others.

Corporate governance statement of compliance (continued)

Education – Bank of Valletta’s educational efforts during 2021 focused mainly on creating awareness about alternative methods of payment, such as contactless cards and secure online payments to reduce the usage of cash and cheques, further restricting the spread of the virus.

The Bank continued to promote excellence in education through its support of initiatives such as the Dean’s List within the Faculty of Arts at the University of Malta and the Chamber of Engineers Annual Awards for best projects in different categories.

Business – The Business Community continued to feel the effects of the Pandemic through subdued activity throughout the year. The Bank continued to promote online payments to stimulate buying and organised numerous educational seminars about a variety of topics such as Youth Entrepreneurship, Brexit, Business in Times of the Pandemic and Tourism with Malta’s leading constituted bodies.

The Bank officially inaugurated a new concept branch in Sliema with the aim of creating a comfortable business banking ambient using environmentally friendly materials. This branch was the first utilising this concept with other BOV Branches from its extensive network being renovated to these new standards over the coming years.

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”. A Succession Policy for the Board of Directors was established during Q1 2022. Notwithstanding that before that date the Bank did not have a Succession Policy for the Board, the concept of Rotation of Directors (as further explained under Principle 3 above) was intended to ensure continuity at Board level and is embedded within the Bank’s Memorandum and Articles of Association.

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. Furthermore, during Q1 2022 the Bank established a Succession Policy for Executive Committee members and Key Function Holders.

Principle 9 (Code Provision 9.2, 9.3 and 9.4)

Code Provision 9.2 provides that minority shareholders should be able to call special meetings on matters of importance to the company. However a minimum threshold of share ownership, as established in the Memorandum or Articles of Association of the company, should be set up before a Group or an individual may call a special meeting. The Bank does not have such a threshold included in its Memorandum or Articles. Nevertheless, as required in terms of the Capital Markets Rules, shareholders holding not less than 5% of the voting issued share capital of the Bank may request the Bank to include items on the agenda of a general meeting, of the Bank and to table draft resolutions for items included in the agenda of such general meeting.

Code Provision 9.3 requires the Bank to have in place a mechanism to resolve conflicts between minority shareholders and controlling shareholders. Despite the fact that the Bank does not have such a mechanism in place, the Bank maintains an open dialogue with all its Qualifying and Non-Qualifying shareholders to ensure no such conflicts arise.

Code Provision 9.4 requires that minority shareholders should be allowed to formally present an issue to the Board of Directors. Although the Bank does not have a policy in terms of this Code Provision, the Bank maintains an open dialogue with the Malta Association of Small Shareholders.

These Code Provisions were not applicable 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.

Corporate governance statement of compliance (continued)

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.

E. CAPITAL MARKETS RULE 5.97.5

Whilst Capital Markets Rule 5.97.5 is not applicable, the information relating to the shareholder register required by this Capital Markets 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 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 Capital Markets 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 2021 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 2021

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 Annual General Meeting was held remotely on 20 May 2021. 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 2021

Report of the Remuneration Committee as at 31 December 2021

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 2021 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.

As from 1 January 2022 the Remuneration Committee and the Nominations and Governance Committee were amalgamated into a single committee namely the Nominations and Remuneration Committee, with the functions served by each committee to continue being carried out by the new committee. The Nominations and Remuneration Committee is co-chaired by Gordon Cordina and Antonio Piras. Stephen Agius is a member on the Nominations and Remuneration Committee.

2. Meetings

The Committee held seven (7) meetings during the period under review. Antonio Piras and Steve Agius attended all seven (7) meetings. Alfred Lupi attended six (6) meetings.

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 reviewed its Remuneration Policy to ensure that it is compliant with the EU Capital Requirements Directive (CRD) V on variable pay and to ensure that risk taking is within the Bank's risk appetite framework and risk culture, and in compliance with the Bank's Code of Conduct and Ethics. The Remuneration Policy was also 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 twelve 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 or as may be determined by the Committee.

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

Remuneration report

 as at 31 December 2021 (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 2021 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. Early in 2021, all Senior Executives were given targets for the year. Risk set out the performance metrics against which each Senior Executive was individually assessed. There are 4 core elements to each performance assessment as follows:

1. Personal Performance against Targets
2. Risk Management Performance
3. Customer and Employee
4. Leadership Behavioural Assessment

During Q1 2022, an assessment of the performance of the Senior Executives was carried out by the Chief Executive Officer and approved by the Nominations and Remuneration Committee (previously Remuneration Committee). All reviews were conducted by the CEO. However, in the case of the Chief Risk Officer, Group Chief Internal Auditor and Group Chief Compliance Officer, further discussions were held with the respective Committee Chairs.

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 Capital Markets Rules.

3.2 Remuneration Policy – Directors

The Remuneration Policy for Directors was drawn up in accordance with Capital Markets 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.

During FY 2021, a base annual fee of €20,500 was paid to each Director and €80,000 was 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 2021, 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, the 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.

Remuneration report

 as at 31 December 2021 (continued)

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.

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, subject to the *de minimis* rule, in order to align the interests of Executive Directors with the long-term interests of shareholders, at least 50% of the annual bonus outcome will normally be paid out in ordinary shares of the Bank, with the balance normally be paid out in cash. For Financial Year 2021, given that the *de minimis* exceptions permitted by relevant banking regulations apply for the variable pay granted both to Rick Hunkin and to Miguel Borg, the bonus awarded to both Executive Directors shall be paid fully in cash and no part thereof will be 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	Fringe Benefits
€2,346,204*	€56,000**	€214,500	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses: €12,839

*This amount includes €289,614 and €249,691 compensation paid to two (2) former Senior Executives in connection with the termination of their activities during FY2021. Directors Fees earned by the two (2) Executive Directors are included in the Directors' Fees table below.

**This amount represents emoluments received by Senior Executives in relation to their directorships on the Bank's subsidiary companies.

Directors' Fees (Non-Executive Directors and Executive Directors)*

Fixed Remuneration	Group Directors Fees	Variable Remuneration	Share Options	Fringe Benefits
€371,003	€15,952	None	None	Non-cash benefits: health insurance and refund of out-of-pocket expenses: €19,616

*In addition to the fees paid to Non-Executive Directors, this table also includes fees earned by Executive Directors in relation to their directorships on the Bank's subsidiary companies and their membership on Board Committees of the bank's subsidiary companies.

Remuneration report

 as at 31 December 2021 (continued)

Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules

During the 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-for-directors> 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 Capital Markets Rules

Executive Directors

The Executive Directors' total remuneration as salaried employees is regulated pursuant to the Remuneration Policy for Directors, the 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 2021 (continued)

	Rick Hunkin €	Miguel Borg €	James Grech €
Fixed pay	350,273	166,503	68,067
Fringe Benefits	49,755	9,349	5,134
BOV directors' fees	20,500	20,500	22,583**
Other Group Companies directors' fees	N/A	9,000	N/A
Total Fixed Remuneration	420,528	205,352	95,784
Variable pay (cash)	46,500*	23,000	3,321
Aggregate	467,028	228,352	99,105
Fixed vs Variable Pay Ratio (%)	90 - 10	90 - 10	97 - 3

*The €46,500 bonus covers the period 1 July 2020 till 31 December 2021, following an interim period assessment undertaken by the Nominations and Remuneration Committee. The CEO contract provides for the possibility of a final bonus at the conclusion of the contract.

**Includes remuneration as member of the Strategy Advisory Group, a temporary group set up to advise the Board on the Bank's strategic implementation plan.

No Shares and Share Options were awarded in 2021.

In terms of the requirements within Appendix 12.1 of the Capital Markets Rules, the table hereunder represents the annual change of remuneration of the executive directors, of the Bank's performance, and of average remuneration on a full-time equivalent basis of the Bank's employees (excluding directors) over the previous two financial years.

	Aggregate Remuneration awarded during 2021	Percentage Annual Change of Remuneration (2020-2021)	Annual Change of the Bank's Performance based on Cost to Income Ratio (2020-2021)	Percentage Annual Change of the Bank's Performance based on Profit Before Tax (2020-2021)	Percentage Annual Change of the Average Remuneration of the Bank's employees, on a full-time equivalent basis (2020-2021)	Percentage Annual Change of the Average Remuneration of the Group's employees, on a full-time equivalent basis (2020-2021)
	€	%		%	%	%
Rick Hunkin	467,028	2%	8 percentage points*	2698%**	3.2%***	2.7%***
Miguel Borg	228,352	6%				
James Grech	99,105	7%				

*The Bank's Cost to Income ratio for FY 2021 increased by 8 percentage points when compared to 74% for FY2020.

** The percentage annual change for the Bank's performance appears to be elevated in view of the substantial impact of the pandemic on the Bank's financial results for the year ended 31 December 2020, with subdued profits driven primarily by the increase in credit loss allowances. The Bank's Profit before Tax for FY 2021 was €61,846,000 whereas Profit Before Tax for FY 2020 was €2,210,000.

*** The increase in average remuneration was computed after considering the total remuneration to employees (excluding directors) divided by full-time equivalent employees for Bank and Group for 2020 and 2021. For the purposes of this computation, total remuneration paid to employees excluded Early Retirement Scheme lump sum payments to allow for a meaningful comparison.

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:

Remuneration report

 as at 31 December 2021 (continued)

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 calculating the performance bonus payout of Senior Executives based on performance metrics, followed by applying a performance bonus rate calculation model, to calculate the respective bonus percentage.

In accordance with the Remuneration Policy for Directors, the percentage of variable remuneration received by Rick Hunkin:

- i) for the last 6 months of 2020, was approximately 10% of his fixed salary (excluding benefits), and is therefore lower than the 100% of fixed remuneration threshold ; and
- ii) for the period January to December 2021, was approximately 8% of his fixed salary (excluding benefits) and is therefore lower than 100% of fixed remuneration threshold.

In accordance with the Remuneration Policy for Directors, given that the percentage of variable remuneration received by Rick Hunkin is lower than the 100% of fixed remuneration threshold, no deferral principle applies for Rick Hunkin's bonus.

The performance and the variable remuneration of the Chief Executive Officer were reviewed and approved by the Nominations and Remuneration Committee (previously Remuneration Committee).

An assessment of the performance of Miguel Borg was carried out by the Chief Executive Officer, following discussions with the Chairman of the Risk Committee, and approved by the Remuneration Committee. The performance assessment of the Independent Control functions, including the role of the Chief Risk Officer, was based on two fixed Bank triggers, namely the Bank paying a bonus and the Bank not breaching capital requirements, individual behaviour scores, as well as individual KPIs carrying a weighting of 60%, which were based on independent metrics. In accordance with Banking Rule 21/19, the Bank adopted an assessment for the Independent Control functions, which was primarily based on fixed triggers rather than behaviours and individual objectives. The performance bonus for the Independent Control functions was also directly linked to individual independent objectives and not bank performance, in order to ensure independence.

Given that the *de minimis* exceptions permitted by relevant banking regulations apply for the variable pay granted to Miguel Borg for Financial Year 2021, the bonus awarded to him shall be paid fully in cash and no part thereof will be deferred to a later year/s. The amount of variable pay to be received by Miguel Borg amounts to approximately 14% 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 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 to be received by James Grech amounts to approximately 5% of his fixed salary and is lower than the 95% of fixed pay threshold. No deferral requirements applied to James Grech during performance year 2021.

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.

Information on annual emoluments paid to Non-Executive Directors is outlined in section 3.2 above.

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. As per Bank's Remuneration Policy for Directors, Non-Executive Directors are not eligible to participate in the annual bonus plan or pension arrangement. In this regard, the ratio of Fixed vs Variable Pay for the Bank's Non-Executive Directors is 100% - 0%.

Remuneration report

 as at 31 December 2021 (continued)

Non-Executive Directors' fees and benefits	FY2020	FY2020	Total 2020	FY2021	FY 2021	Total 2021	Percentage Annual Change of Aggregate Emoluments (2020 - 2021)	Annual Change of the Bank's Performance based on Cost to Income Ratio (2020-2021)	Percentage Annual Change of the Bank's Performance based on Profit Before Tax (2020-2021)	Percentage Annual Change of the Average Remuneration of the Bank's employees, on a full-time equivalent basis (2020-2021)	Percentage Annual Change of the Average Remuneration of the Group's employees, on a full-time equivalent basis (2020-2021)
	Fees	Fringe Benefits		Fees	Fringe Benefits						
	€	€		€	€						
Gordon Cordina (Chairman) *	19,228	-	19,228	88,833	1,444	90,277	-2%*	8 percentage points**	2698%*****	3.2%*****	2.7%*****
Stephen Agius	26,500	1,534	28,034	27,083	2,063	29,146	4%				
Diane Bugeja	32,230	729	32,959	30,000	2,302	32,302	-2%				
James Grech	20,500	1,326	21,826	22,583	1,534	24,117	10%				
Alfred Lupi***	53,741	1,976	55,717	31,500	3,185	34,685	-38%				
Alfred Mifsud	32,230	2,964	35,194	30,000	4,004	34,004	-3%				
Anita Mangion	23,500	1,326	24,826	25,583	2,366	27,949	13%				
Antonio Piras	29,287	-	29,287	28,500	-	28,500	-3%				
Elizabeth Camilleri (appointed 20 May 2021) ****	-	-	-	16,140	-	16,140	n/a				
Godfrey Swain (appointed 20 May 2021) ****	-	-	-	14,890	441	15,331	n/a				
Kevin J. Borg (appointed 20 May 2021) ****	-	-	-	14,890	588	15,478	n/a				
Total	237,216	9,855	247,071	330,002	17,927	347,929					

*Percentage annual change of aggregate emoluments (2020-2021) was based on annualised remuneration for 2020. Dr Gordon Cordina was appointed Chairman of the Bank on the 13th of October 2020.

**The Bank's Cost to Income ratio for FY 2021 increased by 8 percentage points when compared to 74% for FY2020.

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

****Elizabeth Camilleri, Godfrey Swain and Kevin J. Borg were appointed Directors on the Board of Directors during the Bank's Annual General Meeting held on the 20 May 2021. Their appointment was subject to regulatory approval which was subsequently received in December 2021.

*****The percentage annual change for the Bank's performance appears to be elevated in view of the substantial impact of the pandemic on the Bank's financial results for the year ended 31 December 2020, with subdued profits driven primarily by the increase in credit loss allowances. The Bank's Profit before Tax for FY 2021 was €61,846,000 whereas Profit Before Tax for FY 2020 was €2,210,000.

*****The increase in average remuneration was computed after considering the total remuneration to employees (excluding directors) divided by full-time equivalent employees for Bank and Group for 2020 and 2021. For the purposes of this computation, total remuneration paid to employees excluded Early Retirement Scheme lump sum payments to allow for a meaningful comparison.

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.

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 Capital Markets Rules.

Remuneration report as at 31 December 2021 (continued)

The Directors' Remuneration Report for 2020 was approved at the Annual General Meeting held on 20 May 2021, with 311,724,454 votes in favour, 1,895,323 votes against and 8,591,766 abstentions. There were no issues raised on the Report during the said Annual General Meeting.

The Directors' Remuneration Report in terms of Chapter 12 of the Capital Markets Rules is being put forward to an advisory vote during the 2022 Annual General Meeting pursuant to the requirements of Capital Markets Rule 12.26L.

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

Nominations report

as at 31 December 2021

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 seven meetings during the period under review.

	Meetings Held: 7
Members	Meetings attended by member
Gordon Cordina (Chairman)	7 (out of 7)
Stephen Agius*	4 (out of 4)
Diane Bugeja	6 (out of 7)
Elizabeth Camilleri**	3 (out of 3)

* Ceased to be a member on 30 June 2021

** Appointed member on 1 July 2021

During FY 2021, the Committee focused on the nomination process and suitability for the appointment of Non-Executive Directors. 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. This is in accordance with the Bank's Board Governance Manual. The Committee was also responsible to monitor any additional time commitments by Board members.

In addition, the Committee also assessed the suitability of persons nominated as members of the Executive Committee and Key Function Holders. In this respect, the Committee was actively involved in the engagement of the new Chief People and Change Officer, Chief Digital Officer, Chief Marketing and Customer Intelligence Officer and the MLRO. The Committee was also responsible for the evaluation of the effectiveness of the performance of the Board of Directors, the Chairman and the Board Committees (as further explained under Principle 7 of the Corporate Governance Statement of Compliance).

Nominations report as at 31 December 2021 (continued)

In Q1 2021, as part of the Bank's obligations pursuant to the Joint EBA and ESMA Guidelines on Fitness and Propriety of members of the Management Body and Key Function Holders (KFHs), the Nominations and Governance Committee conducted an annual ongoing assessment of the suitability of the Board Members, Executive Committee members and Key Function Holders. The assessment of suitability was done on an individual and a collective basis.

The Committee considered the Board Diversity Policy, which policy was subsequently approved by the Board. In principle, the Board Diversity Policy sets out the approach to diversity on the Board of Directors of the Bank. By virtue of this Policy the Board commits itself to maintain at least three (3) female Board members and aims to achieve a minimum 33% female representation on the Board by end of 2023.

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" a detailed curriculum vitae of every member of the Board and of the nominees is available at the Office of the Company Secretary.

As from 1st January 2022 the Remuneration Committee and the Nominations and Governance Committee were amalgamated into a single committee namely the Nominations and Remuneration Committee, with the functions currently being served by each committee to continue being carried out by the new committee.



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Independent Assurance Report

To the Shareholders of Bank of Valletta p.l.c.

Report required by Capital Markets Rules 5.98 and 12.26N issued by the Malta Financial Services Authority (the “MFSA”)

We were engaged by the Directors of Bank of Valletta p.l.c. (the “Bank”) to report on the disclosures of specific elements in the Corporate Governance Statement and the Remuneration Report (the “Disclosures”) as at 31 December 2021 as to whether they are in compliance with the corporate governance regulations and information to be provided in the Remuneration Report set out in the Capital Markets Rules issued by the MFSA (the “Capital Markets Rules”). More specifically, we are required to report on the Disclosures in the form of an independent reasonable assurance conclusion about whether:

- (a) in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have identified material misstatements with respect to the information referred to in Capital Markets Rules 5.97.4 (dealing with the Bank’s internal control and risk management systems in relation to the financial reporting process) and 5.97.5 (where a takeover bid applies). Where material misstatements are identified in relation to those requirements, we shall, in addition to our conclusion, provide an indication of the nature of such misstatements;
- (b) the Disclosures include the other information required by Capital Markets Rule 5.97, insofar as it is applicable to the Bank; and
- (c) the Disclosures include the information required by Appendix 12.1, ‘*Information to be provided in the Remuneration Report*’, to Chapter 12 of the Capital Markets Rules (as applicable).



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Independent Assurance Report

To the Shareholders of Bank of Valletta p.l.c.

Responsibilities of the Directors

The Directors are responsible for preparing and presenting the Disclosures in accordance with the requirements of the Capital Market Rules.

This responsibility includes designing, implementing and maintaining internal control as they determine is necessary to enable the preparation and presentation of the Disclosures that are free from misstatement.

