BOV

Bank of Valletta

Pillar 3 Disclosures

30th June 2021

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

Bank of Valletta p.l.c. is a public limited company regulated by the 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 an enrolled tied insurance intermediary of MAPFRE MSV Life p.l.c. MAPFRE MSV Life is authorised by the MFSA to carry out long term business of insurance under the Insurance Business Act (Cap.403 of the Laws of Malta). Bank of Valletta p.l.c. is authorised to act as a trustee by the MFSA

Bank of Valletta at a Glance

Bank of Valletta plc (hereinafter referred to as ‘the Bank’ or ‘the Group’) is Malta’s leading bank, providing banking, financial, and investment services to its private, business and corporate clients within the domestic market. BOV is licensed to carry out its activity in terms of the Banking Act, 1994 (Chapter 371, Laws of Malta) and the Investment Services Act, 1994 (Chapter 370, Laws of Malta). BOV is headquartered in Santa Venera from where it manages a nationwide branch network and investment centres, servicing the banking needs of residents across Malta and Gozo.

The Bank is the parent institution of a two fully owned subsidiary companies (BOV Asset Management Limited and BOV Fund Services Limited) and two equity-accounted investee companies (MAPFRE Middlesea plc. and MAPFRE MSV Life plc.), which together make the Bank of Valletta Group. A detailed description of the Group (LEI 529900RWC8ZYB066JF16) is given in the Annual Report and Financial Statements 2020**.**

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1 Introduction

The Basel III capital adequacy framework consists of three complementary pillars. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market, and operational risks. Pillar 2 establishes a system of supervisory review aimed at improving banks' internal risk management and capital adequacy assessment in line with their risk profile. Pillar 3 is intended to enhance market discipline and requires banks to publish a range of disclosures aimed at providing further insight on the capital structure, adequacy and risk management practices.

The Pillar 3 Disclosures as at end-June 2021 comprise both quantitative and qualitative information required under Pillar 3. These disclosures are made in accordance with Part Eight of CRR2[1] and the European Banking Authority's (EBA) guidelines on disclosure requirements. Furthermore, the said Pillar 3 Disclosures are compliant with the 'Reporting Framework 3.0' issued by the European Banking Authority in March 2021 and effective as from June 2021.

This interim report provides an updated overview of the Group's capital adequacy, risk weighted assets, and liquidity, in accordance with EBA recommended guidelines on disclosure requirements – 'Final Report on the Guidelines on disclosure requirements under Part Eight of Regulation No 575/2013 - EBA/GL/2016/11' which requires banks to take particular attention to the possible need for disclosing some information more frequent than annually.

This document is not subject to external audit, however the disclosures have been prepared on a basis consistent with information submitted to the regulatory authorities. Furthermore, the relative tabulations were subjected to quality assurance activity and validation to minimize to the greatest extent possible, the risk of errors and/or inaccuracies in the disclosures made. The Pillar 3 disclosures have been approved by the Bank's senior management. The Bank is satisfied that internal verification procedures to ensure that these Additional Regulatory Disclosures are presented fairly.

[1] Regulation (EU) 876/2019 of the European Parliament and of the Council of 20th May 2019 amending Regulation (EU) No 575/2013.

2 Risk Measurement and Key Risk Metrics

BOV's risk measurement and reporting system is an integral part of the Group's risk management approach. The roles and responsibilities with respect to risk measurement include data collection, data reconciliation, data quality verification and validation. BOV monitors the material risks taken against the set risk tolerances included in the Risk Appetite Framework (RAF), with a root-cause analysis being carried out in certain instances to identify the main cause of the breach.

The risk measurement system supports regulatory reporting and external disclosures, as well as internal management reporting. The reporting highlights the current Group's risk profile position and provides consistent information at a Group level, as well as an insight on particular material risks and business divisions. The Group emphasize the importance of accurate, clear, useful and complete reporting. The following table provides a summary of the Group's key metrics and overview of the risk-weighted exposure amounts.

Table 1: EU KM1 – Key Metrics

	€ millions except where indicated	30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2020
	Available own funds					
1	Common Equity Tier 1 (CET1) capital	**952.1**	937.4	941.9	905.6	905.6
2	Tier 1 capital	**952.1**	937.4	941.9	905.6	905.6
3	Total capital	**1,115.4**	1,100.1	1,105.1	1,068.3	1,068.8
	Risk-Weighted Assets (RWAs)					
4	Total risk-weighted assets	**4,465.7**	4,463.5	4,486.8	4,670.7	4,573.7
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	**21.32%**	21.00%	20.99%	19.39%	19.80%
6	Tier 1 ratio (%)	**21.32%**	21.00%	20.99%	19.39%	19.80%
7	Total capital ratio (%)	**24.98%**	24.65%	24.63%	22.87%	23.37%
	Additional own funds requirements based on SREP as a percentage of RWA					
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	**3.25%**	3.25%	3.25%	3.25%	3.25%
EU 7b	of which: to be made up of CET1 capital (percentage points)	**1.83%**	1.83%	1.83%	1.83%	1.83%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	**2.44%**	2.44%	2.44%	2.44%	2.44%
EU 7d	Total SREP own funds requirements (%)	**11.25%**	11.25%	11.25%	11.25%	11.25%
	Combined buffer requirement as a percentage of RWA					
8	Capital conservation buffer (%)	**2.50%**	2.50%	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	**-**	-	-	-	-
9	Institution specific countercyclical capital buffer (%)	**0.00%**	0.00%	0.00%	0.00%	0.00%
EU 9a	Systemic risk buffer (%)	**-**	-	-	-	-
10	Global Systemically Important Institution buffer (%)	**-**	-	-	-	-
EU 10a	Other Systemically Important Institution buffer (%)	**2.00%**	2.00%	2.00%	2.00%	2.00%
11	Combined buffer requirement (%)	**4.50%**	4.50%	4.50%	4.50%	4.50%
EU 11a	Overall capital requirements (%)	**15.75%**	15.75%	15.75%	15.75%	15.75%
12	CET1 available after meeting the total SREP own funds requirements (%)	**10.07%**	9.75%	9.74%	8.14%	8.55%
	Leverage ratio					
13	Leverage ratio total exposure measure	**13,994.3**	13,835.4	13,164.1	12,997.3	13,000.0
14	Leverage ratio (%)	**6.80%**	6.78%	7.15%	6.97%	6.97%
	Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)					
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	**0.00%**	0.00%	0.00%	0.00%	0.00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	**0.00%**	0.00%	0.00%	0.00%	0.00%
EU 14c	Total SREP leverage ratio requirements (%)	**0.00%**	0.00%	0.00%	0.00%	0.00%
	Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)					
EU 14d	Leverage ratio buffer requirement (%)	**0.00%**	0.00%	0.00%	0.00%	0.00%
EU 14e	Overall leverage ratio requirements (%)	**3.00%**	3.00%	3.00%	3.00%	3.00%
	Liquidity Coverage Ratio					
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	**5,498.4**	5,515.1	5,522.8	5,454.5	5,506.1
EU 16a	Cash outflows - Total weighted value	**1,908.4**	1,934.6	1,900.7	1,990.5	1,930.2
EU 16b	Cash inflows - Total weighted value	**807.1**	758.8	707.4	737.2	773.5
16	Total net cash outflows (adjusted value)	**1,101.3**	1,175.8	1,193.3	1,253.3	1,156.7
17	Liquidity Coverage Ratio (%)	**499%**	469%	463%	435%	476%
	Net Stable Funding Ratio					
18	Total available stable funding	**11,272.4**				
19	Total required stable funding	**6,111.5**				
20	NSFR ratio (%)	**184.4%**				

3 Liquidity

The Liquidity Coverage Ratio (LCR) requires credit institutions to promote short-term resilience to potential liquidity disruptions thereby eliminating, or significantly reducing, structural mismatches between assets and liabilities. In terms of LCR requirements, credit institutions must hold sufficient unencumbered high quality liquid assets (HQLA) to withstand the excess of severe liquidity outflows over inflows that could be expected to accumulate over a 30-day stressed period. During such a period, a credit institution should be able to quickly convert its liquid assets into cash without recourse to central bank liquidity or public funds. The Bank calculates and monitors the LCR in line with the relative regulatory dictum – Commission Delegated Regulation (EU) 2015/61 – on a monthly basis.

As at end of June 2021, the Bank was well positioned with an LCR of 499.25% (March 2021: 469.04%) continuing to exhibit a very robust level nearly five times the regulatory minimum attesting to BOV's resilient liquidity risk profile. The 6.44% quarterly increase in the LCR (absolute increase of 30.20%) is mainly attributable to several factors. On the part of 'Outflows', the main driver was a decrease in non-operational deposits followed by another decrease in committed facilities. On the other hand, retail deposits and other liabilities experienced an increase resulting in a 1.35% decrease in 'Outflows' from the previous quarter. 'Inflows' exhibited a relative quarter-on-quarter increase of around 6.36% mainly attributable to a rise in securities falling due within a month of reporting date (June 2021) together with an increase in monies due from financial customers. Such movements resulted in a decrease in the Net Liquidity Outflows (LCR denominator). This, together with a slight decrease of 0.30% in the Liquidity Buffer (LCR numerator), resulted in the abovementioned LCR increase during the quarter.

The top 10 Bank's deposit names (including groups of connected depositors) comprised 4.92% of total customer deposits whilst the top 20 depositors amounted to 6.81% of total customer deposits. The large, diversified, and relatively stable customer deposit base avoids reliance on wholesale funding from financial customers. In fact, all the other customers (i.e. from the 21st largest customer up to the smallest client), accounted for less than 0.17% of total customer deposits. An analysis of concentration by product type demonstrates that retail sight deposits accounted for 55.7% of total funding, followed by unsecured wholesale funding at 22.5% (of which 17.9% are deposits from non-financial customers and 4.6% are deposits from financial customers) and retail term deposits at 7.9%. The weighted average residual maturity for retail term accounts not withdrawable within a 30-day time horizon, approximated 10 months.

The Bank's liquidity buffer as at end-June 2021, quoted at post-haircut values, may be segmented into the following high quality liquid asset (HQLA) classes:

- Level 1 assets (98.00%), mainly composed of withdrawable central bank reserves (70.42%), central government assets (22.52%), followed by multilateral development bank and international organizations assets (6.05%);
- Level 2A assets (1.16%), mainly composed of regional government or public sector entity assets with a 20% risk weight (56.19%); and
- Level 2B assets (0.84%), composed of corporate debt securities Credit Quality Step 2 or 3.

Level 1 securities decreased slightly by 0.5% from March 2021 whilst Level 2 instruments rose by 12.8% during the same period. This led to a total HQLA quarter-on-quarter decrease of €16.7 million (-0.3%). On the other hand, upon analysing the net liquidity outflow figure, taking into consideration the respective haircut rates, a decline of €74.5 million (-6.33%) was registered during the quarter under review, contributing to the increase of 6.44% in the LCR ratio. The main reason behind this decrease emanates from a higher increase in inflows compared to the increase in outflows.

Cash flows from derivatives were minimal and insignificant for LCR purposes. Total financial assets related to derivatives amounted to €2.19 million. Initial Margin as at end of the reporting period read €3.30 million.

The LCR is also assessed by material currencies. Since no other currency other than the domestic currency, exceeded the 5% aggregate amount of liabilities to total liabilities, only the euro denominated LCR was calculated. In fact, 95.4% of total liabilities are euro denominated. In principle, BOV does not finance its assets in a currency different from that in which the assets are denominated.

Table EU LIQ1 disclosed below provides quantitative LCR information which complements Article 435 (1) (f) of Regulation (EU) No 575/2013; no other factors other than those specified in the template are included in the LCR calculation.

The LCR captures all significant cash inflows and cash outflows over a 1-month time horizon. As at end June 2021, the LCR read 499.25%. Such level attest to a strong and robust institutional liquidity position.

Table 2: EU LIQ1

€ millions		Total unweighted value (average)				Total weighted value (average)			
		30 June 2021	31 March 2021	31 December 2020	30 September 2020	30 June 2021	31 March 2021	31 December 2020	30 September 2020
	Number of data points used in the calculation of averages	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
	High-Quality Liquid Assets								
1	Total high-quality liquid assets (HQLA),	-	-	-	-	5,519.9	5,487.8	5,340.1	5,233.0
	Cash-Outflows								
2	retail deposits and deposits from small business customers	7,196.6	7,002.1	6,816.1	6,670.2	474.1	462.8	450.2	441.0
	of which:								
3	*Stable deposits*	5,008.8	4,844.4	4,720.6	4,619.3	250.4	242.2	236.0	231.0
4	*Less stable deposits*	2,187.8	2,157.7	2,095.5	2,050.9	223.7	220.6	214.2	210.1
5	Unsecured wholesale funding	2,773.9	2,772.5	2,728.4	2,723.1	1,250.8	1,251.3	1,241.0	1,230.0
6	*Operational deposits (all counterparties) and deposits in*	-	-	-	-	-	-	-	-
7	*Non-operational deposits (all counterparties)*	2,773.9	2,772.5	2,722.4	2,717.1	1,250.7	1,251.3	1,235.0	1,224.0
8	*Unsecured debt*	0.0	0.0	6.0	6.0	0.0	0.0	6.0	6.0
9	*Secured wholesale funding*	-	-	-	-	6.7	8.0	5.1	3.4
10	Additional requirements	1,842.9	1,799.9	1,750.3	1,749.9	154.3	148.8	141.9	139.3
11	*Outflows related to derivative exposures and other collateral requirements*	1.2	1.5	1.5	1.5	1.2	1.5	1.5	1.5
12	*Outflows related to loss of funding on debt products*	-	-	-	-	-	-	-	-
13	*Credit and liquidity facilities*	1,841.7	1,798.3	1,748.8	1,748.4	153.1	147.2	140.4	137.8
14	Other contractual funding obligations	48.9	43.5	30.9	20.1	46.9	41.6	29.3	18.4
15	Other contingent funding obligations	133.8	132.4	142.6	159.8	6.7	6.6	19.1	38.8
16	**Total Cash Outflows**	-	-	-	-	**1,939.6**	**1,919.1**	**1,886.6**	**1,870.8**
	Cash-Inflows								
17	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
18	Inflows from fully performing exposures	840.3	853.6	884.7	905.0	626.2	637.9	663.1	681.3
19	Other cash inflows	99.1	94.7	93.8	106.7	99.1	94.7	93.7	106.6
19a	(Difference between total weighted inflows and total weighted outflows arising	-	-	-	-	-	-	-	-
19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	**Total Cash-Inflows**	**939.4**	**948.4**	**978.4**	**1,011.7**	**725.4**	**732.6**	**756.8**	**787.9**
20a	*Fully exempt inflows*	-	-	-	-	-	-	-	-
20b	*Inflows subject to 90% cap*	-	-	-	-	-	-	-	-
20c	*Inflows subject to 75% cap*	939.4	948.4	978.4	**1,011.7**	725.4	732.6	756.8	787.9
	Total Adjusted Buffer								
21	Liquidity Buffer	-	-	-	-	5,519.9	5,487.8	5,340.1	5,233.0
22	Total Net Cash Outflows	-	-	-	-	1,214.2	1,186.5	1,129.8	1,082.9
23	Liquidity Coverage Ratio	-	-	-	-	455.5%	464.8%	476.1%	485.7%

4 Capital Management

4.1 Capital Overview

The Group maintains its objective of actively managing capital in an integrated way, seeking to fulfil the regulatory requirements, guarantee solvency, and maximize profit. Through this holistic approach, the Group is able to achieve long-term sustainability and identify growth opportunities that provide a sustainable risk-return performance. The Group's capital management approach aims to ensure a sufficient level of capitalization to absorb unexpected losses from its risk. Capital metrics and the successful implementation of the Internal Capital Adequacy Assessment Process (ICAAP) are continuously monitored by the Board of Directors (BoD), the Risk Committee (RC), the Executive Committee (ExCo), and the Asset and Liability Management Committee (ALCO). The BoD regularly receives information and reports from the lines of defence and all other functions and action is taken on emerging issues of concern. They also ensure that the three lines are operating uniformly and according to best practice. The ExCo meets on a monthly basis to oversee the overall management of the Bank and formulate risk strategies and risk profiles, including policies that are conducive to the achievement of the organization's goals. The RC and ALCO undertake ongoing monitoring of the capital position and are presented with regular reporting of the actual and stressed capital position and the Capital Plan. Furthermore, ALCO meets on a monthly basis to analyse financial information and to assess the impact that the various types of risks have on the Bank's profitability, liquidity, and solvency position. Through this structured monitoring, it is ensured that the BOV Group remains adequately capitalized to achieve the strategic objectives set by the BoD.

The Group is required to meet a Total SREP Capital Requirement (TSCR) of 11.25%, consisting of 8.00% minimum own funds requirement in line with Article 92(1) of the Capital Requirements Regulation (CRR)[2] and a 3.25% Pillar 2 Requirement (P2R). In terms of the latest revision of the Capital Requirements Directive (CRD V)[3], banks may use capital instruments that do not qualify as Common Equity Tier 1 (CET1) capital, such as Additional Tier 1 (AT1) or Tier 2 instruments, to meet the P2R. Accordingly, the Bank shall meet the 3.25% P2R as follows: 1.83% by CET1 capital, 0.61% by Additional Tier 1 (AT1) Capital, 0.81% by Tier 2 Capital.