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 responsible for ensuring that personnel involved in the preparation and presentation of the Disclosures are properly trained, systems are properly updated and that any changes in reporting relevant to the Disclosures encompass all significant business units.

Our Responsibilities

Our responsibility is to examine the Disclosures prepared by the Bank and to report thereon in the form of an independent reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* ("ISAE 3000") 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 Capital Markets 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.



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Independent Assurance Report

To the Shareholders of Bank of Valletta p.l.c.

Our Responsibilities (continued)

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.

The procedures selected and our determination of the nature, timing and extent of those procedures, will depend on our judgment, including the assessment of the risks of material misstatement of the preparation and presentation 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 the Bank's internal control over the preparation and 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 Capital Markets Rules 5.97.4 and 5.97.5 (as appropriate) 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.

As part of this engagement, we have not performed any procedures by way of audit, review or verification of the Disclosures nor of the underlying records or other sources from which the Disclosures were extracted.



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Independent Assurance Report

To the Shareholders of Bank of Valletta p.l.c.

Other Information

We also read the other information included in the Annual Report that contains the Disclosures, and our report thereon, in order to identify material inconsistencies, if any, with the Disclosures. We have nothing to report in this regard.

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:

- (a) in light of our knowledge and understanding of the Bank and its environment obtained in the course of the statutory audit, we have not identified material misstatements with respect to the information requirements referred to in Capital Markets Rules 5.97.4 and 5.97.5;
- (b) the Disclosures include the other information required by Capital Markets Rule 5.97; and,
- (c) the Disclosures include the information required by Appendix 12.1 to Chapter 12 of the Capital Markets Rules.

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

KPMG
Registered Auditors

22 March 2022

Statements of profit or loss

For the year ended 31 December 2021

	Note	The Group		The Bank	
		2021	2020	2021	2020
		€000	€000	€000	€000
Interest and similar income					
- on loans and advances	2	172,429	166,995	172,429	166,995
- on debt and other fixed income instruments	2	22,384	23,287	22,384	23,287
Interest expense	3	(38,503)	(43,476)	(38,503)	(43,476)
Net interest income		156,310	146,806	156,310	146,806
Fee and commission income		84,273	75,981	74,462	67,095
Fee and commission expense		(9,678)	(8,689)	(9,678)	(8,689)
Net fee and commission income	4	74,595	67,292	64,784	58,406
Dividend income		1,447	219	2,946	2,239
Trading profits	5	10,511	16,641	10,470	16,683
Net gain on investment securities and hedging instruments	6	45	657	45	657
Operating income		242,908	231,615	234,555	224,791
Employee compensation and benefits	7	(81,568)	(79,389)	(79,067)	(76,594)
General administrative expenses		(93,897)	(71,186)	(92,546)	(69,866)
Amortisation of intangible assets	20	(11,708)	(11,395)	(11,708)	(11,395)
Depreciation of property and equipment	21	(8,430)	(8,412)	(8,244)	(8,174)
Net impairment reversal/(charge)	8	18,856	(65,136)	18,856	(65,136)
Operating profit/(loss) before litigation provision		66,161	(3,903)	61,846	(6,374)
Litigation provision reversal	33	-	8,584	-	8,584
Operating profit		66,161	4,681	61,846	2,210
Share of results of equity-accounted investees, net of tax	18	14,498	10,520	-	-
Profit before tax	9	80,659	15,201	61,846	2,210
Income tax expense	10	(24,468)	(1,399)	(22,947)	(544)
Profit for the year		56,191	13,802	38,899	1,666
Earnings per share	11	9.6c	2.4c	6.7c	0.3c

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2021

	Note	The Group		The Bank	
		2021	2020	2021	2020
		€000	€000	€000	€000
Profit for the year		56,191	13,802	38,899	1,666
Other comprehensive income					
Items that are/or may be reclassified subsequently to profit or loss:					
Debt investments at FVOCI					
- change in fair value		(151)	(2,998)	(151)	(2,998)
tax thereon		53	1,049	53	1,049
- 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		(2,640)	(1,445)	(2,640)	(1,445)
tax thereon		924	506	924	506
Property revaluation	21	5,306	4,503	5,306	4,503
tax thereon		(531)	(450)	(531)	(450)
Remeasurement of actuarial losses on defined benefit plans	35	42	426	42	426
tax thereon		(15)	(149)	(15)	(149)
Other comprehensive income for the year, net of tax		2,988	1,018	2,988	1,018
Total comprehensive income		59,179	14,820	41,887	2,684

The notes are an integral part of these financial statements.

Statements of financial position

For the year ended 31 December 2021

	Note	The Group		The Bank	
		2021 €000	2020 €000	2021 €000	2020 €000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	13	4,626,066	3,798,449	4,626,066	3,798,449
Financial assets at fair value through profit or loss	14	138,986	168,500	138,823	168,340
Investments	15	3,568,669	3,279,412	3,568,669	3,279,412
Loans and advances to banks	16	452,469	479,409	452,469	479,409
Loans and advances to customers at amortised cost	17	5,097,598	4,741,443	5,097,598	4,741,443
Investments in equity-accounted investees	18	145,501	111,999	72,870	52,870
Investments in subsidiary companies	19	-	-	6,230	6,230
Intangible assets	20	56,074	59,666	56,074	59,666
Property and equipment	21	130,622	128,646	130,484	128,155
Current tax		28,640	26,759	29,205	26,093
Deferred tax	23	84,563	91,259	84,563	91,259
Assets held for realisation	40	11,740	9,958	11,740	9,958
Other assets	24	5,423	5,251	5,423	5,257
Prepayments		12,091	10,020	10,165	9,125
Total Assets		14,358,442	12,910,771	14,290,379	12,855,666
LIABILITIES					
Derivative liabilities held for risk management	14	5,485	12,391	5,485	12,391
Amounts owed to banks	25	560,117	88,031	560,117	88,031
Amounts owed to customers	26	12,176,854	11,272,289	12,185,989	11,277,692
Deferred tax	23	6,717	6,186	6,717	6,186
Other liabilities	27	203,141	161,617	202,522	160,396
Provisions	33	104,449	113,880	104,449	113,880
Derivatives designated for hedge accounting	29	12,157	16,015	12,157	16,015
Subordinated liabilities	30	163,237	163,237	163,237	163,237
Total Liabilities		13,232,157	11,833,646	13,240,673	11,837,828
EQUITY					
Called up share capital	31	583,849	583,849	583,849	583,849
Share premium account		49,277	49,277	49,277	49,277
Revaluation reserves	32	58,438	55,477	58,326	55,365
Retained earnings	32	434,721	388,522	358,254	329,347
Total Equity		1,126,285	1,077,125	1,049,706	1,017,838
Total Liabilities and Equity		14,358,442	12,910,771	14,290,379	12,855,666
MEMORANDUM ITEMS					
Contingent liabilities	33	351,362	285,775	351,362	285,775
Commitments	34	1,898,310	1,811,954	1,898,310	1,811,954

The notes are an integral part of these financial statements.

These financial statements on pages 44 to 148 were approved by the Board of Directors and authorised for issue on 22 March 2022 and signed on its behalf by Dr Gordon Cordina (Chairman), Alfred Lupi (Director) and Rick Hunkin (Chief Executive Officer) as per the Directors' Declaration on ESEF Annual Financial Report submitted in conjunction with the Annual Report and Accounts 2021.

Statements of changes in equity

For the year ended 31 December 2021

The Group	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
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 1 January 2021	583,849	49,277	55,477	388,522	1,077,125
Profit for the year	-	-	-	56,191	56,191
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(98)	-	(98)
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,716)	-	(1,716)
Property revaluation, net of tax	-	-	4,775	-	4,775
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	27	27
Total other comprehensive income	-	-	2,961	27	2,988
Total comprehensive income for the year	-	-	2,961	56,218	59,179
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(10,019)	(10,019)
At 31 December 2021	583,849	49,277	58,438	434,721	1,126,285

The notes are an integral part of these financial statement

Statements of changes in equity

For the year ended 31 December 2021 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
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 1 January 2021	583,849	49,277	55,365	329,347	1,017,838
Profit for the year	-	-	-	38,899	38,899
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(98)	-	(98)
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,716)	-	(1,716)
Property revaluation, net of tax	-	-	4,775	-	4,775
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	27	27
Total other comprehensive income	-	-	2,961	27	2,988
Total comprehensive income for the year	-	-	2,961	38,926	41,887
Transactions with owners, recorded directly in equity:					
Dividends to equity holders	-	-	-	(10,019)	(10,019)
At 31 December 2021	583,849	49,277	58,326	358,254	1,049,706

The notes are an integral part of these financial statements.

Statements of cashflows

For the year ended 31 December 2021

Note	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	269,028	250,428	259,179	237,254
Interest, commission and compensation payments	(42,405)	(45,708)	(42,405)	(45,708)
Payments to employees and suppliers	(168,867)	(161,641)	(163,920)	(158,765)
Operating profit before changes in operating assets and liabilities	57,756	43,079	52,854	32,781
(Increase)/decrease in operating assets:				
Loans and advances	(329,153)	(336,161)	(329,234)	(331,832)
Reserve deposit with Central Bank of Malta	(7,059)	(7,293)	(7,059)	(7,293)
Fair value through profit or loss financial assets	(12,732)	54,449	(12,732)	54,449
Fair value through profit or loss equity instruments	1,668	5,027	1,668	5,027
Treasury bills with original maturity of more than 3 months	69,600	(86,669)	69,600	(86,669)
Other assets	(1,580)	38,621	(1,568)	39,928
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	1,384,221	639,840	1,387,953	642,702
Other liabilities	13,071	(29,272)	13,225	(29,421)
Net cash from operating activities before tax	1,175,792	321,621	1,174,707	319,672
Tax paid	(18,691)	(26,581)	(17,704)	(24,860)
Net cash from operating activities	1,157,101	295,040	1,157,003	294,812
Cash flows from investing activities				
Dividends received	2,443	219	2,251	219
Interest received from amortised and other fixed income instruments	36,575	40,332	36,575	40,332
Injection of capital in associate (note 18)	(20,000)	-	(20,000)	-
Purchase of debt instruments	(812,470)	(1,064,821)	(812,470)	(1,064,821)
Proceeds from sale or maturity of debt instruments	523,367	805,350	523,367	805,350
Proceeds from sale of equity instruments	-	562	-	562
Purchase of property and equipment and intangible assets	(11,849)	(15,724)	(11,789)	(15,718)
Net cash used in investing activities	(281,934)	(234,082)	(282,066)	(234,076)
Cash flows from financing activities				
Interest paid on debt securities and subordinated liabilities	(5,776)	(6,457)	(5,776)	(6,457)
Repayment of debt securities	-	(70,993)	-	(70,993)
Payment of lease liabilities	(1,919)	(1,704)	(1,689)	(1,482)
Net cash used in financing activities	(7,695)	(79,154)	(7,465)	(78,932)
Net change in cash and cash equivalents before fx changes	867,472	(18,196)	867,472	(18,196)
Effect of exchange rate changes on cash and cash equivalents	(250)	112	(250)	112
Net change in cash and cash equivalents after effect of exchange rate changes	867,222	(18,308)	867,222	(18,308)
Net change in cash and cash equivalents	867,472	(18,196)	867,472	(18,196)
Cash and cash equivalents at 1 January	3,950,672	3,968,868	3,950,672	3,968,868
Cash and cash equivalents at 31 December	4,818,144	3,950,672	4,818,144	3,950,672

The notes are an integral part of these financial statements.

Notes to the financial statements 31 December 2021

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.

References to the 'Group' applies also to the 'Bank'

Going concern

Stress testing scenarios were carried out to evaluate the appropriateness of the going concern basis in preparing the financial statements for 2021.

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, and the eventuality of losing the Deulemar appeal case (note 33). 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. The capital ratios will be materially impacted under an improbable extreme scenario amalgamating a prolonged latent COVID-19 economic recession with the materialisation of the claim on the Deulemar case. However, under such extreme scenario, the Bank would still be able to meet the Total SREP (the supervisory review and evaluation process) Capital requirement.

Taking the full Deulemar loss of €371m as at the end of December 2021, the Bank will still be able to meet all capital requirements including the Pillar 2 requirement (P2R) and the combined buffer requirements. The deterioration in the capital ratios will only result in a minor breach of the Pillar 2 guidance (P2G) which is not a binding regulatory requirement.

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 development of different stress testing scenarios. Given the excessive liquidity position, with an LCR above 400%, the liquidity position can only trigger a breach in the Liquidity Coverage Ratio (LCR) ratio following deposit withdrawals above €5bn.

The Bank has an MREL deficit that it needs to remedy by the end 2023, in line with supervisory expectations. The Bank is currently not in breach of MREL requirements, however, it has an approved issuance plan to remedy this deficit. In the meantime, the Bank is meeting the interim targets.

Based on 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.

New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS19 (issued on 25 June 2020)
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (issued on 27 August 2020)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16) (issued in May 2020)

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2022 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:

Effective date	Title	Key Requirements
1 January 2022	<i>Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16 (issued on 14 May 2020)</i>	The amendment to IAS 16 <i>Property, Plant and Equipment</i> (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.
1 January 2022	<i>Annual Improvements to IFRS Standards 2018–2020 (issued on 14 May 2020)</i>	The following improvements were finalised in May 2020: <ul style="list-style-type: none"> ▪ IFRS 9 <i>Financial Instruments</i> – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. ▪ IFRS 16 <i>Leases</i> – amendment of illustrative example 13 in the standard to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
1 January 2022	<i>Reference to the Conceptual Framework – Amendments to IFRS 3 Business Combinations (issued on 14 May 2020)</i>	Minor amendments were made to IFRS 3 <i>Business Combinations</i> to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> and Interpretation 21 <i>Levies</i> . The amendments also confirm that contingent assets should not be recognised at the acquisition date.
1 January 2022	<i>Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37 (issued on 14 May 2020)</i>	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

1 January 2023	<i>IFRS 17 Insurance Contracts (issued on 25 June 2020)</i>	<p>IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none"> • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts and a modification of the general measurement model is also presented.</p> <p>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</p>
1 January 2023	<i>Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021)</i>	<p>'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments are intended to help preparers in deciding which accounting policies to disclose in their financial statements.</p> <p>Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) amends IAS 1 in the following ways:</p> <p>An entity is now required to disclose its material accounting policy information instead of its significant accounting policies;</p> <ul style="list-style-type: none"> • several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material; • the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial; • the amendments clarify that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and • the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. <p>In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to IAS 1.</p>

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

1 January 2023	<i>Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (issued on 12 February 2021)</i>	<p>This amendment has been published to help entities to distinguish between accounting policies and accounting estimates.</p> <p>The changes to IAS 8 focus entirely on accounting estimates and clarify the following:</p> <ul style="list-style-type: none"> • The definition of a change in accounting estimates is replaced with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. • Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. • The Board clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. • A change in an accounting estimate may affect only the current period’s profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.
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Standards and amendments not yet endorsed by the EU

The following new standards and amendments have not yet been endorsed by the EU:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current - Deferral of Effective Date (issued on 23 January 2020 and 15 July 2020 respectively) – Effective 1 January 2023
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (issued on 7 May 2021) - Effective 1 January 2023.
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information (issued on 9 December 2021) - Effective 1 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

- 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.

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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.1 Classification and measurement of financial assets (continued)

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.

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 1.25) 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 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.4 Financial Assets (continued)

1.4.3 Impairment (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.

1.6 Interest rate benchmark reform

The amendments to various standards as a result of the interest rate reform – phase 2 (refer to note 1.1) were applied for the first time in 2021.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.6 Interest rate benchmark reform (continued)

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest rate benchmark reform, the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

When changes were made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

The Phase 2 amendments provide practical relief from certain requirements in the standards to ease adoption of alternative interest rate benchmarks. These reliefs relate to modifications of financial instruments, lease contracts or hedge relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The Phase 2 amendments also require disclosure of the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The Phase 2 amendments are effective for annual periods beginning on or after 1 January 2021. The Group has early adopted the Phase 2 amendments. As a result of the limited exposure to IBOR related financial instruments, these amendments had an insignificant effect on the Group's financial statements.

IBOR Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. When the basis for determining the contractual cash flows of a financial instrument is changed as a direct consequence of interest rate benchmark reform and is made on an economically equivalent basis, the Phase 2 amendments provide a practical expedient to update the effective interest rate of a financial instrument before applying the existing requirements in the standards. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

1.7 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.

1.8 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.

1.9 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.9 Derivatives held for risk management purposes and hedge accounting (continued)

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 trading profits and net income from other financial instruments at FVTPL (refer to note 5).

1.9.1 Hedges directly affected by interest rate benchmark reform

As yet, none of the Group's hedging relationships has been impacted by the benchmark reform.

1.10 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.

1.11 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.12 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.

1.13 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.

1.13.1 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.

Notes to the financial statements 31 December 2021 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

1.3 Leases (continued)

1.13.2 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 (below €5,000) 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.

1.14 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.

1.15 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
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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.

1.16 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.17 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.

1.18 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.

1.19 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.

1.20 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.

1.21 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.

1.22 Operating Income

Operating income includes net interest income and net fee and commission income together with the dividend income, trading profits and net gain on investment securities and hedging instruments components of the statement of profit or loss.

1.23 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 in, 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.23 Fair value (continued)

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.

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.

1.24 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.

1.25 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.

Notes to the financial statements 31 December 2021 (continued)

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

1.25 Revenue recognition (continued)

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.

1.26 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.

1.27 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.

1.28 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.

1.28.1 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 discloses the determination of inputs in the IFRS 9 ECL measurement model, including key assumptions used in incorporation of forward-looking information.

1.28.2 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.

1.28.3 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.

Notes to the financial statements 31 December 2021 (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

1.28.4 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.

1.28.5 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 its 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.

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
2. INTEREST AND SIMILAR INCOME				
On loans and advances to banks	-	144	-	144
On loans and advances to customers	172,429	166,851	172,429	166,851
	172,429	166,995	172,429	166,995
On debt and other fixed income instruments				
- fair value through other comprehensive income	5,405	6,084	5,405	6,084
- amortised cost	31,286	33,529	31,286	33,529
- fair value through profit or loss	4,163	727	4,163	727
	40,854	40,340	40,854	40,340
Amortisation of discounts and premiums				
- fair value through other comprehensive income	(1,409)	(2,253)	(1,409)	(2,253)
- amortised cost	(17,061)	(14,800)	(17,061)	(14,800)
	(18,470)	(17,053)	(18,470)	(17,053)
Net interest income on debt and other fixed income instruments using the effective interest rate method	22,384	23,287	22,384	23,287
	194,813	190,282	194,813	190,282
3. INTEREST EXPENSE				
On amounts owed to banks	31	708	31	708
On interest rate swaps	4,256	4,198	4,256	4,198
On amounts owed to customers	10,229	16,325	10,229	16,325
On subordinated liabilities	5,776	6,457	5,776	6,457
Negative interest on loans to banks, treasury bills and balances with Central Bank of Malta	18,211	15,788	18,211	15,788
	38,503	43,476	38,503	43,476
4. NET FEE AND COMMISSION INCOME				
On loans and advances, similar activities and local business	39,375	35,065	39,419	35,065
On life assurance, fund management and similar activities	25,877	21,254	16,022	12,368
On other activities	9,343	10,973	9,343	10,973
	74,595	67,292	64,784	58,406

The fees and commission presented in this note include income of €26.6 million (2020: €24.4 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 over time as the services are provided.

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
5. TRADING PROFITS				
Net income on foreign exchange activities	9,036	11,302	8,998	11,343
Fair value movements and net gains on sale of financial instruments designated at fair value through profit or loss	1,471	5,336	1,468	5,337
Fair value movements and net gains on sale of financial instruments mandatorily measured at fair value through profit or loss	4	3	4	3
	<u>10,511</u>	<u>16,641</u>	<u>10,470</u>	<u>16,683</u>

6. NET GAIN ON INVESTMENTS AND HEDGING INSTRUMENTS

Amortised cost instruments				
- net gain on disposal	51	-	51	-
Financial assets at FVOCI - debt instruments				
- net gain on disposal	-	652	-	652
- net revaluation (loss)/gain attributable to hedged risk	(5,005)	3,906	(5,005)	3,906
	<u>(5,005)</u>	<u>4,558</u>	<u>(5,005)</u>	<u>4,558</u>
Derivative financial instruments				
- net gain/(loss) on derivative financial instruments held for hedging	4,999	(3,901)	4,999	(3,901)
	<u>45</u>	<u>657</u>	<u>45</u>	<u>657</u>

7. EMPLOYEE COMPENSATION AND BENEFITS

Employee compensation and benefits				
- wages and salaries	69,632	64,397	67,230	61,702
- social security costs	3,996	4,133	3,897	4,034
- retirement benefits	2,141	5,944	2,141	5,943
- other staff costs	5,799	4,915	5,799	4,915
	<u>81,568</u>	<u>79,389</u>	<u>79,067</u>	<u>76,594</u>

	No. of persons	No. of persons	No. of persons	No. of persons
The average number of employees are analysed as follows:				
Managerial	737	669	715	643
Supervisory and clerical	1,119	1,147	1,084	1,109
Others	66	68	57	60
	<u>1,922</u>	<u>1,884</u>	<u>1,856</u>	<u>1,812</u>

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
8. NET IMPAIRMENT REVERSAL/(CHARGE)				
Loans and advances to customers				
- increase in expected credit losses	(62,824)	(114,893)	(62,824)	(114,893)
- bad debts written off	(10,260)	(4,329)	(10,260)	(4,329)
	<u>(73,084)</u>	<u>(119,222)</u>	<u>(73,084)</u>	<u>(119,222)</u>
Loans and advances to customers				
- decrease in expected credit losses	81,859	44,540	81,859	44,540
- recoveries of amounts previously written off	10,728	9,557	10,728	9,557
	<u>92,587</u>	<u>54,097</u>	<u>92,587</u>	<u>54,097</u>
Investments				
- increase in expected credit losses	(647)	(11)	(647)	(11)
	<u>18,856</u>	<u>(65,136)</u>	<u>18,856</u>	<u>(65,136)</u>

Net Impairment for the year includes post-model adjustment charge of €19.3 million (2020: €56.7 million) (refer to note 39.2.1.2.5).

	The Group		The Bank	
	2021	2020	2021	2020
	€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 (including VAT)				
- the audit of financial statements	844	651	804	620
- other assurance services	104	63	91	56
- tax advisory services	4	10	-	6
- other non audit services	98	71	96	71
	<u>1,050</u>	<u>795</u>	<u>991</u>	<u>753</u>
Directors' emoluments:				
- fees	406	337	389	326
- Directors' salaries as full-time bank employees	683	703	683	703
	<u>1,089</u>	<u>1,040</u>	<u>1,072</u>	<u>1,029</u>
Compensation to other key management personnel is analysed as follows				
- other fees	156	177	-	-
- short term employee benefits	1,456	732	1,456	732
	<u>1,612</u>	<u>909</u>	<u>1,456</u>	<u>732</u>
Total remuneration of Directors and other key management personnel	<u>2,701</u>	<u>1,949</u>	<u>2,528</u>	<u>1,761</u>

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
10. INCOME TAX EXPENSE				
Through profit or loss:				
Current	17,787	16,790	16,266	15,935
Deferred	6,681	(15,391)	6,681	(15,391)
	<u>24,468</u>	<u>1,399</u>	<u>22,947</u>	<u>544</u>
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:				
Profit before tax	<u>80,659</u>	<u>15,201</u>	<u>61,846</u>	<u>2,210</u>
Tax at the applicable rate of 35%	28,231	5,320	21,646	774
Tax effect of:				
Exempt and untaxed dividends	(40)	(11)	(40)	(11)
Share of results of equity-accounted investees	(5,074)	(3,682)	-	-
Withholding tax on property sales	(224)	(275)	(224)	(275)
Depreciation on premises	1,031	1,019	1,031	1,019
Non-deductible expenses	918	26	918	26
Over provision in prior years	-	(560)	-	(560)
Other differences	(374)	(438)	(384)	(429)
Income tax expense	<u>24,468</u>	<u>1,399</u>	<u>22,947</u>	<u>544</u>
Other comprehensive income				
- current	(977)	(1,783)	(977)	(1,783)
- deferred	546	599	546	599
	<u>(431)</u>	<u>(1,184)</u>	<u>(431)</u>	<u>(1,184)</u>

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 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	cents per share	cents per share	cents per share	cents per share
11. EARNINGS PER SHARE				
Earnings per share	9.6c	2.4c	6.7c	0.3c

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 €56,191,000 (2020: €13,802,000) and the Bank €38,899,000 (2020: €1,666,000) divided by 583,849,270 shares outstanding as at 31 December 2021.

12. DIVIDENDS

The amounts of dividends recognised as distributions to equity holders during the period, and the related amount per qualifying share, are as follows:

	The Bank			
	2021	2020	2021	2020
	cents per share	cents per share	€000	€000
Gross of income tax				
- interim paid	2.64	-	15,414	-
	2.64	-	15,414	-
Net of income tax				
- interim paid	1.72	-	10,019	-
	1.72	-	10,019	-

During 2021, the Directors authorised a gross ordinary dividend of €0.0264 per share amounting to €15.4 million (net ordinary dividend of €0.0172 per share net of tax amounting to €10.0million) to be paid to shareholders. Payment was affected subsequent to year end on 28 January 2022.

Dividends were paid out of profits taxed at 35%.

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

	Note	The Group		The Bank	
		2021	2020	2021	2020
		€000	€000	€000	€000
Balances with Central Bank of Malta		4,351,884	3,569,907	4,351,884	3,569,907
Malta Government Treasury Bills		188,671	158,218	188,671	158,218
Cash	36	85,511	70,324	85,511	70,324
		4,626,066	3,798,449	4,626,066	3,798,449

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 €115.7 million (2020: €108.6 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 (refer to note 3).

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€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)	29	33	29	33
Derivative financial instruments (note 14.3)	1,204	2,016	1,204	2,016
	<u>1,233</u>	<u>2,049</u>	<u>1,233</u>	<u>2,049</u>

Financial assets designated at FVTPL:

Debt and other fixed income instruments (note 14.1)	1,119	9,397	1,119	9,397
Equity and other non-fixed income instruments (note 14.2)	31,784	31,369	31,621	31,209
Loans and advances to customers (note 17)	104,850	125,685	104,850	125,685
	<u>137,753</u>	<u>166,451</u>	<u>137,590</u>	<u>166,291</u>
	<u>138,986</u>	<u>168,500</u>	<u>138,823</u>	<u>168,340</u>

In the comparative year, debt instruments of a nominal value of €12.5 million pledged in favour of the Italian Bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiuemar case, had been redeemed and funds retained with the Italian Bank with such funds classified within Loans and advances to banks (notes 15, 16 and 33). No such instruments have been pledged as at 31 December 2021.

Financial liabilities at fair value through profit or loss

Financial liabilities classified as held for trading:

Derivative financial instruments (note 14.3)	5,485	12,391	5,485	12,391
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	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000

14.1 Debt and other fixed income instruments

Issued by public bodies

- local general government	1,114	9,395	1,114	9,395
- foreign general government	6	14	6	14
	<u>1,120</u>	<u>9,409</u>	<u>1,120</u>	<u>9,409</u>

Issued by other issuers

- foreign banks	28	21	28	21
	<u>1,148</u>	<u>9,430</u>	<u>1,148</u>	<u>9,430</u>

Listing status

- listed on Malta Stock Exchange	1,114	9,395	1,114	9,395
- listed elsewhere	34	35	34	35
	<u>1,148</u>	<u>9,430</u>	<u>1,148</u>	<u>9,430</u>

Summary of movements during the year:

At the beginning of the year	9,430	33,061	9,430	33,061
Movement in accrued interest receivable	(155)	(309)	(155)	(309)
Disposals at carrying amount	(58)	-	(58)	-
Redemptions	(7,814)	(22,500)	(7,814)	(22,500)
Movement in fair value	(308)	(766)	(308)	(766)
Exchange adjustment	53	(56)	53	(56)
At the end of the year	<u>1,148</u>	<u>9,430</u>	<u>1,148</u>	<u>9,430</u>

Notes to the financial statements 31 December 2021 (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	
	2021 €000	2020 €000	2021 €000	2020 €000
Issued by other issuers				
- local banks	326	442	326	442
- foreign other	31,075	30,767	31,075	30,767
- local other	383	160	220	-
	<u>31,784</u>	<u>31,369</u>	<u>31,621</u>	<u>31,209</u>
Listing status				
- listed on Malta Stock Exchange	709	602	546	442
- foreign unlisted	31,075	30,767	31,075	30,767
	<u>31,784</u>	<u>31,369</u>	<u>31,621</u>	<u>31,209</u>
Summary of movements during the year:				
At the beginning of the year	31,369	31,381	31,209	31,221
Acquisitions	307	29	307	29
Disposals at carrying amount	(1,832)	(5,056)	(1,835)	(5,056)
Movement in fair value	1,479	5,460	1,479	5,460
Exchange adjustment	461	(445)	461	(445)
At the end of the year	<u>31,784</u>	<u>31,369</u>	<u>31,621</u>	<u>31,209</u>

14.3 Derivative financial instruments

Fair value of assets	<u>1,204</u>	<u>2,016</u>	<u>1,204</u>	<u>2,016</u>
Fair value of liabilities	<u>5,485</u>	<u>12,391</u>	<u>5,485</u>	<u>12,391</u>

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	212,088	268,086	212,088	268,086
- between 3 months and 1 year	14,120	16,507	14,120	16,507
- more than 1 year	85,466	102,860	85,466	102,860
	<u>311,674</u>	<u>387,453</u>	<u>311,674</u>	<u>387,453</u>

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
15. INVESTMENTS				
Debt and other fixed income instruments				
- measured at FVOCI (note 15.1)	106,327	124,279	106,327	124,279
- measured at amortised cost (note 15.2)	3,443,199	3,133,350	3,443,199	3,133,350
Equity and other non-fixed income instruments (note 15.3)				
- measured at FVOCI	19,143	21,783	19,143	21,783
	<u>3,568,669</u>	<u>3,279,412</u>	<u>3,568,669</u>	<u>3,279,412</u>

Investments with a nominal value of €640.1 million (2020: €144.5 million) have been pledged against the provision of credit lines by the Central Bank of Malta.

Investments with a nominal value of €40.0 million (2020: €39.7 million) have been pledged in favour of Depositor Compensation Scheme as at 31 December 2021.

As at 31 December 2021, Investments with a nominal value of €293 million (2020: €304 million) were pledged in favour of the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deiulemar case. A nominal value of €11 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	
	2021	2020	2021	2020
	€000	€000	€000	€000
Issued by public bodies				
- local general government	32,839	52,164	32,839	52,164
- local public sector	73,488	72,115	73,488	72,115
	<u>106,327</u>	<u>124,279</u>	<u>106,327</u>	<u>124,279</u>
Listing status				
- listed on Malta Stock Exchange	106,327	124,279	106,327	124,279
	<u>106,327</u>	<u>124,279</u>	<u>106,327</u>	<u>124,279</u>
Summary of movements during the year:				
At the beginning of the year	124,279	144,011	124,279	144,011
Movement in interest receivable accrued	(299)	(198)	(299)	(198)
Acquisitions	-	104,438	-	104,438
Disposals at carrying amount	-	(109,708)	-	(109,708)
Redemptions and disposals	(17,156)	(5,562)	(17,156)	(5,562)
Amortisation	(1,549)	(2,253)	(1,549)	(2,253)
Movement in fair value	(4,928)	142	(4,928)	142
Expected credit losses	12	(5)	12	(5)
Profit on disposal	-	652	-	652
Exchange adjustment	5,968	(7,238)	5,968	(7,238)
At the end of the year	<u>106,327</u>	<u>124,279</u>	<u>106,327</u>	<u>124,279</u>

As at 31 December 2021 the loss allowance on Debt Instruments at FVOCI amounts to €18,828 (2020: €30,508).

Notes to the financial statements 31 December 2021 (continued)

15.2 Debt and other fixed income instruments measured at amortised cost

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Issued by public bodies				
- local general government	1,043,285	818,415	1,043,285	818,415
- foreign general government	1,334,643	1,171,906	1,334,643	1,171,906
	<u>2,377,928</u>	<u>1,990,321</u>	<u>2,377,928</u>	<u>1,990,321</u>
Issued by other issuers				
- foreign banks	880,785	991,834	880,785	991,834
- foreign other	182,051	148,767	182,051	148,767
- other local	2,435	2,428	2,435	2,428
	<u>1,065,271</u>	<u>1,143,029</u>	<u>1,065,271</u>	<u>1,143,029</u>
	<u>3,443,199</u>	<u>3,133,350</u>	<u>3,443,199</u>	<u>3,133,350</u>
Listing status				
- listed on Malta Stock Exchange	1,045,720	820,843	1,045,720	820,843
- listed elsewhere	2,136,330	2,001,871	2,136,330	2,001,871
- foreign unlisted	261,149	310,636	261,149	310,636
	<u>3,443,199</u>	<u>3,133,350</u>	<u>3,443,199</u>	<u>3,133,350</u>

At 31 December 2021, the fair value of debt and other fixed income instruments measured at amortised cost, without deducting transaction costs, amounted to €3,464.7 million (2020: €3,207.9 million).

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Summary of movements during the year:				
At the beginning of the year	3,133,350	2,903,359	3,133,350	2,903,359
Movement in interest receivable accrued	570	(212)	570	(212)
Acquisitions	812,470	960,383	812,470	960,383
Redemptions	(506,262)	(690,732)	(506,262)	(690,732)
Amortisation	(17,061)	(14,800)	(17,061)	(14,800)
Realised profit on disposals	51	-	51	-
Impairment loss	(81)	(206)	(81)	(206)
Exchange adjustment	20,162	(24,442)	20,162	(24,442)
At the end of the year	<u>3,443,199</u>	<u>3,133,350</u>	<u>3,443,199</u>	<u>3,133,350</u>

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

Issued by other issuers				
- local other	17,632	20,090	17,632	20,090
- local Banks	100	106	100	106
- local Public	1,411	1,587	1,411	1,587
	<u>19,143</u>	<u>21,783</u>	<u>19,143</u>	<u>21,783</u>
Listing status				
- listed on Malta Stock Exchange	19,143	21,783	19,143	21,783
	<u>19,143</u>	<u>21,783</u>	<u>19,143</u>	<u>21,783</u>
Summary of movements during the year:				
At the beginning of the year	21,783	23,790	21,783	23,790
Disposals at carrying amount	-	(562)	-	(562)
Movement in fair value	(2,640)	(1,445)	(2,640)	(1,445)
At the end of the year	<u>19,143</u>	<u>21,783</u>	<u>19,143</u>	<u>21,783</u>

Notes to the financial statements 31 December 2021 (continued)

16. LOANS AND ADVANCES TO BANKS	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Repayable on call and at short notice	334,848	312,243	334,848	312,243
Term placements with other banks	112,945	159,284	112,945	159,284
Cheques in course of collection	4,676	7,882	4,676	7,882
	<u>452,469</u>	<u>479,409</u>	<u>452,469</u>	<u>479,409</u>

Balances with a carrying amount of €16.4 million (2020: €26.4 million) were held as collateral against derivative contracts.

An amount of €70.5 million (2020: €59.5 million) have been pledged in favour of the Italian bank Intesa San Paolo against the precautionary warrant of seizure in respect of Deilemar case (notes 14, 15 and 33).

17. LOANS AND ADVANCES TO CUSTOMERS	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
Repayable on call and at short notice	404,216	441,492	404,216	441,492
Term loans and advances	4,857,167	4,466,626	4,857,167	4,466,626
	<u>5,261,383</u>	<u>4,908,118</u>	<u>5,261,383</u>	<u>4,908,118</u>
Less impairment losses	(163,785)	(166,675)	(163,785)	(166,675)
Net loans and advances at amortised cost	5,097,598	4,741,443	5,097,598	4,741,443
Loans and advances designated at fair value through profit or loss (note 14)	104,850	125,685	104,850	125,685
Total loans and advances	<u>5,202,448</u>	<u>4,867,128</u>	<u>5,202,448</u>	<u>4,867,128</u>
Expected credit loss allowances	163,785	166,675	163,785	166,675
	<u>163,785</u>	<u>166,675</u>	<u>163,785</u>	<u>166,675</u>

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES

At the beginning of the year	111,999	101,479	52,870	52,870
Additions	20,000	-	20,000	-
Share of results, net of tax	14,498	10,520	-	-
Dividend received	(996)	-	-	-
At the end of the year	<u>145,501</u>	<u>111,999</u>	<u>72,870</u>	<u>52,870</u>
Amounts include:				
Local listed	34,568	31,302	22,304	22,304
Local unlisted	110,933	80,697	50,566	30,566
	<u>145,501</u>	<u>111,999</u>	<u>72,870</u>	<u>52,870</u>

On the historical cost basis, shares in equity-accounted investees of the Group, would have been included at a cost of €72.9 million (2020: €52.9 million).

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 two shareholders, Bank of Valletta p.l.c. and MAPFRE International S.A for a capital injection of a total €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 fair value of the equity-accounted investees that is publicly quoted amounted to €65.8 million (2020: €70.3 million) at 31 December 2021. The cost of this investment is €22.3 million (2020: €22.3 million).