As at end of June 2021, the Group reported a comfortable solvency position, which exceeds all minimum requirements of the European Central Bank (ECB) and other regulations, with the CET1 and Total Capital ratios reading 21.32% (December 2020: 20.99%) and 24.98% (December 2020: 24.63%) respectively. CET1 capital increased in the first interim of 2021 by circa €14 million, mainly due to the inclusion of interim profits as part of own funds.

The capital results achieved enabled the Bank to comply with all regulatory capital requirements and ensure a solid ground for the implementation of the Bank's strategic initiatives.

4.2 Capital Instruments

The Group's capital base is composed of CET1 capital and the Tier 2 capital, as defined in Part Two of the CRR. In line with new regulations, the Group is continuously monitoring and focusing towards further strengthening its core capital which is predominantly composed of CET1 capital. This is the highest form of quality capital, thus providing the greatest level of protection against losses.
The Group's capital base is primarily composed of issued common shares and retained earnings, which form part of CET1 capital – the Group's core capital. In line with the CRR, the Group's capital is subject to relative deductions, mainly related to intangible assets, unrealized gains and losses, and the reserve held against the Depositor Compensation Scheme which is an added requirement in national legislation. In accordance with Section 3, Chapter 2, Title I, Part Two of the CRR, there were no other items requiring deductions from Own Funds. As at the end of June 2021, both the Group's significant investments and deferred taxation were below the 10% threshold as stipulated in Article 48(1) of the CRR.

The Tier 2 capital is used to absorb losses in the event of liquidation. The Group has three subordinated bonds in issue and these are included as part of Tier 2 Capital as they fully qualify for the provisions listed under CRR (575/2013) Part Two, Title 1, Chapter 4, and Article 63. Specifically, these instruments rank after the claim of all other creditors and are not to be repaid until all other debts outstanding at the time have been settled. The full terms and conditions of the

[2] Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26th June 2013.
[3] Directive (EU) 2019/878 of the European Parliament and of the Council of 20th May 2019 amending Directive 2013/36/EU.

issued capital instruments are provided on BOV website. They are located in the ‘Investor Relations’ webpage under ‘Bond Prospectuses’.

In accordance with Article 437 of the CRR, the Group is required to complete the own funds disclosure template EU CC1 as set out below.

Table 3: EU CC1 - Composition of regulatory own funds

	€ millions except where indicated	**30 June 2021**	**31 December 2020**
	Common Equity Tier 1 (CET1) capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	633.1	633.1
2	Retained earnings	307.8	301.5
3	Accumulated other comprehensive income (and other reserves)	54.3	55.5
EU-3a	Funds for general banking risk	4.9	4.1
5	Minority interests (amount allowed in consolidated CET1)	-	-
EU-5a	Independently reviewed interim profits net of any foreseeable charge or dividend	19.4	13.8
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,019.6**	**1,008.0**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments	(0.8)	(0.6)
8	Intangible assets (net of related tax liability)	(27.6)	(23.2)
18	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-
22	Amount exceeding the 17.65% threshold	-	-
27a	Other regulatory adjustments	(39.0)	(42.3)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(67.5)	(66.1)
29	**Common Equity Tier 1 (CET1) capital**	**952.1**	**941.9**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
44	**Additional Tier 1 (AT1) capital**		-
45	**Tier 1 capital (T1 = CET1 + AT1)**	**952.1**	**941.9**
	Tier 2 (T2) capital: instruments		
46	Capital instruments and the related share premium accounts	163.2	163.2
	Tier 2 (T2) capital: regulatory adjustments		
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	**-**
58	**Tier 2 (T2) capital**	**163.2**	**163.2**
59	**Total capital (TC = T1 + T2)**	**1,115.4**	**1,105.1**
60	**Total risk exposure amount**	**4,465.7**	**4,486.8**
	Capital ratios and requirements including buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	21.32%	20.99%
62	Tier 1 (as a percentage of total risk exposure amount)	21.32%	20.99%
63	Total capital (as a percentage of total risk exposure amount)	24.98%	24.63%
64	Institution CET1 overall capital requirement (CET1 requirement in accordance with Article 92 (1) CRR, plus additional CET1 requirement which the institution is required to hold in accordance with point (a) of Article 104(1) CRD, plus combined buffer requirement in accordance with Article 128(6) CRD) expressed as a percentage of risk exposure amount)	10.83%	10.83%
	Of which:		
65	*Capital conservation buffer requirement*	2.50%	2.50%
66	*Countercyclical buffer requirement*	0.00%	0.00%
67	*Systemic risk buffer requirement*	0.00%	0.00%
EU-67a	*Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	2.00%	2.00%
EU-67b	*Additional own funds requirements to address the risks other than the risk of excessive leverage*	1.83%	1.83%
68	Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements	14.99%	14.66%
	Amounts below the thresholds for deduction (before risk weighting)		
72	Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	-
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions)	72.9	52.9
75	Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	89.7	91.3

4.3 Reconciliation of Own Funds to Audited Financial Statements

The table below provides a full reconciliation of the Group's Own Funds to the statement of financial position within the financial statements for the period ended 30th June 2021.

Table 4: EU CC2 - Reconciliation of regulatory own funds to balance sheet in the audited financial statements

€ millions	30 June 2021	31 December 2020
Common Equity Tier 1		
As per statement of Financial Position		
Called up share capital	583.8	583.8
Share premium account	49.3	49.3
Retained earnings	407.9	388.5
Revaluation reserves	54.3	55.5
Less : Own Funds adjustments		
Investments in Associates	(65.8)	(59.1)
Depositor Compensation Scheme reserve	(39.0)	(42.3)
Intangible assets	(27.6)	(23.2)
Previous year proposed dividend	(10.0)	(10.0)
Part of Interim or Year - end profit not eligible	-	-
Prudential Valuation on Fair-Valued Assets and	(0.8)	(0.6)
Transitional Adjustments	-	-
	952.1	**941.9**
Tier 2		
As per statement of Financial Position		
Subordinated liabilities	163.2	163.2
Less : Accrued Interest Payable	-	-
Less: Amortisation of subordinated loan capital	-	-
	163.2	**163.2**
Total Own Funds	**1,115.4**	**1,105.1**

4.4 Overview of Pillar 1 Capital Requirements

The Group uses the following approaches to calculate the own funds requirements for Pillar 1 risks:

- *The Standardized Approach* for credit risk. Risk weights for the investment portfolio managed by the Treasury Department are determined by taking the worst credit rating from the best two credit ratings provided by eligible External Credit Assessment Institutions (ECAI) – Fitch, Moody's and S&P. Regulatory risk weights are used for unrated exposures and the lending portfolio.
- *The Standardized Approach* for foreign exchange risk. The capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency.
- *The Standardized Approach* for the securitized risk-weighted exposure amounts.
- *The Basic Indicator Approach* for the operational risk. Under this approach, the Group allocates capital by taking 15% of the average gross income of the preceding three years.
- *The Original Exposure Method* for the counterparty credit risk. This takes into consideration the netting arrangements in place while accounting for potential future changes. This netting process reduces the credit risk and settlement risk to a single net claim on the party to the contract.
- A minimum capital requirement is also determined for non-credit obligation assets (i.e. 'other assets' on the balance sheet) in line with the CRD IV 575/2013.

4.5 Capital Buffers

In addition to the Pillar 1 capital requirements, Banking Rule BR/15 – 'Capital Buffers of Credit Institutions authorized under the Banking Act, 1994' - requires financial institutions to comply at all times with additional regulatory capital buffers as applicable, namely the Capital Conservation Buffer (CCB), the Countercyclical Capital Buffer (CCyB), the Institution Specific CCyB, the Systemic Risk buffer, the Global Systemically Important Institution Buffer and the Other-Systemically Important Institutions (O-SII) Buffer. These buffers are aimed at strengthening the resilience of the institutions and were fully applicable as from January 2019. Automatic restrictions on capital distributions apply if the Bank's CET1 capital falls below the level of its CRD IV combined buffer. As at end June 2021, the buffers which apply for the Bank were the CCB, the institution-specific CCyB and the O-SII buffer.

The CCB is based on Article 129 of CRD IV and is aimed at protecting the Bank's capital and avoid breaches of minimum capital requirements. The CCB is equal to 2.50% of CET1 capital as a percentage of its total risk exposure amount.

During the financial year under review, the Central Bank of Malta (CBM) did not activate the CCyB capital buffer. Furthermore, the institution-specific CCyB is based on the Group's geographical location of the relevant credit exposure. Following Article 130(1) of Directive 2013/36/EU (CRD) the buffer rate is calculated by multiplying the total risk exposure amount (TREA) and the weighted average of the countercyclical buffer rates that relate to the jurisdictions where the Group's credit exposures are located.

In line with Article 440 of the CRR, Table EU CCyB1 discloses the geographical distribution of the Group credit exposures relevant for the calculation of the institution-specific CCyB and Table CCyb2 shows the amount of institution specific CCyB applicable to the Group as at June 2021, with the amount of capital required as at June 2021 being equal to €6,000.

Also, due to its strong presence in the Maltese economy and its perceived systemic relevance, BOV continues to be designated as an O-SII and thus is required to maintain an O-SII capital buffer of 2.00% composed of CET1 capital as a percentage of the total risk weight exposure amount.

Table 5: EU CCB1 - CCyB1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

€ thousands except where indicated	**General Credit Exposures**	**Own Fund Requirements**	**RWA Exposure**	**Own Fund Requirements Weights (%)**	**CCyB Rate (%)**
	Standardised Approach (SA)	*of which : relevant credit risk exposures*			
Country					
Bulgaria	0.4	0.0	0.3	0.00%	0.50%
Czech Republic	-	-	-	-	0.50%
Hong Kong	496.3	12.2	152.9	0.00%	1.00%
Luxembourg	138.9	4.1	51.0	0.00%	0.50%
Norway	884.8	24.9	311.3	0.01%	1.00%
Slovakia	-	-	-	0.00%	1.00%
Others	5,994,043.5	277,409.4	3,467,617.8	99.99%	0.00%
Total	**5,995,563.8**	**277,450.7**	**3,468,133.3**		

Table 6: EU CCB2 - EU CCyB2 - Amount of institution-specific countercyclical capital buffer

	€ millions except where indicated	**30 June 2021**
1	Total risk exposure amount	4,465.7
2	Institution specific countercyclical capital buffer rate (%)	0.00%
3	Institution specific countercyclical capital buffer requirement	0.006

4.6 Overview of the Risk Weighted Exposure Amounts (RWA)

In accordance with Article 438(c) to (f) of the CRR, the table EU OV1 provides an overview of the total RWA, and the capital requirement for credit risk, split by the different exposure classes, as well as capital for operational risk, foreign exchange risk, and credit valuation adjustment risk. Differently from previous years, the Bank is also allocating capital under the securitization in view of its first securitization portfolio related to the Malta Development Bank (MDB) 'COVID Assist Scheme'.
No capital is allocated for market risk as the Bank does not operate a trading book. Moreover, there is no capital allocated for settlement risk, commodities risk, position risk and large exposures.

The exposure value is equal to the total on-balance sheet and off-balance sheet net of value adjustments and provisions and post Credit Conversion Factor (CCF).

Table 7: EU OV1 - Overview of risk weighted exposure amounts

	€ millions	**RWAs**		**Total own funds requirements**
		30 June 2021	**31 December 2020**	**30 June 2021**
1	**Credit risk (excluding CCR)**	**3,978.5**	4,001.4	318.3
2	*Of which the standardised approach*	**3,978.5**	4,001.4	318.3
	Central government or central banks	**1.0**	1.0	0.1
	Regional government or local authorities	**12.1**	12.6	1.0
	Public sector entities	**35.7**	36.1	2.9
	Multilateral development banks	-	-	-
	International organisations	-	-	-
	Institutions	**461.7**	458.1	36.9
	Corporates	**1,095.1**	1,278.0	87.6
	Retail	**607.7**	677.2	48.6
	Secured by mortgages on immovable property	**878.6**	690.9	70.3
	Exposures in default	**139.4**	136.6	11.2
	Items associated with particular high risk	**109.6**	104.8	8.8
	Covered bonds	-	-	-
	Claims in the form of CIU	-	-	-
	Equity exposures	**235.7**	185.3	18.9
	Other items	**402.0**	420.8	32.2
6	**Counterparty credit risk - CCR**	**4.0**	2.5	0.3
EU 8b	*Of which credit valuation adjustment - CVA*	**0.8**	0.5	0.1
9	*Of which other CCR (Mark to Market)*	**3.3**	2.0	0.3
15	**Settlement risk**	-	-	-
16	**Securitisation exposures in the non-trading book**	**19.8**	19.0	1.6
19	*Of which SEC-SA approach*	**19.8**	19.0	1.6
20	**Position, foreign exchange and commodities risks**	**1.8**	2.3	0.1
21	*Of which the standardised approach*	**1.8**	2.3	0.1
23	**Operational risk**	**461.5**	461.5	36.9
EU 23a	*Of which basic indicator approach*	**461.5**	461.5	36.9
24	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**406.4**	360.3	32.5
29	**Total**	**4,465.7**	4,486.8	**357.3**

**Own Funds allocated for Commodities Risk is equal to zero*
**Own Funds allocated for Position Risk is equal to zero*

4.7 Leverage Ratio

The Leverage Ratio was introduced into the Basel III framework as a non-risk-based backstop limit, to supplement risk-based capital requirements. Its purpose is to limit the leverage effects on the balance sheet as it is a volume-based measure calculated as the fully phased in Tier 1 capital divided by the total average exposure in line with CRR Article 429. The latter is composed of on-balance sheet assets plus off-balance sheet exposures, such as undrawn commitments and derivatives potential future exposures, less amounts permitted to be deducted for Tier 1 capital.

As at end June 2021, the actual leverage ratio decreased by 0.35% to 6.80% (Dec 2020: 7.15%) with a Tier 1 Capital of €952.1 million and with total leverage exposure of €13.99 billion.

The leverage ratio lies well above the 3% minimum requirement and thus no additional capital is required. The Leverage Ratio is included within the RAF as one of the Key Risk Indicators (KRI) which is monitored and reported to the ALCO, BoD, the Internal Control and Risk Management Committee (ICRMC) and the RC on a monthly basis to ensure that the risk of excess leverage is managed. Early warning 'Tolerance' and 'Limit' thresholds are set to ensure that in the event of a breach, the escalation process is triggered. The BoD is responsible to ensure that there is no unaddressed tolerance or limits breaches related to all the RAF's capital related KRIs, including the leverage ratio.

Tables EU LR1 and EU LR2 provide a summarized reconciliation of accounting assets and leverage ratio exposures and a comprehensive disclosure of the Leverage Ratio.

Table 8: EU LR1 - Summary reconciliation of accounting assets and leverage ratio exposures

	€ millions	**30 June 2021**
1	Total assets as per published financial statements	**13,733.3**
	Adjustments for:	
8	*derivative financial instruments*	**7.9**
10	*off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)*	**320.2**
12	Other adjustments	**(67.0)**
13	**Total exposure measure**	**13,994.3**

Table 9: EU LR2 - Leverage ratio common disclosure

	EU LR2 - LRCom: Leverage ratio common disclosure		
	CRR leverage ratio exposures		
	€ millions except where indicated	**30 June 2021**	**31 December 2020**
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs, but including collateral)	**13,731.5**	**12,908.7**
6	(Asset amounts deducted in determining Tier 1 capital)	**(67.5)**	**(66.1)**
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	**13,664.1**	**12,842.6**
	Derivative exposures		
8	Replacement cost associated with all derivatives transactions	**2.2**	**2.0**
9	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**7.9**	**3.6**
13	**Total derivatives exposures**	**10.1**	**5.6**
	Securities financing transaction (SFT) exposures		
18	**Total securities financing transaction exposures**	-	-
	Other off-balance sheet exposures		
19	Off-balance sheet exposures at gross notional amount	**2,102.6**	**2,007.0**
20	(Adjustments for conversion to credit equivalent amounts)	**(1,782.5)**	**(1,691.1)**
22	**Off-balance sheet exposures**	**320.2**	**315.9**
	Excluded exposures		
22k	(Total exempted exposures)	-	-
	Capital and total exposure measure		
23	Tier 1 capital	**952.1**	**941.9**
24	Total exposure measure	**13,994.3**	**13,164.1**
	Leverage ratio		
25	Leverage ratio (%)	**6.80%**	**7.15%**
25	Leverage ratio (excluding the impact of the exemptionof public sector investments and promotional loans) (%)	**6.80%**	**7.15%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%)	**6.80%**	**7.15%**
26	Regulatory minimum leverage ratio requirement (%)	**3.00%**	**3.00%**
26a	Additional own funds requirements to address the risk of excessive leverage (%)	**0.00%**	**0.00%**
26b	of which: to be made up of CET1 capital (percentage points)	**0.00%**	**0.00%**
27	Leverage ratio buffer requirement (%)	**0.00%**	**0.00%**
27a	Overall leverage ratio requirement (%)	**3.00%**	**3.00%**
	Disclosure of mean values		
30	Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves)	**13,994.3**	**13,164.1**
30a	Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves)	**13,994.3**	**13,164.1**
31	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	**6.80%**	**7.15%**
31a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	**6.80%**	**7.15%**

The following table provides a split-up of the on-balance sheet exposures, excluding derivatives.