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

Notes to the financial statements 31 December 2021 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES (continued)

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

Name of company	Equity Interest		Class	Incorporated in	Nature of Business
	2021	2020			
	%	%			
MAPFRE Middlesea p.l.c.	31.08	31.08	Ordinary Shares	Malta	Insurance
MAPFRE MSV Life p.l.c.*	50.00	50.00	Ordinary Shares	Malta	Life Assurance

Name of company	Group's share of results	
	2021	2020
	€000	€000
MAPFRE Middlesea p.l.c.	4,261	3,508
MAPFRE MSV Life p.l.c.	10,237	7,012
	<u>14,498</u>	<u>10,520</u>

*A further 15.54% (2020:15.54%) is held indirectly via another equity-accounted investee. Although the Bank has an effective participating interest of 65.54% (2020: 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 2021 in respect of the equity-accounted investees:

	2021	2020
	€000	€000
Total assets	2,831,750	2,687,424
Total liabilities	2,609,779	2,506,124
Revenues	454,047	361,596
Profit for the year	12,923	14,398
Other comprehensive income	10,947	3,806
	<u>145,501</u>	<u>111,999</u>
	<u>14,498</u>	<u>10,520</u>

The share of results of equity-accounting investees, net of tax in the Statement of Profit and Loss includes both the profit and other comprehensive income components of the associate.

The carrying amount of the equity-accounted investees is equal to the equity interest of the Bank in the net assets of the respective investees.

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 2021 (continued)

18. INVESTMENTS IN EQUITY-ACCOUNTED INVESTEEES (continued)

Entities that apply the optional temporary relief will be required to adopt IFRS 9 on 1 January 2023 which aligns with the new effective date of IFRS 17.

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 2021 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 94% of the result for the year. The PVIF represents 60% of the carrying value of the investments in equity-accounted investees.

This valuation assumes a spread of 1% (2020: 1%) between the weighted average projected investment return and the risk adjusted discount factor applied of 4% (2020: 4%). Expenses are assumed to inflate at 2% (2020: 2%).

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.

Further information can be found in the public release of financial results as issued by the associates.

Notes to the financial statements

 31 December 2021 (continued)

19. INVESTMENTS IN SUBSIDIARY COMPANIES

Name of company	Equity interest		Class	Incorporated in	Nature of Business
	2021	2020			
	%	%			
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	
		2021 €000	2020 €000
BOV Asset Management Limited		5,481	5,481
BOV Fund Services Limited		749	749
		<u>6,230</u>	<u>6,230</u>

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.

	The Group		The Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
20. INTANGIBLE ASSETS				
Software				
Cost				
1 January	101,706	91,205	101,706	91,205
Additions	8,116	10,598	8,116	10,598
Assets retired from active use	(4,355)	(97)	(4,355)	(97)
31 December	<u>105,467</u>	<u>101,706</u>	<u>105,467</u>	<u>101,706</u>
Accumulated amortisation				
1 January	42,040	30,742	42,040	30,742
Charge for the year	11,708	11,395	11,708	11,395
Accumulated amortisation on assets retired from active use	(4,355)	(97)	(4,355)	(97)
31 December	<u>49,393</u>	<u>42,040</u>	<u>49,393</u>	<u>42,040</u>
Carrying amount at 31 December	<u>56,074</u>	<u>59,666</u>	<u>56,074</u>	<u>59,666</u>
Future capital expenditure:				
- contracted but not provided for in the financial statements	1,136	269	1,136	269
- authorised by the directors but not contracted	42,304	33,115	42,304	33,115

Notes to the financial statements 31 December 2021 (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 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
Balance at 1 January 2021	125,079	33,593	29,163	187,835
Adjustment	368	-	(16)	352
Adjusted balance at 1 January 2021	125,447	33,593	29,147	188,187
Additions	3,960	1,248	261	5,469
Assets retired from active use	(416)	(1,885)	(3,804)	(6,105)
Disposals	(1,106)	-	(65)	(1,171)
Revaluation	5,306	-	-	5,306
Balance at 31 December 2021	133,191	32,956	25,539	191,686
Accumulated depreciation				
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
Balance at 1 January 2021	18,840	19,563	20,786	59,189
Adjustment	(246)	-	13	(233)
Depreciation for the period	2,864	4,002	1,564	8,430
Accumulated depreciation on assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Disposals	(233)	-	-	(233)
Balance at 31 December 2021	20,809	21,679	18,576	61,064
Carrying amount at:				
Balance at 31 December 2020	106,239	14,030	8,377	128,646
Balance at 31 December 2021	112,382	11,277	6,963	130,622

As at 31 December 2021, Property and Equipment includes right-of-use assets of €7.2 million (2020: €9.2 million) related to office premises and motor vehicles (note 22).

Adjustments represent IFRS 16 related movement emanating from updates to the subsidiaries opening balances.

Notes to the financial statements 31 December 2021 (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 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
Balance at 1 January 2021	124,378	32,942	27,278	184,598
Additions	3,961	1,194	253	5,408
Assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Disposals	(76)	-	(65)	(141)
Revaluation	5,306	-	-	5,306
Balance at 31 December 2021	133,153	32,250	23,679	189,082
Accumulated depreciation				
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
Balance at 1 January 2021	18,415	18,692	19,336	56,443
Depreciation for the year	2,743	3,957	1,544	8,244
Accumulated depreciation on assets retired from active use	(416)	(1,886)	(3,787)	(6,089)
Balance at 31 December 2021	20,742	20,763	17,093	58,598
Carrying amount at:				
Balance at 31 December 2020	105,963	14,250	7,942	128,155
Balance at 31 December 2021	112,411	11,487	6,586	130,484

As at 31 December 2021, Property and Equipment includes right-of-use assets of €8.5 million (2020: €8.8 million) related to office premises and motor vehicles (see note 22).

	The Group		The Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
Carrying amount of land and buildings occupied for own use	112,382	106,239	112,410	105,963
Future capital expenditure:				
- contracted but not provided for in the financial statements	1,328	2,229	1,328	2,229
- authorised by the directors but not contracted for	25,863	15,774	25,863	15,774

Notes to the financial statements 31 December 2021 (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:

2019: Group and Bank €49.0 million (2020: Group and Bank €47.8 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 2020. 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 €130/sqm to €960/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 €120/sqm to €529/sqm	The higher the price per square metre the higher the fair value
	Capitalisation rate, ranging from 5.31% to 8.10%	The higher the capitalisation rate the lower the fair value

Notes to the financial statements

31 December 2021 (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 (below €5,000) 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 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
Balance at 1 January 2021	8,111	1,110	9,221
Net adjustment	622	(11)	611
Additions	1,217	51	1,268
Depreciation charge for the year	(1,388)	(271)	(1,659)
Disposals	(883)	(65)	(948)
Balance at 31 December 2021	7,679	814	8,493

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
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
Balance at 1 January 2021	7,779	1,066	8,845
Additions	1,217	50	1,267
Depreciation charge for the year	(1,241)	(258)	(1,499)
Disposals	(76)	(65)	(141)
Balance at 31 December 2021	7,679	793	8,472

See note 27 for maturity analysis of lease liabilities as at 31 December 2021.

Notes to the financial statements 31 December 2021 (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 2020	235	23	258
Expenses relating to short-term leases 2020	324	38	362
	<u>559</u>	<u>61</u>	<u>620</u>
Interest on lease liabilities 2021	240	18	258
Expenses relating to short-term leases 2021	356	18	374
	<u>596</u>	<u>36</u>	<u>632</u>

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Interest on lease liabilities 2020	213	19	232
Expenses relating to short-term leases 2020	324	32	356
	<u>537</u>	<u>51</u>	<u>588</u>
Interest on lease liabilities 2021	197	16	213
Expenses relating to short-term leases 2021	356	18	374
	<u>553</u>	<u>34</u>	<u>587</u>

iii. Amounts recognised in statement of cash flows

	The Group		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2020	1,413	291	1,704
Total cash outflow for leases 2021	1,640	287	1,927

	The Bank		
	Land and Buildings	Other	Total
	€000	€000	€000
Total cash outflow for leases 2020	1,210	272	1,482
Total cash outflow for leases 2021	1,417	272	1,689

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 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€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	65,669	69,992	65,669	69,992
Allowance for employee benefits	2,943	4,046	2,943	4,046
Excess of capital allowances over depreciation	(15,669)	(14,414)	(15,669)	(14,414)
Defined benefit plans	3,339	3,354	3,339	3,354
Provisions and other temporary differences	28,000	28,000	28,000	28,000
	84,563	91,259	84,563	91,259
Deferred tax liability arising on:				
Property revaluation	6,717	6,186	6,717	6,186

	At 31 December 2020 €000	Recognised in profit or loss €000	Recognised in OCI €000	At 31 December 2021 €000
Movement in temporary differences relating to:				
Fair value movement of financial instruments	281	-	-	281
Impairment allowances	69,992	(4,323)	-	65,669
Allowance for employee benefits	4,046	(1,103)	-	2,943
Excess of capital allowances over depreciation	(14,414)	(1,255)	-	(15,669)
Defined benefit plans	3,354	-	(15)	3,339
Property revaluation	(6,186)	-	(531)	(6,717)
Provisions and other temporary differences	28,000	-	-	28,000
	85,073	(6,681)	(546)	77,846

	At 31 December 2019 €000	Recognised in profit or loss €000	Recognised in OCI €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'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 2021 (continued)

	The Group		The Bank	
	2021 €000	2020 €000	2021 €000	2020 €000
24. OTHER ASSETS				
Settlement account	4,388	3,566	4,388	3,572
Deferred expenditure	1,035	1,685	1,035	1,685
	<u>5,423</u>	<u>5,251</u>	<u>5,423</u>	<u>5,257</u>

25. AMOUNTS OWED TO BANKS

Term deposits	515,790	43,844	515,790	43,844
Repayable on demand	44,327	44,187	44,327	44,187
	<u>560,117</u>	<u>88,031</u>	<u>560,117</u>	<u>88,031</u>

During the first quarter of 2021, the Bank participated in the third targeted longer-term refinancing operations (TLTRO III) Eurosystem funding. A negative borrowing rate applies on this loan depending on the lending patterns of the Bank. The reduced interest rate is subject to the achievement of predefined lending performance thresholds and interest will be settled in arrears on the maturity of the TLTRO III operation or on early repayment. This will contribute to mitigate the costs of funding liabilities through which the Bank will continue to sustain its position as a key player in the provision of finance to local businesses and households.

Eurosystem funding as a financial liability at amortised cost in accordance with the requirements of IFRS 9 *Financial Instruments*. Negative interest on this loan is calculated using the effective interest rate.

26. AMOUNTS OWED TO CUSTOMERS

Term deposits	1,341,761	1,520,017	1,341,761	1,520,017
Repayable on demand	10,835,093	9,752,272	10,844,228	9,757,675
	<u>12,176,854</u>	<u>11,272,289</u>	<u>12,185,989</u>	<u>11,277,692</u>

27. OTHER LIABILITIES

Post employment and termination liabilities (see note 35)	18,042	21,239	18,042	21,239
Cash collateral for commitments	70,351	59,231	70,351	59,231
Deposits from companies in formation	3,428	2,202	3,428	2,202
Bills payable	46,299	32,405	46,299	32,405
Accruals and deferred income	25,780	19,511	25,288	18,910
Payment orders outwards	3,184	3,459	3,184	3,459
Lease liability (see note 28)	8,703	9,402	8,682	9,042
Dividend payable	10,019	-	10,019	-
Other	17,335	14,168	17,229	13,908
	<u>203,141</u>	<u>161,617</u>	<u>202,522</u>	<u>160,396</u>

Notes to the financial statements

 31 December 2021 (continued)

28. LEASE LIABILITY

At 31 December 2021, 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	1,277	279	1,556
Between one and five years	4,623	593	5,216
More than five years	3,985	-	3,985
Total undiscounted lease liabilities at 31 December 2021	9,885	872	10,757

Lease liabilities included in statement of financial position at 31 December 2021:

Current	1,071	265	1,336
Non-current	6,801	566	7,367
	7,872	831	8,703

	The Bank		
	Land and Buildings €000	Other €000	Total €000
Maturity analysis - Contractual undiscounted cash flows			
Less than one year	1,277	264	1,541
Between one and five years	4,623	569	5,192
More than five years	3,985	-	3,985
Total undiscounted lease liabilities at 31 December 2021	9,885	833	10,718

Lease liabilities included in statement of financial position at 31 December 2021:

Current	1,071	253	1,324
Non-current	6,802	556	7,358
	7,873	809	8,682

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000

29. DERIVATIVES DESIGNATED FOR HEDGE ACCOUNTING

Derivative financial instruments designated as fair value hedges

12,157	16,015	12,157	16,015
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Refer to note 6: Net gain on Investments and hedging instruments for the net gain/loss on the bond and hedging instrument. The impact on hedging relationships as a consequence of the interest rate benchmark reform has been disclosed in note 39.9.

The above comprise over-the-counter interest rate swaps, stated at fair value with notional amounts analysed by the remaining life as follow:

-more than 1 year

57,375	52,940	57,375	52,940
57,375	52,940	57,375	52,940

30. SUBORDINATED LIABILITIES

3.50% Euro subordinated unsecured bonds

113,130	113,130	113,130	113,130
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3.75% Euro subordinated unsecured bonds

50,107	50,107	50,107	50,107
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163,237	163,237	163,237	163,237
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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 2021 is €116.1 million (2020: €112.3 million).

The 3.75% Euro subordinated 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 2021 is €52.0 million (2020: 51.0 million).

The bonds are unsecured and subordinated to the claims of all holders of senior indebtedness.

31. SHARE CAPITAL AND SHARE PREMIUM

Share Capital

Authorised:

1,000,000,000 Ordinary shares of €1.00 each

(2020: 1,000,000,000 Ordinary shares of €1.00 each)

The Bank	
2021	2020
€000	€000

1,000,000	1,000,000
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Issued and paid up:

583,849,270 Ordinary shares of €1.00 each fully paid

(2020: 583,849,270 Ordinary shares of €1.00 each fully paid)

583,849	583,849
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Notes to the financial statements

 31 December 2021 (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 €3.3million (2020: €4.1million).

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 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
Property revaluation	5,306	5,306
Deferred tax and effect of changes in property tax rates	(531)	(531)
Balance at 31 December 2021	49,022	49,022
On fair-value-through-other comprehensive income:		
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
Fair value adjustments	(2,791)	(2,791)
Tax thereon	977	977
Balance at 31 December 2021	9,416	9,304
Total	58,438	58,326

33. PROVISIONS AND CONTINGENCIES

	The Group and the Bank			
	Financial guarantees and loan commitments provisions €000	Custody and trust litigation provision €000	Other litigation provision €000	Total €000
Provisions				
Carrying amount at 1 January 2021	32,380	80,000	1,500	113,880
Movement	(9,431)	945	(945)	(9,431)
Carrying amount at 31 December	22,949	80,945	555	104,449
	The Group		The Bank	
	2021	2020	2021	2020
Contingencies	€000	€000	€000	€000
Acceptances and endorsements	32	-	32	-
Guarantees	333,564	267,390	333,564	267,390
Other contingent liabilities	17,766	18,385	17,766	18,385
	351,362	285,775	351,362	285,775

Notes to the financial statements 31 December 2021 (continued)

33. PROVISIONS AND CONTINGENCIES (continued)

The movement of financial guarantees and loan commitments provisions relates to the off-balance sheet expected credit losses whilst the movement of custody and trust litigation provision consist of an increase in expected legal costs. Other litigation provision movement represents the release of liability following settlement of a claim.

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 2021.

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 (1.28.5). 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 be the best estimate of the amounts likely required 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 case

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 was initially 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 was up for judgement as at year end. The Bank strongly believed that the Tribunal of Torre Annunziata should have appointed 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.

Subsequent to the reporting period, on 8 February 2022, the Bank was informed by the Tribunal of Torre Annunziata that a decision against the Bank has been delivered in the aggregate of €371 million including legal interest and costs. The Bank has immediately issued a Company announcement that in line with advice received from legal counsel, and consistent with several legal opinions as to the underlying strength of the case, the Bank shall be immediately appealing this decision. As per advice of legal counsel, the judgement does not highlight any new information that might have a different bearing on the merits of the case. The Bank intends to pursue every appeal available to it.

In 2018, the Bank had placed in excess of €363m in the hands of an independent entity, following an order from the Tribunal of Torre Annunziata as precautionary security. No new assets will be made available as a result of the above decision but execution of the judgement shall take place in the coming months and this may result in the provisional transfer of title of such assets in the name of the curators. In such a case, the curators would be debarred by law from disposing of or otherwise use the proceeds from the sale of the financial instrument (Pledged Assets).

The current provision is set at €81 million and is represented by an offer of €75 million for an out-of-court settlement by the Bank to the Deiulemar bondholders plus an estimate covering legal costs. During 2020, this offer was not accepted. However, the Board of Directors as at 31 December 2021 continue 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 continue to believe that a fair hearing would eventually confirm this unless settled out of court.

Notes to the financial statements 31 December 2021 (continued)

	The Group		The Bank	
	2021	2020	2021	2020
	€000	€000	€000	€000
34. COMMITMENTS				
Undrawn documentary credits	27,710	26,730	27,710	26,730
Undrawn formal standby facilities, credit facilities and other commitments to lend	1,867,939	1,782,528	1,867,939	1,782,528
Capital expenditure contracted but not provided for in the financial statements	2,463	2,498	2,463	2,498
Commitments to financial institutions	198	198	198	198
	1,898,310	1,811,954	1,898,310	1,811,954

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 remained 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 were 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.

The movement in the plans is analysed as follows:

	The Group and the Bank	
	2021	2020
	€000	€000
Present value at 1 January	21,239	23,772
Payments effected	(5,297)	(8,053)
Recognised in profit or loss:		
- Interest expense	(133)	199
- Terminal benefits	2,275	5,747
Remeasurement of actuarial gains/(losses) recognised in other comprehensive income resulting from:		
- Experience adjustments	(272)	(435)
- Changes in financial assumptions	(116)	(162)
- Changes in demographic assumptions	346	171
Present value at 31 December	18,042	21,239

Notes to the financial statements 31 December 2021 (continued)

35. POST EMPLOYMENT AND TERMINATION LIABILITIES (continued)

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	
	2021	2020
Weighted discount rates - Euro corporate yield per Bloomberg	0.24%	0.13%
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 decreases by €1 million (increases by €1.1 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 €3.3 million (decreases by €3.3 million).

The weighted average duration of the liability in respect of the plan at 31 December 2021 is 8 years (2020: 8 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.