Table 10: EU LR3 - Split-up of on-balance sheet exposures (excluding derivatives, Securities Financing Transactions and exempted exposures)

	€ millions	**30 June 2021**
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures),** of which:	**13,731.5**
EU-2	**Trading book exposures**	-
EU-3	**Banking book exposures, of which:**	**13,731.5**
EU-4	*Covered bonds*	-
EU-5	*Exposures treated as sovereigns*	6,469.0
EU-6	*Exposures to regional governments, MDB, international organisations and PSE not treated as sc*	71.3
EU-7	*Institutions*	1,414.2
EU-8	*Secured by mortgages of immovable properties*	2,418.6
EU-9	*Retail exposures*	853.7
EU-10	*Corporates*	1,519.6
EU-11	*Exposures in default*	129.5
EU-12	*Other exposures (eg equity, securitisations, and other non-credit obligation assets)*	855.7

5 Credit Risk

Credit risk is the risk of suffering financial loss should any of the Bank's counterparties fail to fulfil their contractual payment obligations. The Group's exposure to credit risk arises mainly through its lending and investment activities and represents the Group's largest regulatory capital requirement. Being one of the Bank's primary risk factors, credit risk is subject to rigorous monitoring and control in order to ensure that it is managed in line with the credit risk appetite metrics.

The Bank maintains a strong local presence and a supportive customer relationship, whilst ensuring that the credit quality is not neglected in favour of higher volumes or margins. The Credit Risk Management function is responsible for ensuring that the Bank's credit risk is properly managed. The main objectives of credit risk management are to: (i) maintain a framework of controls to ensure that credit risk-taking is based on sound credit risk management principles; (ii) identify, assess, and measure credit risk accurately, both on an individual level as well as on a portfolio basis, limiting undesirable concentrations of exposure by counterparty, sector and geography; and (iii) monitor credit risk whilst ensuring that risk-reward objectives are met.

In the context of the Covid-19 situation, additional specific monitoring is being carried out both on a portfolio and on an individual level, with hindsight reviews on moratoria and state-assisted or other facilities granted, as well as reviews of Financial Difficulty Tests are being carried out regularly on a sample basis. The Bank has in place a number of policies tailored for each type of business, which articulate its appetite towards credit risk. These include (i) Business Lending; (ii) Home Loans; (iii) Personal Lending and Credit Cards; (iv) E-Commerce; (v) Trade Finance; (vi) Property Lending; (vii) Treasury Management and (viii) policies related to the management of nonperforming loans. The latter relate to (i) Forbearance; (ii) Collateral; (iii) Early Warning Indicators; (iv) Nonperforming loans and Arrears Management; (v) Debt Recovery Management; and (vi) Write-offs. Such policies are underpinned by core principles related to compliance with the Group's ethical standards, clear definition of responsibilities, the existence and implementation of procedures, limits that ensure a high degree of diversification, and thorough analysis of risk. Procedures for the consideration and monitoring of exceptions to each policy are also included in the respective policy document.

Policies are reviewed periodically to keep them aligned with the ever-changing market conditions, new regulations and the Bank's risk appetite and are approved by different levels of authorities in line with the Policy Governance Framework which was introduced during financial year 2020 and which is segmented into three levels. During 2020 and the first half of 2021, the Bank reviewed the Trade Finance Policy, and updated the Business Lending Policy, the Property Lending Policy, the Collateral Policy, the Treasury Management Policy (TMP) and policies related to nonperforming loans. The Bank also updated its Consumer Lending policies.

5.1 Quantitative Information on Credit Risk Exposures

Institutions are required to comply and publicly disclose information in accordance with Article 435(1) of Part Eight of the CRR at least on annual basis.

In accordance with the EBA guidelines on Pillar 3 disclosure requirements, table EU CR1 shows the gross carrying amount, accumulated impairment, and collaterals and financial guarantees received for performing and nonperforming exposures broken down by asset classes. The Bank does not carry partial write-off on its exposures. Additionally, table EU CR1-A provides the gross exposure net of impairments broken down by residual maturity.

Table 11: EU CR1: Performing and nonperforming exposures and related provisions

€ millions

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collaterals and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures - Accumulated impairment and provisions			Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					
		of which: stage 1	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*of which: stage 1*	*of which: stage 2*		*of which: stage 2*	*of which: stage 3*		*On performing exposures*	*On non-performing exposures*
Cash balances at central banks and other demand deposits	4,063.5	4,063.5	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances	**5,089.8**	**4,374.8**	**598.4**	**275.4**	**-**	**275.4**	**(46.0)**	**(21.8)**	**(24.2)**	**(128.9)**	**-**	**(128.9)**	**-**	**2,977.8**	**98.7**
Central banks	0.0	0.0	-	-	-	-	(0.0)	(0.0)	-	-	-	-	-	-	-
General governments	41.8	35.1	2.6	0.0	-	0.0	(0.0)	(0.0)	(0.0)	(0.0)	-	(0.0)	-	13.9	-
Credit institutions	146.0	137.6	8.4	0.0	-	0.0	(0.0)	(0.0)	(0.0)	-	-	-	-	-	-
Other financial corporations	38.5	35.7	2.9	0.1	-	0.1	(0.4)	(0.1)	(0.2)	(0.0)	-	(0.0)	-	15.0	0.0
Non-financial corporations	2,172.4	1,563.7	496.2	194.7	-	194.7	(39.4)	(17.9)	(21.5)	(85.5)	-	(85.5)	-	937.6	72.2
Of which: SMEs	1,545.0	1,035.0	404.9	155.2	-	155.2	(28.5)	(9.5)	(19.0)	(66.6)	-	(66.6)	-	630.1	55.6
Households	2,691.1	2,602.8	88.3	80.7	-	80.7	(6.2)	(3.7)	(2.5)	(43.3)	-	(43.3)	-	2,011.3	26.5
Debt Securities	**3,915.2**	**3,875.3**	**30.7**	**-**	**-**	**-**	**(0.6)**	**(0.5)**	**(0.1)**	**-**	**-**	**-**	**-**	**-**	**-**
Central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,633.5	2,601.6	22.8	-	-	-	(0.4)	(0.4)	-	-	-	-	-	-	-
Credit institutions	972.7	971.4	1.3	-	-	-	(0.1)	(0.1)	-	-	-	-	-	-	-
Other financial corporations	36.1	36.1	-	-	-	-	(0.0)	(0.0)	-	-	-	-	-	-	-
Non-financial corporations	272.8	266.3	6.6	-	-	-	(0.1)	(0.0)	(0.1)	-	-	-	-	-	-
Off-balance sheet exposures	**1,972.8**	**1,765.1**	**207.7**	**35.9**	**-**	**35.9**	**(16.9)**	**(9.1)**	**(7.8)**	**(13.6)**	**-**	**(13.6)**	**-**	**-**	**-**
Central banks	0.1	0.1	-	-	-	-	(0.0)	(0.0)	-	-	-	-	-	-	-
General governments	75.3	75.2	0.0	0.0	-	0.0	(0.1)	(0.1)	(0.0)	(0.0)	-	(0.0)	-	-	-
Credit institutions	15.8	15.8	0.0	0.0	-	0.0	(0.1)	(0.1)	-	-	-	-	-	-	-
Other financial corporations	38.9	32.5	6.4	0.0	-	0.0	(0.1)	(0.0)	(0.0)	-	-	-	-	-	-
Non-financial corporations	1,151.4	965.5	186.0	29.2	-	29.2	(14.0)	(6.6)	(7.4)	(11.2)	-	(11.2)	-	-	-
Households	691.3	676.0	15.3	6.7	-	6.7	(2.6)	(2.3)	(0.4)	(2.4)	-	(2.4)	-	-	-
Total	**15,041.3**	**14,078.7**	**836.8**	**311.3**	**-**	**311.3**	**(63.5)**	**(31.3)**	**(32.1)**	**(142.5)**	**-**	**(142.5)**	**-**	**2,977.8**	**98.7**

Table 12: EU CR1-A – Maturity of exposures

€ millions

	Net Exposure Value					
	on demand	*<= 1 year*	*>1 year <=5 years*	*> 5 years*	*No stated maturity*	*Total*
Loans & Advances	766.1	4,201.9	551.5	5,805.7	286.9	10,666.7
Debt Securities (include equity)	-	1,427.8	1,419.9	1,066.8	53.4	3,967.9
Total	**766.1**	**5,629.7**	**1,971.4**	**6,872.5**	**340.2**	**15,580.0**

5.2 Past Due and Impaired Exposures

In accordance with CRR Article 178, nonperforming exposures (NPL) are defined as exposures which satisfy either or both of the following criteria: (i) material exposures which are more than 90 days past due; and/or (ii) the debtor is assessed as unlikely to pay (UTP) its credit obligations in full without realization of collateral, regardless of the existence of any past due amount or of the number of days past due.

As from 1st January 2018, the Bank adopted International Financial Reporting Statement 9 (IFRS 9) and approved the new Provisioning Policy. The new framework outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition:

- Stage 1 – performing exposures which are not credit-impaired.
- Stage 2 – underperforming exposures where a significant increase in credit risk was determined; and
- Stage 3 – nonperforming exposures which are credit-impaired.

Under IFRS 9, a financial asset is deemed to be credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset, have occurred. Evidence that a financial asset is credit-impaired include observable data about a number of events, viz.: (i) significant financial difficulty on the part of the issuer or borrower; (ii) a breach of contract (such as a default or past due event); and (iii) when a concession has been granted to the borrower by the lender due to the borrower's financial difficulty. Such financial assets are classified under the IFRS 9 Stage 3 classification, as mentioned above. A specific allowance is set aside to cover the unsecured portion when cash flows from operations plus the estimated realizable value of any collateral held are considered insufficient to recover the full exposure. Non-impaired financial assets constitute a lower risk of default, do not demonstrate significant financial difficulty and no breaches in contract are observed that would classify them as credit-impaired (typically are ≤ 89 days past due in terms of days delinquent). Such financial assets are classified under the IFRS 9 Stage 1 and IFRS 9 Stage 2 classification, with the latter having a higher probability of being classified as credit-impaired (i.e. Stage 3) and therefore attracting a higher Expected Credit Loss (ECL).

The Bank has a comprehensive internal rating system designed to reflect the risk inherent in each lending relationship, identify problematic loans in a timely manner and thereby assist in the creation of a quality loan book. The loan portfolio is analysed in terms of the twelve grading levels within the internal credit rating system. The relative rating is primarily determined by the operating performance of the account and by other qualitative criteria. Exposures are analysed on a regular basis to determine whether there is impairment in the customer's business which merits a change in rating. For regulatory and high-level internal reporting, the twelve grading levels are mapped to the three IFRS 9 regime states as follows:

- Performing (exposures bearing a Regular rating).
- Underperforming (exposures rated Watch and Substandard); and
- Nonperforming (those exposures classified as Doubtful on the internal rating system).

The two tables below provide information on the changes in the stock of nonperforming loans and advances and information on the changes in the stock of nonperforming loans and advances and their related net accumulated recoveries for the semester ended June 2021.

Table 13: EU CR2: Changes in the stock of non-performing loans and advances

€ millions	**Gross carrying amount**
Initial stock of non-performing loans and advances	237.5
Inflows to non-performing portfolios	67.0
Outflows from non-performing portfolios	*(29.1)*
of which:	
due to write-offs	-
due to other situations	*(29.1)*
Final stock of non-performing loans and advances	**275.4**

Table 14: EU CR2a – Changes in the stock of non-performing loans and advances and related net accumulated recoveries

€ millions	Gross carrying amount	Related net cumulated recoveries
Initial stock of non-performing loans and advances	237.5	-
Inflows to non performing portfolios	67.0	-
Outflows from non-performing portfolios	(29.1)	-
of which:		
to performing portfolio	(20.6)	-
due to loan repayment, partial or total	(8.5)	-
due to collateral liquidations	-	-
due to taking possession of collateral	-	-
due to sale of instruments	-	-
due to risk transfers	-	-
due to write-offs	-	-
due to other situations	-	-
due to reclassification as held for sale	-	-
Final stock of non-performing loans and advances	**275.4**	**-**

5.3 Credit Quality of the Bank's Exposures

In line with the EBA guidelines on disclosures, the tables below provide information on the credit quality of the Bank's assets by exposure class, geography and industry as at end June 2021. Impaired exposures are equal to the defaulted exposures which are classified as IFRS 9 Stage 3 exposures. Additionally, table EU CQ3 includes also an ageing analysis of past due exposures regardless of their impairment status. None of the debt securities were past due as at end of financial year 2020.

Table 15: EU CQ3: Credit Quality of performing and nonperforming exposures by past due days

€ millions	Gross carrying amount / Nominal amount											
	Performing exposures			Non-performing exposures								
	Total	Not past due	Past-Due	Total	Unlikely to pay, not past due	Past-Due						
		or Past due < 30 days	*> 30 days < 90 days*		*or past-due < = 90 days*	*> 90 days <= 180 days*	*> 180 days < =1 year*	*> 1 year <= 2 years*	*> 2 year <= 5 years*	*> 5 year <= 7 years*	*> 7 years*	*defaulted*
Cash balances at central banks and other demand deposits	4,063.5	4,063.5	-	-	-		-	-	-	-	-	-
Loans and advances	5,089.8	5,080.3	9.6	275.4	119.5	32.4	17.7	19.5	18.7	11.3	56.4	-
Central banks	0.0	-	-	-	-	-	-	-	-	-	-	-
General governments	41.8	41.8	-	0.0	0.0	-	0.0	-	-	0.0	-	-
Credit institutions	146.0	146.0	-	0.0	0.0	-	-	-	-	-	-	-
Other financial corporations	38.5	38.5	-	0.1	-	-	0.0	0.0	-	-	0.1	-
Non-financial corporations	2,172.4	2,167.5	4.9	194.7	97.9	27.7	12.7	11.5	9.4	6.1	29.5	-
Of which: SMEs	1,545.0	1,540.1	4.9	155.2	76.1	14.9	8.1	11.5	9.2	6.1	29.5	-
Households	2,691.1	2,686.4	4.7	80.7	21.5	4.7	5.0	8.0	9.4	5.2	26.9	-
Debt Securities	3,915.2	3,915.2	-	-	-	-	-	-	-	-	-	-
Central banks	-	-	-	-	-	-	-	-	-	-	-	-
General governments	2,633.5	2,633.5	-	-	-	-	-	-	-	-	-	-
Credit institutions	972.7	972.7	-	-	-	-	-	-	-	-	-	-
Other financial corporations	36.1	36.1	-	-	-	-	-	-	-	-	-	-
Non-financial corporations	272.8	272.8	-	-	-	-	-	-	-	-	-	-
Off-balance sheet exposures	1,972.8	-	-	35.9	-	-	-	-	-	-	-	-
Central banks	0.1	-	-	-	-	-	-	-	-	-	-	-
General governments	75.3	-	-	0.0	-	-	-	-	-	-	-	-
Credit institutions	15.8	-	-	0.0	-	-	-	-	-	-	-	-
Other financial corporations	38.9	-	-	0.0	-	-	-	-	-	-	-	-
Non-financial corporations	1,151.4	-	-	29.2	-	-	-	-	-	-	-	-
Households	691.3	-	-	6.7	-	-	-	-	-	-	-	-
Total	**10,977.8**	**8,995.4**	**9.6**	**311.3**	**119.5**	**32.4**	**17.7**	**19.5**	**18.7**	**11.3**	**56.4**	**-**

Table 16: EU CQ4: Quality of nonperforming exposures by geography

€ millions

	Gross carrying/Nominal amount				Accumulated impairment	Provisions on off-balance sheet commitments and financial guarantee given	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		of which: non-performing		of which: subject to impairment			
			of which: defaulted				
On balance sheet exposures	**9,280.4**	**275.4**	**-**	**9,154.6**	**(175.5)**	**-**	**-**
MT	6,643.4	267.7	-	6,517.6	(173.2)	-	-
DE	368.4	0.0	-	368.4	(0.1)	-	-
FR	302.2	0.0	-	302.2	(0.0)	-	-
ES	159.6	0.0	-	159.6	(0.1)	-	-
NL	140.2	0.0	-	140.2	(0.0)	-	-
Other Countries	1,666.6	7.8	-	1,666.5	(2.2)	-	-
Off balance sheet exposures	**2,008.7**	**35.9**	**-**	**-**	**-**	**30.5**	**-**
MT	1,987.2	35.7	-	-	-	30.1	-
GI	9.2	-	-	-	-	0.0	-
GB	5.5	0.2	-	-	-	0.2	-
CH	2.2	-	-	-	-	0.0	-
IT	1.1	0.0	-	-	-	0.2	-
Other Countries	3.5	0.0	-	-	-	0.0	-
Total	**11,289.1**	**311.3**	**-**	**9,154.6**	**(175.5)**	**30.5**	**-**