36. NOTES TO THE STATEMENTS OF CASH FLOWS

	Note	The Group		The Bank	
		2021 €000	2020 €000	2021 €000	2020 €000
Cash	13	85,511	70,324	85,511	70,324
Balances with Central Bank of Malta (excluding Reserve Deposit)		4,236,230	3,461,312	4,236,230	3,461,312
Treasury bills (with original maturity of less than 3 months)		135,582	35,529	135,582	35,529
Money at call and short notice		447,811	471,532	447,811	471,532
Amounts owed to banks		(86,990)	(88,025)	(86,990)	(88,025)
Cash and cash equivalents included in the statements of cash flows		4,818,144	3,950,672	4,818,144	3,950,672
Balances with contractual maturity of more than 3 months		(415,380)	130,560	(415,380)	130,560
		<u>4,402,764</u>	<u>4,081,232</u>	<u>4,402,764</u>	<u>4,081,232</u>
Equivalent items reported in the statements of financial position:					
Balances with Central Bank of Malta, Treasury bills and cash (excluding Reserve Deposit)		4,510,412	3,689,854	4,510,412	3,689,854
Loans and advances to banks		452,469	479,409	452,469	479,409
Amounts owed to banks		(560,117)	(88,031)	(560,117)	(88,031)
		<u>4,402,764</u>	<u>4,081,232</u>	<u>4,402,764</u>	<u>4,081,232</u>

Notes to the financial statements 31 December 2021 (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

	2021			2020		
	Related party balances €000	Total activity/ balance €000	% of total	Related party balances €000	Total activity/ balance €000	% of total
Interest and similar income:						
- on loans and advances						
Equity-accounted investees	21			-		
The Government	1,198			1,083		
Government related entities	14,207			14,448		
Key management personnel	24			34		
Other related parties	426			602		
	<u>15,876</u>	172,429	9%	<u>16,167</u>	166,995	10%
Interest and similar income:						
- on debt and other fixed income						
The Government	6,693	22,384	30%	8,010	23,287	34%
Interest expense						
Equity-accounted investees	1,587			2,041		
The Government	17,282			14,811		
Government related entities	92			596		
Key management personnel	2			7		
	<u>18,963</u>	38,503	49%	<u>17,455</u>	43,476	40%
Fee and commission income						
Equity-accounted investees	6,078			5,139		
The Government	2,762			1,876		
Government related entities	1,530			1,158		
Key management personnel	2			3		
Other related parties	19			19		
	<u>10,391</u>	84,273	12%	<u>8,195</u>	75,981	11%

Notes to the financial statements 31 December 2021 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Group	2021 Related party balances €000	Total activity/ balance €000	% of total	2020 Related party balances €000	Total activity/ balance €000	% of total
Short term employee compensation and benefits						
Key management personnel	2,701	81,568	3%	1,949	79,389	2%
General administrative expenses						
Equity-accounted investees	156			111		
Key management personnel	27			27		
Other related parties	21			48		
	204	93,897	0%	186	71,186	0%
Movement in impairment allowances						
The Government	(808)			817		
Government related entities	1,001			657		
Key management personnel	5			(7)		
Other related parties	(18)			(4)		
	180	18,856	1%	1,463	(65,136)	-2%
Balances with Central Bank of Malta treasury bills and cash						
The Government	4,541,065	4,626,066	98%	3,728,780	3,798,449	98%
Financial assets at fair value through profit or loss						
The Government	1,114	138,986	1%	9,395	168,500	6%
Investments						
The Government	1,076,124	3,568,669	30%	870,579	3,279,412	27%
Loans and advances to customers (net)						
The Government	32,452			37,258		
Government related entities	441,603			468,365		
Key management personnel	3,969			3,107		
Other related parties	11,914			15,280		
	489,938	5,097,598	10%	524,010	4,741,443	11%
Impairment allowances						
The Government	(50)			(858)		
Government related entities	(3,220)			(2,219)		
Key management personnel	(8)			(3)		
Other related parties	1			(17)		
	(3,277)	(163,785)	2%	(3,097)	(166,675)	2%

Notes to the financial statements 31 December 2021 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Group	2021 Related party balances €000	Total activity/ balance €000	% of total	2020 Related party balances €000	Total activity/ balance €000	% of total
Amounts owed to customers						
Equity-accounted investees	189,161			242,954		
The Government	373,436			282,746		
Government related entities	193,576			143,352		
Key management personnel	4,482			4,594		
Other related parties	3,379			4,434		
	<u>764,034</u>	<u>12,176,854</u>	<u>6%</u>	<u>678,080</u>	<u>11,272,289</u>	<u>6%</u>
Total Assets less Liabilities						
Equity-accounted investees	(189,161)			(242,954)		
The Government	5,277,269			4,362,408		
Government related entities	244,807			322,794		
Key management personnel	(521)			(1,490)		
Other related parties	8,536			10,829		
	<u>5,340,930</u>			<u>4,451,587</u>		
Commitments						
Equity-accounted investees	317			303		
The Government	76,817			19,709		
Government related entities	79,567			70,113		
Key management personnel	331			345		
Other related parties	566			900		
	<u>157,598</u>	<u>1,898,310</u>	<u>8%</u>	<u>91,370</u>	<u>1,818,970</u>	<u>5%</u>
The Bank						
Interest and similar income:						
- on loans and advances						
The Government	1,198			1,083		
Government related entities	14,207			14,448		
Key management personnel	13			16		
Other related parties	423			592		
	<u>15,841</u>	<u>172,429</u>	<u>9%</u>	<u>16,139</u>	<u>166,995</u>	<u>10%</u>
Interest and similar income:						
- on debt and other fixed income instruments						
The Government	6,693	22,384	30%	8,010	23,287	34%
Interest expense						
Equity-accounted investees	1,587			2,041		
The Government	17,282			14,811		
Government related entities	92			596		
Key management personnel	1			6		
	<u>18,962</u>	<u>38,503</u>	<u>49%</u>	<u>17,454</u>	<u>43,476</u>	<u>40%</u>

Notes to the financial statements 31 December 2021 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Bank	2021 Related party balances €000	Total activity/ balance €000	% of total	2020 Related party balances €000	Total activity/ balance €000	% of total
Fee and commission income						
Equity-accounted investees	6,078			5,139		
Subsidiaries	2,275			1,944		
The Government	2,762			1,876		
Government related entities	1,530			1,158		
Key management personnel	2			2		
Other related parties	19			14		
	<u>12,666</u>	<u>74,462</u>	<u>17%</u>	<u>10,133</u>	<u>67,095</u>	<u>15%</u>
Dividend income						
Equity-accounted investees	1,499			-		
Subsidiaries	-			2,020		
	<u>1,499</u>	<u>2,946</u>	<u>51%</u>	<u>2,020</u>	<u>2,239</u>	<u>90%</u>
Employee compensation and benefits						
Key management personnel	2,528	79,067	3%	1,761	76,594	2%
General administrative expenses						
Equity-accounted investees	156			111		
Key management personnel	26			25		
Other related parties	21			48		
	<u>203</u>	<u>92,546</u>	<u>0%</u>	<u>184</u>	<u>69,866</u>	<u>0%</u>
Movement in impairment allowances						
The Government	(808)			817		
Government related entities	1,001			657		
Key management personnel	1			(7)		
Other related parties	(1)			-		
	<u>193</u>	<u>18,856</u>	<u>1%</u>	<u>1,467</u>	<u>(65,136)</u>	<u>-2%</u>
Balances with Central Bank of Malta treasury bills and cash						
The Government	4,541,065	4,626,066	98%	3,728,780	3,798,449	98%
Financial assets at fair value through profit or						
The Government	1,114	138,823	1%	9,395	168,340	6%
Investments						
The Government	1,076,124	3,568,669	30%	870,579	3,279,412	27%
Loans and advances to customers (net)						
The Government	32,452			37,258		
Government related entities	441,603			468,365		
Key management personnel	2,915			2,527		
Other related parties	11,914			15,114		
	<u>488,884</u>	<u>5,097,598</u>	<u>10%</u>	<u>523,264</u>	<u>4,741,443</u>	<u>11%</u>

Notes to the financial statements 31 December 2021 (continued)

37. RELATED PARTY TRANSACTIONS (continued)

The Bank

	2021 Related party balances €000	Total activity/ balance €000	% of €000	2020 Related party balances €000	Total activity/ balance €000	% of €000	
Impairment allowances							
The Government	(50)			(858)			
Government related entities	(3,220)			(2,219)			
Key management personnel	(4)			(3)			
Other related parties	1			-			
	<u>(3,273)</u>	<u>(163,785)</u>	<u>2%</u>	<u>(3,080)</u>	<u>(166,675)</u>	<u>2%</u>	
Other assets							
Subsidiaries	866	141,096	1%	1,560	141,692	1%	
Amounts owed to customers							
Equity-accounted investees	189,161			242,954			
Subsidiaries	9,135			5,403			
The Government	373,436			282,746			
Government related entities	193,576			143,352			
Key management personnel	3,850			2,993			
Other related parties	3,379			3,704			
	<u>772,537</u>	<u>12,185,989</u>	<u>6%</u>	<u>681,152</u>	<u>11,277,692</u>	<u>6%</u>	
Total Assets less Liabilities							
Equity-accounted investees	(189,161)			(242,954)			
Subsidiaries	(7,776)			(3,843)			
The Government	5,277,269			4,362,408			
Government related entities	244,807			322,794			
Key management personnel	(939)			(469)			
Other related parties	8,536			11,410			
	<u>5,332,736</u>			<u>4,449,346</u>			
Commitments							
Equity-accounted investees	317			303			
The Government	76,817			19,709			
Government related entities	79,567			70,113			
Key management personnel	301			313			
Other related parties	566			722			
	<u>157,568</u>	<u>1,898,310</u>	<u>8%</u>	<u>91,160</u>	<u>1,818,970</u>	<u>5%</u>	
		The Group				The Bank	
	2021	2020		2021	2020		
	€000	€000		€000	€000		
All outstanding balances are secured except for the following:							
Loans and advances to customers:							
- Key management personnel	678	186		361	153		
- Other related parties	-	118		-	-		
	<u>678</u>	<u>304</u>		<u>361</u>	<u>153</u>		
Details of guarantees received are disclosed							
Loans and advances to customers:							
- Amounts guaranteed by The Government	350,699	365,664		350,699	365,664		

Notes to the financial statements 31 December 2021 (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 2019	1,282	61	669	49
Additions	-	69	-	50
	<u>1,282</u>	<u>130</u>	<u>669</u>	<u>99</u>
Less reductions/repayments	<u>(126)</u>	<u>-</u>	<u>(93)</u>	<u>-</u>
At 31 December 2020	1,156	130	576	99
Additions	1,528	51	475	31
	<u>2,684</u>	<u>181</u>	<u>1,051</u>	<u>130</u>
Less reductions/repayments	<u>(715)</u>	<u>(67)</u>	<u>(136)</u>	<u>(45)</u>
At 31 December 2021	<u>1,969</u>	<u>114</u>	<u>915</u>	<u>85</u>
Other key management personnel				
At 31 December 2019	2,056	370	2,056	370
Additions	-	-	-	-
	<u>2,056</u>	<u>370</u>	<u>2,056</u>	<u>370</u>
Less reductions/repayments	<u>(105)</u>	<u>(155)</u>	<u>(105)</u>	<u>(155)</u>
At 31 December 2020	1,951	215	1,951	215
Additions	241	18	241	18
	<u>2,192</u>	<u>233</u>	<u>2,192</u>	<u>233</u>
Less reductions/repayments	<u>(192)</u>	<u>(17)</u>	<u>(192)</u>	<u>(17)</u>
At 31 December 2021	<u>2,000</u>	<u>216</u>	<u>2,000</u>	<u>216</u>

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 2021 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS

The Group's reportable segments are shown in the table below.

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

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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Interest income	82,896	79,742	89,532	87,111	17,298	22,563	5,087	866	194,813	190,282
Interest expense	(2,610)	(4,083)	(2,636)	(4,146)	(3,211)	(4,877)	(30,046)	(30,370)	(38,503)	(43,476)
Fee and commission income	52,496	45,782	22,553	19,893	209	-	9,015	10,306	84,273	75,981
Fee and commission expense	(8,543)	(7,376)	(764)	(871)	-	-	(371)	(442)	(9,678)	(8,689)
Trading income	224	315	5,873	6,162	-	-	2,939	4,825	9,036	11,302
Gains from financial assets	-	-	-	-	1,520	5,996	-	-	1,520	5,996
Dividend income	-	-	-	-	1,447	219	-	-	1,447	219
Depreciation/amortisation	(11,098)	(11,609)	(3,884)	(3,488)	-	-	(5,156)	(4,710)	(20,138)	(19,807)
Other costs	(83,405)	(70,105)	(38,456)	(27,887)	(9,115)	(5,740)	(44,489)	(46,843)	(175,465)	(150,575)
Impairment (charge)/reversal	(1,805)	(14,411)	20,764	(50,516)	(103)	(209)	-	-	18,856	(65,136)
Operating profit/(loss) before litigation provision	28,155	18,255	92,982	26,258	8,045	17,952	(63,021)	(66,368)	66,161	(3,903)
Litigation provision reversal	-	8,584	-	-	-	-	-	-	-	8,584
Operating profit/(loss) before share of results of equity-accounted investees	28,155	26,839	92,982	26,258	8,045	17,952	(63,021)	(66,368)	66,161	4,681
Group share of results after tax of equity-accounted investees	-	-	-	-	14,498	10,520	-	-	14,498	10,520
Group profit before taxation for the year									80,659	15,201

Notes to the financial statements 31 December 2021 (continued)

38. SEGMENTAL INFORMATION BY CLASSES OF BUSINESS (continued)

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
ASSETS	2,716,349	2,478,324	2,576,040	2,483,969	3,655,322	3,370,309	5,078,534	4,277,858	14,026,245	12,610,460
Property and equipment and intangible assets	-	-	-	-	173,173	171,889	-	-	173,173	171,889
Additions to property and equipment and intangible assets	-	-	-	-	13,523	16,423	-	-	13,523	16,423
Carrying value of equity-accounted investees	-	-	-	-	145,501	111,999	-	-	145,501	111,999
Total Assets	2,716,349	2,478,324	2,576,040	2,483,969	3,987,519	3,670,620	5,078,534	4,277,858	14,358,442	12,910,771
LIABILITIES										
Total Liabilities	2,950,430	2,699,706	3,258,188	2,897,852	3,828,526	3,499,490	3,195,013	2,736,598	13,232,157	11,833,646

The revenue which is reported above represents revenue generated from external customers. There were no inter-segment revenue during the year (2020: 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.

Notes to the financial statements 31 December 2021 (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 2021 (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	
	2021	2020
	€000	€000
Households and individuals	2,719,877	2,486,909
Real estate activities	402,974	479,102
Financial and insurance activities	456,171	444,395
Wholesale and retail trade	374,139	367,563
Accommodation and food service activities	302,155	251,747
Construction	273,135	194,219
Transportation and storage	176,354	166,646
Manufacturing	128,525	129,533
Electricity, gas, steam and air conditioning supply	112,147	127,355
Administrative and support service activities	127,890	121,695
Professional, scientific and technical activities	122,848	100,186
Human health and social work activities	42,732	45,739
Information and communication	23,592	29,709
Arts, entertainment and recreation	38,974	28,548
Education	25,552	27,673
Other services activities	16,772	18,006
Public administration and defence, compulsory social security	15,376	9,047
Agriculture	4,506	4,679
Fishing	545	409
Water supply, sewerage waste management and remediation activities	1,890	377
Mining and quarrying	76	266
Activities of extraterritorial organisations and bodies	3	-
Loans and advances to customers	5,366,233	5,033,803
Loans and advances to banks	452,469	479,409
	5,818,702	5,513,212

Loans and advances to customers comprises gross loans and advances at amortised cost and loans and advances designated at fair value through profit and loss as per Note 17.

(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 2021 (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 Standard & Poor's. 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		Loans and Advances to Banks		Derivatives	Total
	€000	Debt Securities €000	€000	€000		
As at 31 December 2021						
AAA	4,351,884	510,476	42,747	9	4,905,116	
AA- to AA+	-	596,324	89,780	-	686,104	
A- to A+	188,671	2,154,469	152,288	153	2,495,581	
BBB- to BBB+	-	282,861	106,924	-	389,785	
Lower than BBB-	-	6,535	17,687	-	24,222	
Unrated	-	9	43,043	1,042	44,094	
	4,540,555	3,550,674	452,469	1,204	8,544,902	
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	

Notes to the financial statements 31 December 2021 (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 €000	FVOCI €000	FVTPL €000
2021			
Banks	880,785	-	28
Government	2,377,928	32,839	1,120
Public	-	73,488	-
Others	184,486	-	-
	3,443,199	106,327	1,148

	The Group		
	Amortised cost €000	FVOCI €000	FVTPL €000
2020			
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

Residency	The Group		
	Amortised cost €000	FVOCI €000	FVTPL €000
2021			
Malta	1,045,720	106,327	1,114
Monetary Union member states	1,421,997	-	6
Rest of the world	975,482	-	28
	3,443,199	106,327	1,148

	The Group		
	Amortised cost €000	FVOCI €000	FVTPL €000
2020			
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

Notes to the financial statements

 31 December 2021 (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		The Group	
	Total	Of which	Total	Of which
	2021	Forborne	2020	Forborne
	€000	€000	€000	€000
Performing				
Stage 1	4,506,916	-	4,216,884	-
Stage 2	637,392	164,047	579,430	23,234
	<u>5,144,308</u>	<u>164,047</u>	<u>4,796,314</u>	<u>23,234</u>
Non-performing				
Stage 3	221,925	115,118	237,489	92,641
	<u>221,925</u>	<u>115,118</u>	<u>237,489</u>	<u>92,641</u>
Total Gross/Forborne Exposures	<u>5,366,233</u>	<u>279,165</u>	<u>5,033,803</u>	<u>115,875</u>

Gross Forborne Exposures are analysed as follows:

	Modification in		Modification in	
	Terms	Refinancing	Terms	Refinancing
	2021	2021	2020	2020
	€000	€000	€000	€000
Performing				
Personal	18,321	191	6,920	293
Business	144,027	1,508	15,029	992
	<u>162,348</u>	<u>1,699</u>	<u>21,949</u>	<u>1,285</u>
Non-performing				
Personal	23,025	219	18,870	307
Business	87,510	4,364	69,280	4,184
	<u>110,535</u>	<u>4,583</u>	<u>88,150</u>	<u>4,491</u>

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.1 Credit Quality (continued)

The movement in forbearance activity during the period is as follows:

	Loans & Advances	
	2021	2020
	€000	€000
1 January	115,875	114,960
Additions	183,103	12,793
Retired from forborne	(19,813)	(11,878)
31 December	<u>279,165</u>	<u>115,875</u>

(iii) Analysis of past due balances

Past due up to 29 days	50,428	31,051
Past due 30 - 59 days	15,251	9,133
Past due 60 - 89 days	4,763	6,291
	<u>70,442</u>	<u>46,475</u>

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	167,523	181,348
Personal	54,402	56,141
	<u>221,925</u>	<u>237,489</u>

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 2021 and 31 December 2020.

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 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

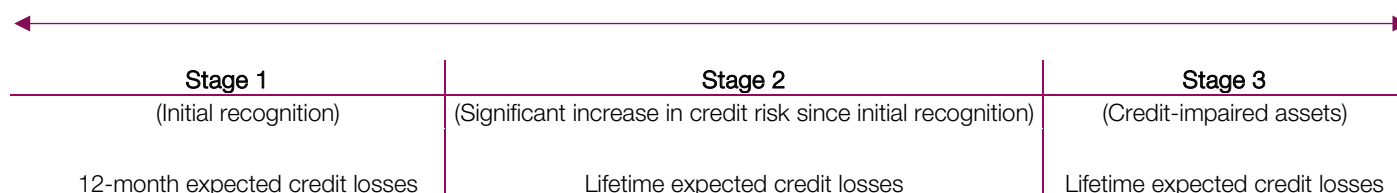
39.2.1 Credit risk management and exposure (continued)

39.2.1.2 Expected credit loss measurement (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



39.2.1.2.1 Significant increase in credit risk

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 Regular
2	4 - 5 Watch
3	6 - 11 Default

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 2021 (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
<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Internally collected data on customer behaviour -e.g. utilisation of credit card facilities Affordability metrics 	<ul style="list-style-type: none"> 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 the borrower's unlikelihood to pay.

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.

Over the past 2 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 restaging has been effected either way to allow time for market conditions to stabilise further and for operational metrics to continue to improve.

From a single name perspective, during Q1 2021, the Bank commissioned an independent review of the Bank's top 50 groups whose total balances cover 56% of the Bank's business portfolio balances. This review was independently performed by consultants where a viability assessment has been prepared and which showed that apart from some exceptions, all groups were deemed to be on the viable list. The impact from this exercise was reflected in the 2020 financial statements, in which some exposures were downgraded one notch. Since that assessment, the Bank's relationship managers and risk analysts have been monitoring these exposures closely in terms of the Credit Policy to identify any possible indicators of SICR (Significant Increase in Credit Risk) or UTP (Unlikely to Pay).

The forbearance policy provides clear guidelines about the actions that need to be taken when a concession is granted in terms of viability assessment and credit grading. This ensures that any customer who is granted a forbearance measure is adequately graded and thus the relative ECL applied.

Notes to the financial statements 31 December 2021 (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)

A review of the COVID impacted portfolio reveals that 95% of total moratoria have now expired and repayments have initiated. Only 8% of balances benefitting from a moratorium since inception of pandemic have not started repaying upon expiry. A high number of facilities have now been repaying for number of months. The total collections in terms of repayment schedule from these facilities over the last 12 months amounted to €135 million of which €130 million or 96% of total have been repaid on time. 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 30 days) on this mostly impacted portfolio is deemed low at around 4% of total balances.

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

Industry Risk	2021 Covid-19 Assistance				2020
	Balance €000	Malta Development Bank Covid Assist €000	Moratoria granted €000	of which expired moratoria €000	Balance €000
High	811,179	140,782	289,447	254,736	1,033,555
Medium	878,704	57,098	174,855	174,224	654,714
Other	3,676,350	82,928	339,628	337,833	3,345,534
Total	5,366,233	280,808	803,930	766,793	5,033,803

The total balance comprises gross loans and advances at amortised cost and loans and advances designated at fair value through profit and loss as per Note 17.

The majority of exposures with expired moratoria are now following the agreed repayment program. In those instances where loan repayments were not following the agreed repayment schedule following the expired moratoria, such exposures were deemed to have incurred a significant increase in credit risk. Consequently, such loans have been downgraded accordingly.

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 2021 (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 forbore 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 2021 (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.

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.

COVID-19 impact on PDs

As at 31st December 2021, the IFRS 9 model was updated with the Central Bank of Malta, (CBM) Quarter 4, 2021 baseline macro-economic projections instead of the model generated forecasts for GDP growth, inflation rate and unemployment rate for 2021-2024. 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 change to forecasts which reflect the national impact brought about by the pandemic is also in line with recommendations outlined in the letter sent to Banks by the European Central Bank (ECB), dated December 2020, '*Identification and measurement of credit risk in the context of the coronavirus (COVID-19) pandemic*'. The resulting change coming from the change in macro-economic variables is a reversal in provision of €1.3 million.

The following table compares the three key forecasts as per CBM issue Quarter 4: 2020 to those issued by the CBM in Quarter 4: 2021.

ECL impact on change in forecasts	December 20 CBM Forecasts				December 21 CBM Forecasts			
	2020	2021	2022	2023	2021	2022	2023	2024
Macrovariable	%	%	%	%	%	%	%	%
GDP	(7.5)	5.9	4.4	4.2	6.0	6.5	5.3	3.8
Inflation	0.8	0.9	1.4	1.6	0.7	2.1	1.9	1.8
Unemployment	4.1	3.9	3.9	3.9	3.4	3.4	3.6	3.6

As at 31 December 2021, the IFRS 9 model was updated from the two scenarios adopted as at 31 December 2020 consisting of Baseline and Severe with a 50/50 weighting, to three economic scenarios comprising of Positive, Baseline and Pessimistic with a 25/50/25 weightings, respectively. This change was deemed necessary to reflect the more positive outlook of the Maltese economy as at the end of the reporting period.

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.5 Forward-looking information (continued)

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.

Adjustments to the model including those predominantly due to COVID-19

COVID-19 impacted the global economy throughout 2020 and 2021, however recent macro-economic forecasts do indicate an improvement in unemployment levels and customer / client stress. Notwithstanding, uncertainty still prevails as COVID-19 situation remains fluid and volatile while the economy is still being highly supported by Government measures. Withdrawal of such measures is likely to have an impact on the economy, and thus on the Bank's high/medium risk outstanding exposures.

In light of the above, management has retained the 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.

A total of €76 million (2020: €56.7 million) are held as post model adjustments, of which €24.9 million are directly attributable to COVID-19 and €51.1 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:

- 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 performing exposures operating in high and medium risk sectors which are not subject to an individual assessment. 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 appropriate since the circumstances relating to COVID-19 remain uncertain. This resulted in an increase in ECL charge for the year of €7.3 million.
- The 'Accommodation and Food Services Activities' sector was by far the worst hit sector by the pandemic. Inbound tourists for 2021 were still 64.8% below 2019 levels, despite an increase of 47.0% over 2020¹. Hotel occupancy rates increased to 33.1% (2020: 25.4%), however, remain well below the 2019 occupancy rates of 65.7%². Restaurants and bars were closed down during 2021, albeit for a shorter period than for 2020, whilst a decrease in seating capacity was retained. Consequently, the sector's output contracted by an extraordinary 53.1% in real terms since 2019³. The 'Accommodation and Food Services Activities' sector is mainly made up of hotels and other accommodation property as well as restaurants, bars etc. The additional haircut on this sector of 10% remains appropriate and was maintained for 2021.
- The post model adjustment in respect of long outstanding non-performing exposures with a net charge of €11.3 million in 2021 remains appropriate and thus maintained. This is on the basis that the current economic conditions with potential latent impact of COVID-19 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.

¹ NSO News Release 019/2022 – Inbound Tourism: December 2021 dated 14 February 2022

² NSO News Release 033/2022 – Collective Accommodation Establishments: Q4/2021 dated 25 February 2022

³ NSO News Release 037/2022 – Gross Domestic Product: 2021 dated 1 March 2022

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.1 Credit risk management and exposure (continued)

39.2.1.2.6 Critical estimates

Total grossThe most significant key macroeconomic variables used for the ECL estimate as at 31 December 2021 are set out below. The scenarios "baseline", "downside" and "upside" were used for all loan portfolios.

Macro economic forecasts (2022-2026)	Downside	Baseline	Upside
	%	%	%
GDP Growth rate	1.2	5.2	9.3
Housing index	-6.2	4.7	16.2
Inflation rate	2.6	1.8	1.0
Unemployment rate	5.0	2.5	1.9
Probability (%)	25.0	50.0	25.0

As part of the annual calibration exercise, the IFRS 9 model has been updated to include a reduced number of macroeconomic variables (Gross domestic product, housing index, inflation rate and unemployment rate) to make the model more intuitive and transparent. The forecasts for money supply, interest rate and trade ratio were excluded from the model.

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 the ECL requirement for the credit portfolio, assuming the upside and downside forward-looking scenarios as the baseline and weighted at 100% instead of applying an unbiased set of probability weights.

	2021 €000
Gross performing exposures	<u>5,144,308</u>
ECL variance	
- Upside	(4,091)
- Downside	4,907

Applying a baseline scenario would approximate the probability weighted scenario.

The Group performed additional ECL runs to sensitise expected credit loss requirements to changes in the impact of macro-variable 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 2021 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	Increase in ECL €000
Inflation rate	+150	9,182
Unemployment	+100	4,760
Gross Domestic Product	-150	1,617
House Price Index	-150	179

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 €1.4 million (2020: €3.6 million), mostly arising on loans and advances to customers.

Notes to the financial statements 31 December 2021 (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 2021	Exposure	External benchmarks used LGD
Investments in debt securities within the treasury portfolio	€ 3,550,159	8% - 55% Bank for International Settlements parameters
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

All instruments are of an investment grade and as such the Bank has applied simplification rules as permitted by IFRS 9.

Notes to the financial statements 31 December 2021 (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, and 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 2021				
AAA	4,394,631	-	-	4,394,631
AA- to AA+	8,007	-	-	8,007
A- to A+	222,482	-	-	222,482
BBB- to BBB+	10,755	-	-	10,755
Lower than BBB-	-	17,671	-	17,671
	4,635,875	17,671	-	4,653,546
Loss allowance	(11)	(35)	-	(46)
Carrying amount	4,635,864	17,636	-	4,653,500
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

The Group makes use of Standard & Poor's credit ratings.

	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 2021				
Grades 1-3	4,402,066	3,918	290	4,406,274
Grades 4-5	-	633,474	61	633,535
Grades 6-11	-	-	221,574	221,574
	4,402,066	637,392	221,925	5,261,383
Loss allowance	(23,940)	(19,789)	(120,056)	(163,785)
Carrying amount	4,378,126	617,603	101,869	5,097,598
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

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 2021 (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	0.017			
Grades 4-5: Watch	0.354			
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 2021				
AAA	510,508	-	-	510,508
AA- to AA+	596,336	-	-	596,336
A- to A+	2,143,847	9,882	-	2,153,729
BBB- to BBB+	282,994	-	-	282,994
Lower than BBB-	-	6,592	-	6,592
	3,533,685	16,474	-	3,550,159
Loss allowance	(570)	(63)	-	(633)
Carrying amount	3,533,115	16,411	-	3,549,526

	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

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 2021 (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	
	2021	2020
	€000	€000
Financial assets mandatorily measured at FVTPL:		
- Debt securities	29	33
	29	33
Financial assets designated at fair value:		
- Debt securities	1,119	9,397
- Loans and advances to customers	104,850	125,685
	105,969	135,082
	105,998	135,115
Derivatives financial instruments	1,204	2,016

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 €305.6 million as at 31 December 2021.

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 2021 (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 2021

	Loans and advances to customers €000	Undrawn credit facilities and other commitments to lend €000
Loans collateralised by:		
Prime bank guarantees	30	10
Cash or quasi cash	81,861	28,495
Guarantees and/or letters of comfort issued by the Malta Government, the Central Bank of Malta or Public agencies	629,708	219,195
Residential property	2,351,848	818,658
Commercial property	1,168,211	406,644
Personal guarantees and others	184,620	64,264
	4,416,278	1,537,266

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	562,380	199,144
Residential property	2,082,413	737,407
Commercial property	1,135,471	402,083
Personal guarantees and others	49,892	17,667
	3,917,830	1,387,348

An extensive collateral valuation exercise was carried out by the Bank during the reporting period resulting in an increase in collateral of €24.8 million.

Notes to the financial statements 31 December 2021 (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 2021

	Gross carrying amount €000	Impairment allowance €000	Net carrying amount €000	Fair value of collateral held post haircut as per model €000
Credit-impaired assets				
Loans to individuals:				
- Personal Loans	5,942	(4,569)	1,373	2,015
- Home Loans	47,160	(26,116)	21,044	37,582
- Personal Overdrafts	679	(594)	85	157
- Credit Cards	621	(469)	152	-
Loans to corporate entities:				
- Business Loans	137,614	(68,131)	69,483	99,381
- Business Overdrafts	28,760	(19,036)	9,724	16,962
- Encroachments	1,149	(1,141)	8	-
Total credit-impaired assets	221,925	(120,056)	101,869	156,097

The Group

As at 31 December 2020

	Gross carrying amount €000	Impairment allowance €000	Net carrying amount €000	Fair value of collateral held post haircut as per model €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 impairment allowances on the credit-impaired assets comprises model driven expected credit loss amounting to €66.7 million (2020: €73.4 million) and post model adjustments € 53.3 million (2020: € 45.6 million). Refer to note 39.2.1.2.5

Fair value of collateral refers to architect's valuation less applicable haircuts.

Collateral valuations vary from full valuations by external independent appraisers to desktop valuations according to the Bank's collateral policy. The frequency of collateral valuations range between 1 and 3 years depending on the type of property, exposure status (i.e. whether performing or non-performing) as well as exposure range in line with the Bank's collateral policy.

Notes to the financial statements 31 December 2021 (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	2021 €000	2020 €000
Less than 25%	347,928	146,061
25% to 50%	1,204,872	475,775
51% to 75%	841,772	915,452
76% to 90%	460,540	975,710
Total	2,855,112	2,512,998

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 Capital Requirement Regulation.

Mortgage portfolio - LTV distribution	2021 Credit Impaired (Gross carrying amount) €000	2020 Credit Impaired (Gross carrying amount) €000
Lower than 25%	3,450	963
25% to 50%	15,685	6,941
51% to 75%	3,597	10,198
76% to 90%	1,305	3,182
Total	24,037	21,284

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 2021 (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 2021 (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 2021	17,362	30,558	118,755	166,675
Home Loans				
Allowances at 1 January 2021	2,224	1,383	21,844	25,451
Transfer to/(from):				
Stage 1	(8)	129	219	340
Stage 2	5	(498)	287	(206)
Stage 3	-	5	(363)	(358)
New financial assets originated*	954	246	54	1,254
Financial assets that have been derecognised	(125)	(205)	(870)	(1,200)
Write-offs	-	-	(1,316)	(1,316)
Changes to model assumptions and methodologies	(465)	(25)	-	(490)
Post-Model Adjustments	-	-	7,365	7,365
Other movements **	(1,236)	(499)	(1,104)	(2,839)
Allowances on home loans at 31 December 2021	1,349	536	26,116	28,001
Personal				
Allowances at 1 January 2021	833	588	4,803	6,224
Transfer to/(from):				
Stage 1	(35)	633	382	980
Stage 2	4	(223)	118	(101)
Stage 3	1	9	(205)	(195)
New financial assets originated*	210	78	466	754
Financial assets that have been derecognised	(87)	(31)	-	(118)
Write-offs	-	-	(1,209)	(1,209)
Changes to model assumptions and methodologies	(163)	(16)	-	(179)
Post-Model Adjustments	-	-	250	250
Other movements **	(155)	(209)	558	194
Allowances on personal at 31 December 2021	608	829	5,163	6,600
Allowances at 1 January 2021	1,475	761	1,345	3,581
Transfer to/(from):				
Stage 1	(86)	180	93	187
Stage 2	102	(367)	166	(99)
Stage 3	7	39	(322)	(276)
New financial assets originated*	67	11	8	86
Financial assets that have been derecognised	(86)	(104)	(324)	(514)
Write-offs	-	-	-	-
Changes to model assumptions and methodologies	(271)	16	-	(255)
Post-Model Adjustments	-	-	-	-
Other movements **	123	(132)	(497)	(506)
Allowances on credit cards at 31 December 2021	1,331	404	469	2,204
Business				
Allowances at 1 January 2021	12,830	27,826	90,763	131,419
Transfer to/(from):				
Stage 1	(985)	1,327	579	921
Stage 2	96	(7,406)	10,034	2,724
Stage 3	4	599	(17,626)	(17,023)
New financial assets originated*	8,227	2,997	1,513	12,737
Financial assets that have been derecognised	(377)	(1,050)	(1,185)	(2,612)
Write-offs	-	-	(7,528)	(7,528)
Changes to model assumptions and methodologies	(1,157)	(1,177)	-	(2,334)
Post-Model Adjustments	7,113	-	5,059	12,172
Other movements **	(5,099)	(5,096)	6,699	(3,496)
Allowances on business at 31 December 2021	20,652	18,020	88,308	126,980
Total allowances at 31 December 2021	23,940	19,789	120,056	163,785

Notes to the financial statements 31 December 2021 (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 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 2021 (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
Provisions on Off-Balance Sheet Exposures				
Total Provisions at 1 January 2021	9,024	9,427	13,820	32,271
Home Loans				
Provisions at 1 January 2021	718	740	414	1,872
Transfer to/(from):				
Stage 1	(1)	-	70	69
Stage 2	-	(529)	42	(487)
Stage 3	-	-	(210)	(210)
New financial assets originated*	554	37	305	896
Financial assets that have been derecognised	(65)	(115)	(18)	(198)
Write-offs	-	-	(15)	(15)
Changes to model assumptions and methodologies	(251)	(6)	-	(257)
Post-Model Adjustments	-	-	258	258
Other movements **	(338)	(73)	(82)	(493)
Provisions on home loans at 31 December 2021	617	54	764	1,435
Personal				
Provisions at 1 January 2021	59	25	79	163
Transfer to/(from):				
Stage 1	-	-	8	8
Stage 2	-	(1)	1	-
Stage 3	-	-	(5)	(5)
New financial assets originated*	49	9	2	60
Financial assets that have been derecognised	(12)	(15)	-	(27)
Changes to model assumptions and methodologies	(17)	(1)	-	(18)
Post-Model Adjustments	-	-	122	122
Other movements **	(17)	3	15	1
Provisions on personal at 31 December 2021	62	20	222	304
Credit Cards				
Provisions at 1 January 2021	413	27	49	489
Transfer to/(from):				
Stage 1	(13)	9	5	1
Stage 2	12	(14)	3	1
Stage 3	3	2	(27)	(22)
New financial assets originated*	17	-	-	17
Financial assets that have been derecognised	(36)	(5)	(13)	(54)
Changes to model assumptions and methodologies	(82)	(2)	-	(84)
Post-Model Adjustments	-	-	4	4
Other movements **	28	(2)	(1)	25
Provisions on credit cards at 31 December 2021	342	15	20	377
Business				
Provisions at 1 January 2021	7,834	8,635	13,278	29,747
Transfer to/(from):				
Stage 1	(115)	343	378	606
Stage 2	1	(844)	329	(514)
Stage 3	2	1,402	(6,717)	(5,313)
New financial assets originated*	5,630	477	199	6,306
Financial assets that have been derecognised	(885)	(181)	(2,258)	(3,324)
Changes to model assumptions and methodologies	(527)	(517)	-	(1,044)
Post-Model Adjustments	196	-	(1,747)	(1,551)
Other movements **	(3,481)	(3,844)	2,593	(4,732)
Provisions on business at 31 December 2021	8,655	5,471	6,055	20,181
Total Provisions at 31 December 2021	9,676	5,560	7,061	22,297

Notes to the financial statements 31 December 2021 (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 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)
Write-offs	-	-	-	-
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