Table 17: EU CQ5: Credit quality of loans and advances by industry

€ millions

	Gross carrying amount				Accumulated impairment	Accumulated negative changes in fair value due to credit risk on non-performing exposures
		of which: non-performing		of which: loans and advances subject to impairment		
			of which: defaulted			
Agriculture, forestry and fishing	4.1	0.1	-	4.1	(0.0)	-
Mining and quarrying	3.2	-	-	3.2	(0.0)	-
Manufacturing	97.9	11.6	-	97.9	(8.5)	-
Electricity, gas, steam and air conditioning supply	124.6	2.3	-	98.4	(2.9)	-
Water supply	1.7	0.0	-	1.7	(0.0)	-
Construction	185.1	54.4	-	185.1	(34.9)	-
Wholesale and retail trade	397.8	27.5	-	389.8	(21.7)	-
Transport and storage	248.7	16.4	-	248.7	(12.7)	-
Accommodation and food service activities	382.7	61.8	-	365.6	(22.8)	-
Information and communication	28.8	0.3	-	28.8	(0.3)	-
Real estate activities	265.5	8.6	-	225.5	(4.7)	-
Financial and insurance activities	336.0	3.2	-	314.8	(3.8)	-
Professional, scientific and technical activities	22.2	1.7	-	22.2	(1.3)	-
Administrative and support service activities	47.3	0.4	-	47.3	(3.6)	-
Public administration and defence, compulsory social security	0.1	-	-	0.1	(0.0)	-
Education	20.2	0.3	-	20.2	(1.8)	-
Human health services and social work activities	143.9	-	-	143.9	(0.5)	-
Arts, entertainment and recreation	37.3	1.3	-	37.3	(1.3)	-
Other services	20.0	4.8	-	20.0	(4.2)	-
Total	**2,367.0**	**194.7**	**-**	**2,254.6**	**(124.9)**	**-**

The Bank has instituted several units aimed at assisting obligors at an early stage and thereby helping to prevent deterioration into the nonperforming stage. When the latter has already occurred or is deemed inevitable, other units focus on reducing, mitigating and/or recovering nonperforming loans. Each unit, depending on the stage, exposure and severity of the relative NPLs has its internal procedures in order to strive towards achieving the desired results.

The Bank has in place policies and procedures regarding the management of NPLs. The NPL process warrants greater independence in the management of such exposures and to this effect, a specific department namely the Business Turnaround and Collections Unit discharges such responsibilities.

Restructuring of facilities can occur under two scenarios. The first relates to a situation where the debtor has become problematic, leading the Bank to grant concessions that it would not otherwise consider. In the other scenario, the customer does not have any financial difficulties but requests a restructuring in view of ongoing business model evolution.

Forbearance measures represent concessions granted by the Bank to borrowers when they are considered to be unable to meet the original terms and conditions of the contract due to financial difficulties. Through forbearance measures, the Bank may modify the terms and conditions of the contract to allow the borrower sufficient ability to service the debt or refinance the contract. Rigorous assessment is undertaken to ensure that restructuring is only allowed in those cases where the underlying fundamentals are sound and where the customer is expected to meet the revised obligations. When the concession is due to financial difficulty, the account is marked as forborne. As part of its asset quality assessment measures, the Credit Risk Monitoring Unit (CRMU) reviews (on a sample basis) the financial difficulty tests and determines whether the facility has been correctly categorized.

In line with the updated (published 22.12.2020) EBA Pillar 3 disclosure requirements, information is being disclosed relating to forborne exposures. This is in line with Annex 7 of the 'Guidance to banks on nonperforming loans' (published in March 2017 - reference to Annex 7: Summary of supervisory reporting and disclosures related to NPLs - Table 5). The tables below provide an overview of the credit quality of forborne exposures as at 30th June 2021.

Table 18: EU CQ2: Quality of forbearance

€ millions	Gross carrying amount of forborne exposures
Loans and advances that have been forborne more than twice	-
Non-performing forborne loans and advances that failed to meet the non-performing exit criteria	-

Table 19: EU CQ1: Credit quality of forborne exposures

€ millions	Gross carrying amount/ Nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collaterals received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne			On performing forborne exposures	On non-performing forborne exposures	Total	*Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures*
		Total	*Of which: defaulted*	*Of which: impaired*				
Cash balances at central banks and	-	-	-	-	-	-	-	-
Loans and advances	110.1	128.9	-	-	(5.7)	(61.1)	127.9	49.7
Central banks	-	-	-	-	-	-	-	-
General governments	-	-	-	-	-	-	-	-
Credit institutions	-	-	-	-	-	-	-	-
Other financial corporations	-	0.1	-	-	-	(0.0)	0.0	0.0
Non-financial corporations	89.4	106.7	-	-	(5.3)	(48.4)	107.0	42.9
Households	20.7	22.1	-	-	(0.4)	(12.6)	20.9	6.8
Debt Securities	-	-	-	-	-	-	-	-
Loan commitments given	1.7	0.8	-	-	-	-	-	-
Total	**111.8**	**129.7**	**-**	**-**	**(5.7)**	**(61.1)**	**127.9**	**49.7**

5.4 Credit Risk Analysis and Mitigation

An assessment of the borrower's ability to service and repay the proposed debt is undertaken for each credit request and is a key element when considering an application for credit. In particular, before making any commitments, the Bank carries out an in-depth review of the borrower and ensures that it has a thorough knowledge of all the structural aspects of the borrower's operations and that adequate monitoring will be possible. Consideration is also given to the sector in which the borrower operates, in terms of economic prospects and potential growth, along with the Bank's sectoral default history.

The Bank has enhanced the identification of Early Warning Indicators by including a collection of variables leading to the early detection of potentially problematic borrowers or exposures, and early identification of a significant increase in credit risk. The early detection of these higher risk debtors puts the Bank in a better position to manage the increased credit risk and avoid transition to default status.

Credit exposures are regularly reviewed for objective evidence of impairment, both individually and as part of a collective assessment, with a view to taking prompt recovery action. In addition, hindsight overviews are carried out on a sample basis wherein the judgement of the initial decision-makers is reviewed to determine the extent to which such decision-makers were in compliance with Bank policies and procedures in approving the credit application concerned. This strengthens the decision-making process and ensures that the quality of the lending portfolio is properly and regularly monitored by an independent authority so that any necessary remedial action can be taken. The monitoring has also been enhanced in relation to borrowers granted Covid-19 related facilities and those that have been granted moratoria in the context of the pandemic.

The granting of credit facilities is primarily based on the capacity to repay rather than placing primary reliance on credit risk mitigants. The mitigation of credit risk is however a key aspect of effective risk management used to address the risk inherent in individual exposures. 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.

Collateral is taken into account at a haircut which is applied to the market value and is only accepted as the main source of repayment in property development and other exceptional cases. The Collateral Policy includes details on the requirements of Bank-appointed appraisers and the valuation methodologies to be applied, depending on the immovable property being evaluated. Immovable properties held as collateral are subject to regular revaluation in order to maintain a true picture of their values which is updated from time to time. The Policy details the requirements for property valuation for the type of properties in terms of frequency and type of appraisals, depending on exposure range and status. The Bank also monitors the value of immovable properties regularly, mainly through the use of the Property Price Index. This ensures that the value being relied on as collateral adequately reflects the current value of the property. Quality assurance on the appraisal process is also detailed in the Policy as well as collateral valuation for provisioning purposes. The Collateral Policy also includes details relating to the collateral valuations at recovery stage as well as those properties which are ready for disposal by the Bank.

In addition, the Collateral Policy deals with other non-immovable collateral valuations and provides details on the processes, frequency of valuations of such collateral, and the different responsibilities of the relationship managers and relevant departments. The main types of collateral acceptable to the Bank are also articulated; in the main these are hypothecs on properties (both residential and business), guarantees and financial instruments (such as debt securities and equities). The Policy refers to the categorization of collateral and classification of immovable property.

The main form of collateral held by the Bank in favour of sanctioned loan facilities is immovable property. This is followed by guarantees and/or letters of comfort issued by the government. In line with the Collateral Policy, the creditworthiness of the guarantor is assessed prior to accepting guarantees as security, with different criteria taken into account when a value is extended on such guarantees, including the quality of the guarantor and the rating (if applicable). Guarantees can be personal or demand guarantees. The latter are offered by other Banks as collateral for credit facilities held with our institution. Government guarantees are also taken subject to clearance from the State Aid Monitoring Board.

In line with the EBA guidelines on disclosures, the tables below provide information on collateral valuation as at end June 2021.