** Other movements is comprised of changes in impairment of accounts which have not been updated nor downgraded

Notes to the financial statements 31 December 2021 (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 (2020: 7%). 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 15% (2020: 14%), with a corresponding €14.8 million increase in loss allowance (2020: €13.3 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 €10.3 million (2020: €4.3 million) resulted in the reduction of the Stage 3 expected credit losses by €10.1 million (2020: €4.1 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 2021	4,216,884	579,430	237,489	5,033,803
Home Loans				
Gross carrying amount at 1 January 2021	2,205,875	51,635	47,523	2,305,033
Transfer to/(from):				
Stage 1	(21,116)	14,317	6,263	(536)
Stage 2	12,984	(15,079)	2,952	857
Stage 3	2,389	1,485	(4,125)	(251)
New financial assets originated*	450,989	1,462	53	452,504
Financial assets that have been derecognised	(114,722)	(2,148)	(4,783)	(121,653)
Write-offs	-	-	(241)	(241)
Other changes in carrying amount **	(93,885)	(1,474)	(482)	(95,841)
Home loans gross carrying amount at 31 December 2021	2,442,514	50,198	47,160	2,539,872
Personal				
Gross carrying amount at 1 January 2021	144,906	7,752	7,222	159,880
Transfer to/(from):				
Stage 1	(5,735)	4,267	1,139	(329)
Stage 2	1,673	(2,243)	200	(370)
Stage 3	814	69	(1,017)	(134)
New financial assets originated*	39,306	476	594	40,376
Financial assets that have been derecognised	(16,195)	(871)	-	(17,066)
Write-offs	-	-	(2,524)	(2,524)
Other changes in carrying amount **	(16,871)	(900)	1,007	(16,764)
Personal gross carrying amount at 31 December 2021	147,898	8,550	6,621	163,069

Notes to the financial statements 31 December 2021 (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 at 1 January 2021	36,415	7,404	1,398	45,217
Transfer to/(from):				
Stage 1	(2,374)	2,848	131	605
Stage 2	3,391	(4,080)	226	(463)
Stage 3	214	427	(673)	(32)
New financial assets originated*	2,000	153	8	2,161
Financial assets that have been derecognised	(2,324)	(813)	(409)	(3,546)
Write-offs	-	-	-	-
Other changes in carrying amount **	1,864	(10)	(60)	1,794
Credit cards gross carrying amount at 31 December 2021	39,186	5,929	621	45,736

Business

Gross carrying amount at 1 January 2021	1,829,688	512,639	181,346	2,523,673
Transfer to/(from):				
Stage 1	(118,408)	113,627	6,394	1,613
Stage 2	22,121	(59,311)	37,204	14
Stage 3	935	32,226	(38,328)	(5,167)
New financial assets originated*	228,556	33,571	2,340	264,467
Financial assets that have been derecognised	(74,864)	(23,624)	(6,172)	(104,660)
Write-offs	-	-	(7,495)	(7,495)
Other changes in carrying amount **	(10,710)	(36,413)	(7,766)	(54,889)
Business gross carrying amount at 31 December 2021	1,877,318	572,715	167,523	2,617,556

Total Gross carrying amount at 31 December 2021	4,506,916	637,392	221,925	5,366,233
Less Allowances	(23,940)	(19,789)	(120,056)	(163,785)

Net Loans and Advances to customers	4,482,976	617,603	101,869	5,202,448
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Notes to the financial statements 31 December 2021 (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 2020	4,127,997	347,610	217,948	4,693,555
Home Loans				
Gross carrying amount 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)	3
New financial assets originated *	295,754	2,089	45	297,888
Financial assets that have been derecognised	(92,310)	(2,230)	(2,491)	(97,031)
Write-offs	-	-	(428)	(428)
Other changes in carrying amount **	(73,938)	(35)	1,251	(72,722)
Home loans gross carrying amount at 31 December 2020	2,205,875	51,635	47,523	2,305,033
Personal				
Gross carrying amount 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 at 31 December 2020	144,906	7,752	7,222	159,880

Notes to the financial statements 31 December 2021 (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 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 at 31 December 2020	36,415	7,404	1,398	45,217
Business				
Gross carrying amount 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 at 31 December 2020	1,829,688	512,639	181,346	2,523,673
Total Gross carrying amount 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

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 €2.6 million (2020: €1.7 million) of originated credit impaired assets which relate to new facilities granted to counterparties in default as part of existing commitments.

** Other changes in carrying amount is comprised of changes in carrying amount balance of accounts which have not been upgraded nor downgraded

Notes to the financial statements 31 December 2021 (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	Total	Of which
	2021	Forborne	2020	Forborne
	€000	€000	€000	€000
Performing				
Stage 1	23,940	-	17,362	-
Stage 2	19,789	6,044	30,558	1,716
	<u>43,729</u>	<u>6,044</u>	<u>47,920</u>	<u>1,716</u>
Non-performing				
Stage 3	120,056	58,005	118,755	29,364
	<u>120,056</u>	<u>58,005</u>	<u>118,755</u>	<u>29,364</u>
Total Impairment Allowances	<u>163,785</u>	<u>64,049</u>	<u>166,675</u>	<u>31,080</u>

The movement in allowance accounts for loans and advances to customers are as follows:

	The Group	
	Allowances	Allowances
	2021	2020
	€000	€000
Change in allowances for uncollectability:		
At 1 January	166,675	108,321
Additions	59,852	92,545
Reversals	(62,742)	(34,191)
At 31 December	<u>163,785</u>	<u>166,675</u>

Interest income recognised during the year ended 31 December 2021 in respect of forborne assets amounted to €12.6 million (2020: €6.5 million).

Notes to the financial statements 31 December 2021 (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 2021 and that are still subject to enforcement activity is €10.3 million (2020: €4.3 million).

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 date based on the modified terms; with
- the remaining lifetime PD estimated based on date 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 (ii)). A customer needs to demonstrate consistently good payment behaviour over a period of 12 months before the exposure is no longer 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 2021 €000	Dividend income recognised 2021 €000	Fair value 2020 €000	Dividend income recognised 2020 €000
Local Other	17,632	119	20,090	128
Local Banks	100	2	106	-
Local Public	1,411	62	1,587	62
	19,143	183	21,783	190

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 current year.

Notes to the financial statements 31 December 2021 (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

	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
At 31 December 2021						
Derivative liabilities held for risk management	210	1,784	4,350	1,179	7,523	5,485
Amounts owed to banks	61,118	891	496,459	-	558,468	560,117
Amounts owed to customers	11,144,050	755,574	279,315	6,572	12,185,511	12,176,854
Subordinated liabilities	1,953	3,828	22,623	185,964	214,368	163,237
Derivatives designated for hedge accounting	140	2,349	8,964	824	12,277	12,157
Other financial liabilities	207,809	82,080	12,346	13,308	315,543	314,307
	11,415,280	846,506	824,057	207,847	13,293,690	13,232,157
Loan commitments						<u>1,867,939</u>
At 31 December 2020						
Derivative liabilities held for risk management	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						<u>1,782,528</u>

Notes to the financial statements 31 December 2021 (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 2021						
Assets						
Balances with Central Bank of Malta, treasury bills and cash	4,487,468	53,087	-	-	85,511	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	1,114	34	-	1,148
- Equity and other non-fixed income instruments	-	-	-	-	31,784	31,784
- Loans and advances	-	2,152	23,812	78,886	-	104,850
- Derivative financial instruments	1,144	60	-	-	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	13,441	3,277	89,609	-	106,327
- Amortised cost	160,878	314,460	1,573,843	1,394,018	-	3,443,199
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	19,143	19,143
Loans and advances to banks	452,469	-	-	-	-	452,469
Loans and advances to customers	435,497	34,800	628,082	3,999,219	-	5,097,598
Investments in equity-accounted investees	-	-	-	-	145,501	145,501
Other assets	-	-	-	-	329,153	329,153
	5,537,456	418,000	2,230,128	5,561,766	611,092	14,358,442
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	886	100	568	3,931	-	5,485
Amounts owed to banks	61,111	889	498,117	-	-	560,117
Amounts owed to customers	11,143,414	751,654	275,570	6,216	-	12,176,854
Other liabilities	-	-	-	-	314,307	314,307
Derivatives designated for hedging accounting	-	-	-	12,157	-	12,157
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,126,285	1,126,285
	11,205,411	752,643	774,255	185,541	1,440,592	14,358,442

Notes to the financial statements 31 December 2021 (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 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 designated 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 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk (continued)

The Bank

At 31 December 2021	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	4,487,468	53,087	-	-	85,511	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	1,114	34	-	1,148
- Equity and other non-fixed income instruments	-	-	-	-	31,621	31,621
- Loans and advances	-	2,152	23,812	78,886	-	104,850
- Derivative financial instruments	1,144	60	-	-	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	13,441	3,277	89,609	-	106,327
- Amortised cost	160,878	314,460	1,573,843	1,394,018	-	3,443,199
- Equity and other non- fixed income instruments						
- FVOCI	-	-	-	-	19,143	19,143
Loans and advances to banks	452,469	-	-	-	-	452,469
Loans and advances to customers	435,497	34,800	628,082	3,999,219	-	5,097,598
Investments in equity-accounted investees and subsidiaries	-	-	-	-	79,100	79,100
Other assets	-	-	-	-	327,654	327,654
	5,537,456	418,000	2,230,128	5,561,766	543,029	14,290,379

Liabilities and Equity

Financial liabilities at fair value through profit or loss	886	100	568	3,931	-	5,485
Amounts owed to banks	61,111	889	498,117	-	-	560,117
Amounts owed to customers	11,152,549	751,654	275,570	6,216	-	12,185,989
Debt securities in issue	-	-	-	-	-	-
Other liabilities	-	-	-	-	313,688	313,688
Derivatives designated for hedge accounting	-	-	-	12,157	-	12,157
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,049,706	1,049,706
	11,214,546	752,643	774,255	185,541	1,363,394	14,290,379

Notes to the financial statements

 31 December 2021 (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
Debt securities in issue	-	-	-	-	-	-
Other liabilities	-	-	-	-	280,462	280,462
Derivatives designated 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 2021 (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.

	2021	2020
At 31 December	47.62%	46.59%
Average for the period	45.92%	46.84%
Maximum for the period	47.62%	48.23%
Minimum for the period	44.55%	45.74%

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 2021				
Equity instruments	-	-	50,927	50,927
Debt securities	892,086	902,124	2,847,260	2,859,080
Loans and advances	71,000	-	9,935,801	-
Other assets	-	-	561,368	-
	963,086	902,124	13,395,356	2,910,007
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 Bank				
As at 31 December 2021				
Equity instruments	-	-	50,764	50,764
Debt securities	892,086	902,124	2,847,260	2,859,080
Loans and advances	71,000	-	9,935,801	-
Other assets	-	-	493,468	-
	963,086	902,124	13,327,293	2,909,844
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

Notes to the financial statements 31 December 2021 (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 2021 and 31 December 2020, 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 as included in the Bank's website.

	Bps	Direction
Parallel Shock Up	200	Up
Parallel Shock Down	200	Down
Short Rates Up	250	Up
Short Rates Down	250	Down
Steeper	250	Short Rates Down
	100	Long Rates Up
Flattener	250	Short Rates Up
	100	Long Rates Down

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

The below table applies both the Group and the Bank.

	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						
2021						
At 31 December	13	56	21	-	(23)	31
Average for the year	3	42	19	10	(23)	31
Most favourable for the year	13	56	23	16	(20)	37
Least favourable for the year	(7)	29	13	-	(26)	25
2020						
At 31 December	(9)	14	8	5	(30)	11
Average for the year	11	20	63	14	(28)	52
Most favourable for the year	54	32	113	20	(17)	83
Least favourable for the year	(28)	13	8	5	(39)	11
	Parallel Shock Up € millions	Parallel Shock Down € millions				
Sensitivity of projected net interest income to interest rate movements						
2021						
At 31 December	20	(65)				
Average for the year	21	(64)				
Most favourable for the year	25	(63)				
Least favourable for the year	19	(65)				
2020						
At 31 December	24	(64)				
Average for the year	4	(67)				
Most favourable for the year	24	(56)				
Least favourable for the year	(25)	(77)				

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.1 Interest rate risk (continued)

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	4,381,900	105,573	53,083	-	85,510	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	-	-	-	1,148	-	1,148
- Equity and other non-fixed income instruments	-	-	-	-	31,784	31,784
- Loans and advances	104,850	-	-	-	-	104,850
- Derivative financial instruments	934	210	51	9	-	1,204
Investments						
- Debt and other fixed income financial instruments						
- FVOCI	-	-	13,440	92,887	-	106,327
- Amortised cost	173,753	269,794	234,676	2,764,976	-	3,443,199
- Equity and other non-fixed income instruments						
- FVOCI	-	-	-	-	19,143	19,143
Loans and advances to banks	49,582	63,245	-	-	339,642	452,469
Loans and advances to customers	3,562,712	630,119	670,257	234,510	-	5,097,598
Investments in equity-accounted investees	-	-	-	-	145,501	145,501
Other assets	-	-	-	-	329,153	329,153
Total 2021	8,273,731	1,068,941	971,507	3,093,530	950,733	14,358,442
Total 2020	7,487,239	1,103,580	666,866	2,763,958	889,128	12,910,771
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	760	123	99	4,503	-	5,485
Amounts owed to banks	17,673	-	-	500,000	42,444	560,117
Amounts owed to customers	10,949,226	198,299	741,475	255,190	32,664	12,176,854
Other liabilities	-	-	-	-	314,307	314,307
Derivatives designated for hedge accounting	-	-	-	12,157	-	12,157
Subordinated liabilities	-	-	-	163,237	-	163,237
Equity holders of the Bank	-	-	-	-	1,126,285	1,126,285
Total 2021	10,967,659	198,422	741,574	935,087	1,515,700	14,358,442
Total 2020	9,884,353	239,721	819,072	512,426	1,455,199	12,910,771
Interest rate swaps - 2021	(21,845)	(39,240)	(81,756)	142,841	-	
Interest rate swaps - 2020	(25,370)	(54,646)	(75,784)	155,799	-	
Gap - 2021	(2,715,773)	831,279	148,177	2,301,284	-	
Gap - 2020	(2,422,484)	809,213	(227,990)	2,407,331	-	
Cumulative Gap - 2021	(2,715,773)	(1,884,494)	(1,736,317)	564,967	-	
Cumulative Gap - 2020	(2,422,484)	(1,613,271)	(1,841,261)	566,070	-	

Notes to the financial statements 31 December 2021 (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 December 31, 2021	EUR €000	USD €000	GBP €000	AUD €000	Other Currencies €000	Total €000
Assets						
Balances with Central Bank of Malta						
treasury bills and cash	4,621,318	2,055	1,913	231	549	4,626,066
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	1,148	-	-	-	-	1,148
income instruments						
- Equity and other non-fixed income instruments	15,729	16,055	-	-	-	31,784
- Loans and advances	104,850	-	-	-	-	104,850
- Derivative financial instruments	1,204	-	-	-	-	1,204
Investments						
- Debt and other fixed income financial						
instruments						
- FVOCI	32,839	73,488	-	-	-	106,327
- Amortised Cost	3,099,357	90,486	184,569	68,787	-	3,443,199
- Equity and other non-fixed income instruments						
- measured at FVOCI	19,143	-	-	-	-	19,143
Loans and advances to banks	138,808	90,335	24,458	3,950	194,918	452,469
Loans and advances to customers	5,057,476	23,702	16,360	-	60	5,097,598
Other assets	475,084	(717)	277	-	10	474,654
	13,566,955	295,404	227,577	72,968	195,537	14,358,442
Liabilities and Equity						
Financial liabilities at fair value through profit or loss	5,487	(93)	68	23	-	5,485
Amounts owed to banks	529,522	18,350	3,526	50	8,669	560,117
Amounts owed to customers	11,413,493	275,046	251,697	53,105	183,513	12,176,854
Other liabilities	205,288	4,045	(1,619)	18	2,126	209,858
Provision	104,449	-	-	-	-	104,449
Derivatives designated for hedge accounting	-	12,157	-	-	-	12,157
Subordinated liabilities	163,237	-	-	-	-	163,237
Equity	1,121,102	5,169	14	-	-	1,126,285
	13,542,578	314,674	253,686	53,196	194,308	14,358,442
Net on balance sheet financial position		(19,270)	(26,109)	19,772	1,229	
Notional amount of derivative instruments		15,229	31,829	(19,374)	(2,363)	
Net open position		(4,041)	5,720	398	(1,134)	

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Market risk (continued)

39.4.2 Currency risk (continued)

The Group December 31, 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	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
Debt securities in issue	-	-	-	-	-	-
Other liabilities	165,952	(4,339)	3,391	445	2,354	167,803
Provision	113,880	-	-	-	-	113,880
Derivatives designated 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	

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, 93.9% 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	40	(57)	(4)	(21)
-1% change in foreign exchange	(41)	58	4	21

Notes to the financial statements 31 December 2021 (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	
	2021	2020
	€000	€000
Debt securities classified as amortised cost	17,664	43,839
Amounts owed to banks	17,664	43,839

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, 1.23 and 1.28 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. There were no material transfers between the levels during the year.

Notes to the financial statements 31 December 2021 (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			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
The Group				
At 31 December 2021				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- 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
<i>Investments</i>				
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	134,324	83,377	264,456
Liabilities				
Financial liabilities at fair value through profit or loss				
-	-	5,485	-	5,485
Derivatives designated for hedge accounting				
-	-	12,157	-	12,157
	-	17,642	-	17,642
	Fair value measurement			Total €000
	Level 1 €000	Level 2 €000	Level 3 €000	
The Group				
At 31 December 2020				
Assets				
<i>Financial assets at fair value through profit or loss</i>				
- 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
<i>Investments</i>				
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

Notes to the financial statements 31 December 2021 (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 2021 (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			Total €000	Carrying Amount €000
	Level 1 €000	Level 2 €000	Level 3 €000		
2021					
Financial assets					
Investments					
Debt and other fixed income instruments					
-Amortised	3,201,300	263,440	-	3,464,740	3,443,199
Financial liabilities					
Subordinated liabilities	168,055	-	-	168,055	163,237
	168,055	-	-	168,055	163,237
	Fair value measurement			Total €000	Carrying Amount €000
	Level 1 €000	Level 2 €000	Level 3 €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

The reconciliation of Level 3 fair value measurements of financial instruments is disclosed below:

	2021		2020	
	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	10,227	72,115	16,136	79,539
Total gains or losses				
- in profit or loss	2,339	-	(4,445)	-
- in other comprehensive income	-	1,373	-	(7,424)
Purchases	-	-	29	-
Sales	(2,677)	-	(1,493)	-
Closing balance	9,889	73,488	10,227	72,115

Notes to the financial statements 31 December 2021 (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 2021 and 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Type of financial instruments	Fair value as at 31 December 2021 €000	Valuation technique	Significant unobservable input	Fair value measurement sensitivity to unobservable input	
FVTPL Equity (unlisted fund)	4,661 (2020: 5,341)	Based on reported NAV	Reported share of assets representing the fair value at year-end	Significant increase in NAV would result in a higher fair value.	
FVTPL Equity	5,228 (2020: 4,886)	Price-based adjusted with a discount	Discount for liquidity and litigation risk	50% (2020: 50%)	Significant increase in discount would result in a lower fair value.
FVOCI Debt	73,488 (2020: 72,115)	Price-based adjusted with a haircut	Haircut representative of the related risks	6% (2020: 6%)	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 2021.

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 2021 (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
2021		
Own funds		
Tier 1		
-Paid up capital instruments	583,849	583,849
-Share premium	49,277	49,277
-Retained earnings*	358,786	354,952
-Accumulated other comprehensive income	9,416	9,304
-Other reserves	49,021	49,021
-Funds for general banking risk	3,302	3,302
-Deductions:		
Prudential Valuation fair valued assets and liabilities	(596)	(529)
Other intangible assets	(32,106)	(32,106)
Depositor Compensation Scheme Reserve	(35,507)	(35,507)
Total Tier 1 Capital	<u>985,442</u>	<u>981,563</u>
*Retained earnings include current period's profit which is subject to regulatory approval.		
Tier 2		
-Capital instruments and subordinated loans	<u>163,237</u>	<u>163,237</u>
Total Tier 2 Capital	<u>163,237</u>	<u>163,237</u>
Total Own Funds	<u>1,148,679</u>	<u>1,144,800</u>
	The Group €000	The Bank €000
2020		
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	11,231
-Other reserves	44,246	44,246
-Funds for general banking risk	4,109	4,109
-Deductions:		
Prudential Valuation fair valued assets and liabilities	(613)	(613)
Other intangible assets	(23,152)	(23,152)
Depositor Compensation Scheme Reserve	(42,350)	(42,350)
Total Tier 1 Capital	<u>938,161</u>	<u>941,775</u>
*Retained earnings include current period's profit which is subject to regulatory approval.		
Tier 2		
-Capital instruments and subordinated loans	<u>163,237</u>	<u>163,237</u>
Total Tier 2 Capital	<u>163,237</u>	<u>163,237</u>
Total Own Funds	<u>1,101,398</u>	<u>1,105,012</u>

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 2021 (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 are set-off to the extent that there are liabilities and if not, 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	
	2021	2020
	€000	€000
Derivative financial assets		
Gross amounts of recognised financial assets	3,080	4,339
Gross amounts of recognised financial liabilities set off in the statement of financial position	<u>(1,876)</u>	<u>(2,323)</u>
Net amounts of financial assets presented in the statement of financial position	1,204	2,016
Related amounts not set off in the statement of financial position:		
Financial instruments	<u>(1,204)</u>	<u>(2,016)</u>
Net amount	<u>-</u>	<u>-</u>
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements		
Derivative financial liabilities		
Gross amounts of recognised financial liabilities	19,518	30,729
Gross amounts of recognised financial assets set off in the statement of financial position	<u>(1,875)</u>	<u>(2,323)</u>
Net amounts of financial liabilities presented in the statement of financial position	17,643	28,406
Related amounts not set off in the statement of financial position:		
Financial instruments	(1,204)	(2,016)
Financial collateral pledged	<u>(16,439)</u>	<u>(26,390)</u>
Net amount	<u>-</u>	<u>-</u>

A number of financial assets and financial liabilities are being offset and it is the intention to settle net, since they relate to the same counterparties and have the same maturities.

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.9 Interest Rate Benchmark Reform

i) Overview

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group does not have significant exposure to IBORs on its financial instruments which are subject to this market-wide initiative. Most reforms affecting the Group have been completed by the end of 2021. However, although sterling LIBOR and US dollar LIBOR were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress.

In March 2021, the Financial Conduct Authority (FCA), as the regulator of ICE (the authorised administrator of LIBOR), announced that after 31 December 2021 LIBOR settings for sterling, euro and the one-week and two-month US dollar setting will either cease to be provided or no longer be representative. The remaining US dollar settings will either cease to be provided or no longer be representative after 30 June 2023.

The Group deems that IBOR reform has not and will not have significant operational, risk management and accounting impacts across all of its business lines. Financial risk is predominantly limited to interest rate risk. The Bank has entrusted its Treasury and Business Banking functions to manage its transition to alternative rates. Their objectives included: evaluating the extent to which loans granted and financial instruments which 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.

For contracts indexed to an IBOR that matures after the expected cessation of the IBOR rate, the IBOR committee has established policies to amend the contractual terms. These amendments include the additional fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. With effect from 1 November 2021, all newly originated floating-rate loans and advances to customers incorporate fallback provisions.

The Group monitors the progress of transition from IBOR to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

As at 31 December 2021, the IBOR reform in respect of currencies to which the Group has exposure has been largely completed. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and status of transition, mainly GBP LIBOR to Sterling Overnight Interbank Average Rate (SONIA), USD LIBOR to Secured Overnight Financing Rate (SOFR), JPY LIBOR to Tokyo Over-Night Average Rate (TONAR) and EONIA to €STR.

ii) Non-derivative financial assets

During 2020 and 2021, the Group had the following principal IBOR exposures in respect of non-derivative financial assets subject to the reform:

- Floating rate loans and advances to customers: EURIBOR, GBP LIBOR, USD LIBOR and JPY LIBOR;
- Floating rate indexed assets and investment securities indexed to EURIBOR, GBP Libor and USD Libor held throughout its operations.

As at 31 December 2021, the Group amended all existing loans and advances to customers contracts indexed to IBOR and inserted fallback provisions.

All loans and advances to customers indexed to IBOR as at 31 December 2021 were transitioned on 3 January 2022.

During 2021 floating rate securities amounting to £19.3 million held in GBP changed the benchmark from GBP LIBOR to SONIA.

iii) Non-derivative financial liabilities:

The Bank does not have any financial liabilities linked to interbank offer rates (IBOR) as at 31 December 2021 and 31 December 2020.

Notes to the financial statements 31 December 2021 (continued)

39. FINANCIAL RISK MANAGEMENT (continued)

39.9 Interest Rate Benchmark Reform (continued)

iv) Derivatives and hedge accounting:

The derivatives held by the Group in US Dollar (refer to note 39.4.2) are held for risk management purposes and have floating legs that are indexed to USD LIBOR. The Group's derivative instruments are governed by ISDA's 2006 definitions. ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts when the supplement becomes effective – i.e. on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks.

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.

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 2021, the total assets held by the Group on behalf of its customers amounted to €63.9 million (2020: €90.6 million). Details on significant claims related to trusts are given in note 33.

42. REGULATORY COMPENSATION SCHEMES

As at 31 December 2021, 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 €15.0 million (2020: €10.7 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 8 February 2022, the Bank received the judgement from the Tribunal of Torre Annunziata in relation to Deiuemar case as further detailed in Note 33.

In addition, subsequent to the reporting date, Russia invaded Ukraine with consequential economic sanctions being imposed by other countries against Russia. This is expected to impact significantly those associated with the affected jurisdictions, with heightened economic risk.

The Group performed an initial assessment of the current situation on the business and therefore of the direct exposure to assets in those jurisdictions and concluded that there should not be material consequences given the minimal direct association with the countries involved. The Group is following and shall continue to follow closely how such events will develop. The Russia / Ukraine war elevated uncertainty and instability on the global economic scene in early 2022 and, most likely, will intensify the rise in inflation, especially if prolonged. Nonetheless, although the Bank does not envisage a significant indirect impact on its lending portfolio, the precise nature and effect of such a conflict, including any adverse consequence on the economy, cannot be determined at this stage.

44. REGISTERED OFFICE

The registered and principal office of the Bank is 58, Triq San Zakkarija, Il-Belt Valletta, VLT1130, Malta.



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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 2021, 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 2021, 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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: €5.1 billion) amounted to €163.8 million. Expected credit loss provision on 'Financial guarantees contracts and loan commitments' (Bank and Group: €2.2 billion) amounted to €22.9 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:



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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 potentially latent effects of COVID-19 on the economy.
- 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.
- Identification of a significant increase in credit risk (‘SICR’) is also a key area of judgement within the Group’s ECL calculation, which remains 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key audit matters (continued)

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 forward looking data sources;
 - 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; and
 - 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 inspected model code for the calculation of certain components of the ECL model to assess its consistency with the Group's approved methodology. 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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;
 - 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; and
 - The reasonableness of the Group's considerations of the ECL impact due to economic environment factors particularly latent COVID-19 implications.
- In evaluating the Group's credit grading process, we performed credit reviews on a selection 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key Audit Matters (continued)

- We assessed the post model adjustments, 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 1.17 and 1.28.5 to the financial statements and note 33 for further disclosures.

Litigation provision of €81.5 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 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Key Audit Matters (continued)

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.

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 Board of Directors 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 assessed the developments to date of this auditors' report. We directly obtained written opinions from, and held discussions with, the Group's external legal counsel, and evaluated their views on the final 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Other information

The directors are responsible for the other information which comprises the:

- Contents and General Information;
- Board of Directors and Group Company Secretary;
- Chairman's Statement;
- CEO's Commentary;
- Executive Committee and Group Chief Internal Auditor;
- 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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.

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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Auditors' responsibilities for the audit of the financial statements (continued)

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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta plc.

Auditors' responsibilities for the audit of the financial statements (continued)

- 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.

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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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 Capital Markets 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 Capital Markets Rule 5.62 of the Capital Markets rule 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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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 seven 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.

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.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

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.

Report on compliance with the requirements of the Commission Delegated Regulation (EU) 2018/815 supplementing Directive 2004/109/EC (the "ESEF Regulation"), by reference to Capital Markets Rule 5.55.6 issued by the Listing Authority

We have undertaken a reasonable assurance engagement in accordance with the requirements of Directive 6 issued by the Accountancy Board in terms of the Accountancy Profession Act, 1979 (Chapter 281, Laws of Malta), *the Accountancy Profession (European Single Electronic Format) Assurance Directive*, on the Group's Annual Report for the year ended 31 December 2021, prepared in a single electronic reporting format.



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Responsibilities of the directors for compliance with the requirements of the ESEF Regulation

As required by Capital Markets Rule 5.56A, the directors are responsible for the preparation of the Annual Report in XHTML format, including the specified mark-ups, in accordance with the requirements of the ESEF Regulation.

In addition, the directors are responsible for such internal control as they determine is necessary to enable the preparation of the Annual Report that is in compliance with the requirements of the ESEF Regulation.

Auditors' responsibilities to report on compliance with the requirements of the ESEF Regulation

Our responsibility is to obtain reasonable assurance about whether the Annual Report in XHTML format, including the specified mark-ups, comply in all material respects with the ESEF Regulation based on the evidence we have obtained.

In discharging that responsibility, we:

- obtain an understanding of the entity's financial reporting process, including the preparation of the Annual Report, in accordance with the requirements of the ESEF Regulation;
- perform validations to determine whether the Annual Report has been prepared in accordance with the requirements of the technical specifications of the ESEF Regulation; and
- examine the information in the Annual Report to determine whether all the required mark-ups therein have been applied and whether, in all material respects, they are in accordance with the requirements of the ESEF Regulation.

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



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Independent Auditors' Report (continued)

To the Shareholders of Bank of Valletta p.l.c.

Opinion

In our opinion, the Annual Report for the year ended 31 December 2021 has been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation, by reference to Capital Markets Rule 5.55.6.

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
Partner, for and on behalf of
KPMG
Registered Auditors,
92
Marina Street,
Pietà PTA 9044,
Malta

Michael McGarry
Partner, for and on behalf of
KPMG LLP
Chartered Accountants,
15 Canada Square,
Canary Wharf,
London E14 5GL,
United Kingdom

22 March 2022

The Group's five year summary

 - extracted from the respective audited financial statements

A. STATEMENTS OF PROFIT OR LOSS

For the financial 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.

	2021 12 months to December 2021 €000	2020 12 months to December 2020 €000	2019 12 months to December 2019 €000	2018 12 months to December 2018 €000	2017 15 months to September 2017 €000
Interest and similar income	194,813	190,282	206,963	213,896	259,194
Interest expense	(38,503)	(43,476)	(54,113)	(57,350)	(76,247)
Net interest income	156,310	146,806	152,850	156,546	182,947
Other operating income	86,598	84,809	96,436	101,220	117,526
Other operating charges	(195,603)	(170,382)	(162,540)	(130,598)	(151,251)
Net impairment (charge)/reversal	18,856	(65,136)	11,562	10,816	6,227
Litigation provision reversal/(charge)	-	8,584	(25,000)	(75,000)	-
Share of results of equity-accounted investees	14,498	10,520	15,897	8,214	19,287
Profit before tax	80,659	15,201	89,205	71,198	174,736
Income tax expense	(24,468)	(1,399)	(25,713)	(19,788)	(55,238)
Profit for the year	56,191	13,802	63,492	51,410	119,498
Attributable to:					
Equity holders of the Bank	56,191	13,802	63,492	51,410	119,498
	56,191	13,802	63,492	51,410	119,498
Earnings per share	9.6c	2.4c	10.9c	8.8c	20.5c

The Group's five year summary

- extracted from the respective audited financial statements (continued)

B. STATEMENTS OF FINANCIAL POSITION

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Assets					
Balances with Central Bank of Malta, treasury bills and cash	4,626,066	3,798,449	3,669,580	3,400,588	3,066,655
Investments and financial assets at fair value through profit or loss	3,707,655	3,447,912	3,276,299	3,521,161	3,700,832
Loans and advances to banks	452,469	479,409	501,686	490,644	524,412
Loans and advances to customers	5,097,598	4,741,443	4,445,812	4,362,983	4,162,032
Investments in equity-accounted investees	145,501	111,999	101,479	108,510	109,461
Property and equipment and intangible assets	186,696	188,312	186,659	161,198	133,675
Current tax	28,640	26,759	15,185	7,606	12,034
Deferred tax	84,563	91,259	76,017	71,769	60,217
Assets held for realisation	11,740	9,958	10,123	4,335	5,972
Other assets	5,423	5,251	42,627	7,880	5,955
Prepayments and accrued income	12,091	10,020	5,142	10,314	39,385
Total Assets	14,358,442	12,910,771	12,330,609	12,146,988	11,820,630
LIABILITIES					
Financial liabilities at fair value through profit or loss and derivatives held for hedging	17,642	28,406	24,870	19,018	24,010
Amounts owed to banks	560,117	88,031	66,047	146,021	192,196
Amounts owed to customers	12,176,854	11,272,289	10,629,719	10,414,908	10,100,625
Debt securities in issue	-	-	-	40,197	95,400
Deferred tax	6,717	6,186	5,736	5,743	4,519
Other liabilities	203,141	161,617	189,593	196,960	208,202
Provisions	104,449	113,880	118,109	95,767	2,000
Subordinated liabilities	163,237	163,237	234,230	234,241	231,591
Total Liabilities	13,232,157	11,833,646	11,268,304	11,152,855	10,858,543
EQUITY					
Called up share capital	583,849	583,849	583,849	530,772	525,000
Share premium account	49,277	49,277	49,277	49,277	45,427
Revaluation reserve	58,438	55,477	54,898	50,034	33,194
Retained earnings	434,721	388,522	374,281	364,050	358,466
Total Equity	1,126,285	1,077,125	1,062,305	994,133	962,087
Total Liabilities and Equity	14,358,442	12,910,771	12,330,609	12,146,988	11,820,630
MEMORANDUM ITEMS					
Contingent liabilities	351,362	285,775	341,618	335,405	253,851
Commitments	1,898,310	1,811,954	1,828,756	1,881,392	1,858,191

The Group's five year summary - extracted from the respective audited financial statements (continued)

C. STATEMENTS OF CASH FLOWS

	2021 €000	2020 €000	2019 €000	2018 €000	2017 €000
Net cash from operating activities	1,157,101	295,040	90,157	251,776	1,020,077
Cash flows from investing activities					
Dividends received from equity shares	2,443	219	24,186	10,774	8,794
Interest received from investing securities	36,575	40,332	50,840	54,953	74,725
Injection of capital in associate (note 18)	(20,000)	-	-	-	-
Proceeds from sale of equity instruments	-	562	-	12,296	4,350
Net inflow/(outflow) on investment securities	(289,103)	(259,471)	263,225	129,240	258,283
Purchase of property and equipment	(11,849)	(15,724)	(34,996)	(26,295)	(33,341)
Proceeds on disposal of property and equipment	-	-	330	2,000	-
Net cash (used in)/from investing activities	(281,934)	(234,082)	303,585	182,968	312,811
Cash flows from financing activities					
Proceeds from rights issue	-	-	-	-	149,439
Interest paid on debt securities and subordinated liabilities	(5,776)	(6,457)	(10,050)	(13,414)	(17,875)
Repayment of debt securities	-	(70,993)	(40,208)	(55,400)	-
Payment of lease liabilities	(1,919)	(1,704)	(1,475)	-	-
Dividends paid	-	-	-	(17,678)	(33,883)
Net cash (used in)/from financing activities	(7,695)	(79,154)	(51,733)	(86,492)	97,681
Increase in cash and cash equivalents	867,472	(18,196)	342,009	348,252	1,430,569

D. PERFORMANCE EXPRESSED IN RELATION TO AVERAGE TOTAL ASSETS AND AVERAGE CAPITAL EMPLOYED

	2021 %	2020 %	2019 %	2018 %	2017 %
Operating income to total assets	1.8	1.8	2.0	2.2	2.1
Operating expenses to total assets	1.4	1.4	1.3	1.1	1.1
Profit before tax to total assets	0.6	0.1	0.7	0.6	1.2
Profit before tax to capital employed	7.3	1.4	8.7	7.3	16.5
Profit attributable to equity holders to total assets	0.4	0.1	0.5	0.4	0.8
Profit attributable to equity holders to capital employed	5.1	1.3	6.2	5.3	11.3

Group Financial Highlights in US dollars 31 December 2021

The following figures were converted from Euro to US Dollars using the rate of exchange ruling on 31 December 2021. The rate used was €1 = US\$ 1.1329. This does not reflect the effect of the change in the rate of exchange since 31 December 2020 which was €1 = US\$ 1.2278.

	2021 US\$000	2020 US\$000
Net income attributable to equity holders of the Bank	63,659	16,946
Net income per share	12.0c	3.0c
Total assets	16,266,679	15,851,843
Liquid funds	5,240,870	4,663,736
Investments and financial assets at fair value through profit or loss	4,200,402	4,233,346
Advances	6,287,671	6,410,162
Investments in equity-accounted investees	164,838	137,512
Share capital	661,443	716,850
Capital reserves	122,030	128,617
Retained earnings	492,495	477,027

BOV

Bank of Valletta

Issued by Bank of Valletta p.l.c.

Bank of Valletta p.l.c. (C 2833) with registered office 58, Triq San Ġakkarija, Il-Belt Valletta VLT1130 - Malta, is a public limited company regulated by the Malta Financial Services Authority (MFSA) and is licensed to carry out the business of banking and investment services in terms of the Banking Act (Cap. 371 of the Laws of Malta) and the Investment Services Act (Cap.370 of the Laws of Malta). Bank of Valletta p.l.c. is authorised to act as a trustee by the MFSA. Bank of Valletta p.l.c. is an enrolled Tied Insurance Intermediary under the Insurance Distribution Act (Cap. 487 of the Laws of Malta) for MAPFRE MSV Life p.l.c. (MMSV). MMSV (C-15722) is authorised under the Insurance Business Act (Cap. 403 of the Laws of Malta) to carry out long term business of insurance. Both entities are regulated by the MFSA with address Triq L-Imdina, Central Business District, Birkirkara CBD 1010 – Malta.