Table 20: EU CQ6: Collateral valuation – loans and advances

€ millions	Loans and advances											
				Non Performing								
	Total	Performing		Total of Non-Performing Loans	Unlikely to pay that are not past due or past due <= 90 days	Past-Due > 90 days						
		Total of Performing Loans	*of which: past due > 30 days <= 90 days*			*Total of past due > 90 days*	*> 90 days <= 180 days*	*> 180 days <= 1 year*	*> 1 years <=2 years*	*> 2 years <=5 years*	*> 5 years <=7 years*	*> 7 years*
Gross carrying amount	5,365.3	5,089.8	9.6	275.4	119.5	156.0	32.4	17.7	19.5	18.7	11.3	56.4
Of which: secured	2,972.4	2,864.8	5.2	107.6	58.4	49.2	23.7	4.5	5.6	5.1	3.2	7.1
Of which: secured with Immovable property	2,625.9	2,514.7	4.4	111.3	60.6	50.7	25.6	4.1	5.3	4.8	3.8	7.0
Of which: instruments with LTV higher than 60% and lower or equal to 80%	328.5	325.3	-	3.2	0.6	2.6	-	-	-	-	-	-
Of which: instruments with LTV higher than 80% and	179.3	176.2	-	3.1	1.1	2.0	-	-	-	-	-	-
Of which: instruments with LTV higher than 100%	24.5	22.3	-	2.1	-	2.1	-	-	-	-	-	-
Accumulated impairment for secured assets	(4.8)	(2.6)	(0.4)	(2.2)	(1.2)	(1.0)	(0.1)	(0.1)	(0.3)	(0.3)	(0.1)	(0.2)
Collateral	-	-	-	-	-	-	-	-	-	-	-	-
Of which:												
value capped at the value of exposure	3,076.5	2,977.8	4.5	98.7	61.0	37.6	16.7	4.6	4.6	4.4	2.9	4.5
immovable property	2,601.1	2,513.8	4.4	87.3	53.1	34.3	16.5	3.8	4.0	3.6	2.7	3.7
value above the cap	1,789.8	1,664.0	3.6	125.8	55.1	70.7	-	-	-	-	-	-
immovable property	1,241.7	1,143.3	1.3	98.4	39.3	59.2	-	-	-	-	-	-
Financial guarantees received	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated partial write-off	-	-	-	-	-	-	-	-	-	-	-	-

Tables EU CQ7 and EU CQ8 are not applicable and consequently a nil return is provided.

At facility sanctioning stage, the Bank also mitigates credit risk through the adoption of terms and provisions known as covenants, both financial and non-financial, which allow the Bank to take action when a borrower's default risk increases. These may permit a reduction of the maximum amount of borrowing under the commitment, increases in collateral, repricing and, in a worst-case scenario, call-in of facilities.

Investment exposures within the investment portfolio managed by Treasury Department are reviewed regularly to ensure compliance with TMP limits. Ongoing monitoring is also carried out to identify changes in credit ratings or outlook, possibly prompting any mitigating action as may be required. Credit risk in the investment portfolio is mitigated through limits set in the TMP. These limits are set on the level of credit risk undertaken in relation to any counterparty exposure in accordance with external ratings issued by major rating agencies. The TMP also sets limits in respect of settlements and derivatives. Hedging derivatives are used to hedge against adverse interest rate and currency movements.

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. This risk is mitigated through settlement limits assigned to counterparties based on external credit ratings or by effecting payment on a delivery versus payment (DVP) basis.

In light of the COVID-19 pandemic, the Bank has taken a proactive approach and announced a number of measures in order to support the business community in these challenging times. This is being done in order to ensure that businesses are able to steer through this difficult period. Measures taken by the Bank included various schemes and products aimed at supporting personal and business customers, including the Malta Development Bank Guarantee Scheme – 'BOV MDB COVID Assist' – and the granting of moratoria in line with CBM Directive 18. Further details regarding COVID-19 and its effect on the Bank can be found in the Commentary Notes of the Interim Financial Statements.

Template 1: Information on loans and advances subject to legislative and non-legislative moratoria

Information on loans and advances subject to legislative and non-legislative moratoria

€ millions

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing			Non Performing				Performing			Non Performing			
		Total	Total Performing	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total Non Performing	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*	Total	Total Performing	*Of which: exposures with forbearance measures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	Total Non Performing	*Of which: exposures with forbearance measures*	*Of which: Unlikely to pay that are not past-due or past-due <= 90 days*	Inflows to non performing exposures
1	**Loans and advances subject**	**45.9**	**38.3**	**4.2**	**15.6**	**7.7**	**6.6**	**7.7**	**(41.4)**	**(27.2)**	**(6.7)**	**(17.6)**	**(14.2)**	**(5.7)**	**(6.6)**	**0.0**
	Of which:	**11.0**														
2	*Households*	**7.9**	11.0	9.1	2.0	1.6	1.9	1.9	1.9	(2.3)	(0.9)	(0.0)	(0.6)	(1.4)	(0.7)	(0.9)
3	*Collateralised by*	**31.1**	7.9	7.3	1.3	0.9	0.6	0.6	0.6	(0.9)	(0.3)	(0.0)	(0.2)	(0.6)	(0.3)	(0.4)
4	*Non-financial*	**27.7**	31.1	25.3	2.3	13.6	5.8	4.7	5.8	(31.3)	(19.2)	(6.7)	(16.8)	(12.1)	(5.0)	(5.7)
5	*Small and Medium-sized*	**22.8**	27.7	21.9	1.5	12.8	5.8	4.7	5.8	(29.0)	(16.9)	(6.7)	(15.3)	(12.1)	(5.0)	(5.7)
6	*Collateralised by*	-	22.8	20.4	2.3	10.8	2.3	2.3	2.3	(13.1)	(4.6)	(1.6)	(4.4)	(8.5)	(2.8)	(2.7)

Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria

	€ millions									
			Gross carrying amount							
						Residual maturity of moratoria				
		Number of obligors		*Of which: legislative moratoria*	*Of which: expired*	*<= 3 months*	*> 3 months <= 6 months*	*> 6 months <= 9 months*	*> 9 months <= 12 months*	*> 1 year*
1	**Loans and advances for which moratorium was offered**	**2,596.0**	**750.6**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
2	**Loans and advances subject to moratorium (granted)**	**2,593.0**	**750.3**	**750.3**	**704.4**	**16.2**	**22.6**	**5.6**	**1.6**	**-**
3	of which: Households	-	247.4	247.4	236.4	7.2	3.8	-	-	-
4	*of which: Collateralised by residential immovable property*	-	206.2	206.2	198.3	5.2	2.7	-	-	-
5	of which: Non-financial corporations	-	371.7	371.7	340.6	9.0	15.2	5.6	1.3	-
6	*of which: Small and Medium-sized Enterprises*	-	296.2	296.2	268.5	6.4	14.4	5.6	1.3	-
7	*of which: Collateralised by commercial immovable property*	-	244.1	244.1	221.3	6.0	12.2	3.2	1.3	-

Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis

€ millions

		Gross carrying amount		**Maximum amount of the guarantee that can be considered**	**Gross carrying amount**
			Of which: forborne	**Public guarantees received**	**Inflows to non-performing exposures**
1	**Newly originated loans and advances subject to public guarantee schemes**	**237.3**	**0.9**	**106.8**	**0.0**
2	of which: Households	3.6	-	-	0.0
3	*of which: Collateralised by residential immovable property*	-	-	-	-
4	of which: Non-financial corporations	206.4	0.7	92.9	0.0
5	*of which: Small and Medium-sized Enterprises*	173.4	-	-	0.0
6	*of which: Collateralised by commercial immovable property*	10.6	-	-	-

5.5 Quantitative Information on Credit Risk Mitigation

The tables below provide information on the balance sheet exposure value (carrying amount net of provisions), that is covered by eligible collateral in line with CRR requirements. Tables below are segmented by exposure class, economic sector and country.

Table 21: EU CR3 – CRM techniques overview: Disclosure of the use of credit risk mitigation techniques

€ millions				
		Secured carrying amount		
	Unsecured carrying amount	Total	*Of which: secured by collateral*	*Of which: secured by financial guarantees*
Loans and advances	6,352.3	3,076.5	3,076.5	-
Debt securities	3,915.2	-	-	-
Total	**10,267.4**	**3,076.5**	**3,076.5**	**-**
Of which: non-performing exposures	176.8	98.7	98.7	-
Of which: defaulted	176.8	98.7	98.7	-

Table 22: EU CR4- Standardized Approach – Credit Risk exposure and CRM effects

€ millions except where indicated						
	Exposures before CCF and before CRM		**Exposures post CCF and post CRM**		**RWAs and RWAs density**	
	On-balance sheet exposures	**Off-balance sheet exposures**	**On-balance sheet exposures**	**Off-balance sheet exposures**	**RWEA**	**RWEA density (%)**
Exposure classes						
Central governments or central banks	5,987	70.3	5987.2	0.3	1.0	0%
Regional government or local authorities	102.0	3.8	102.0	0.8	12.1	12%
Public sector entities	71.3	0.0	177.0	0.0	35.7	20%
Multilateral development banks	286.6	0.0	286.6	0.0	0.0	0%
International organisations	93.2	0.0	93.2	0.0	0.0	0%
Institutions	1,414.2	33.1	1414.2	5.1	461.7	33%
Corporates	1,519.6	1166.1	1170.3	132.0	1095.1	84%
Retail	853.7	691.7	794.5	54.3	607.7	72%
Secured by mortgages on immovable property	2,418.6	0.0	2418.2	0.0	878.6	36%
Exposures in default	129.5	38.7	122.5	7.2	139.4	108%
Exposures associated with particularly high risk	72.1	73.8	70.4	2.6	109.6	150%
Covered bonds	-	0.0	0.0	0.0	0.0	0%
Institutions and corporates with a short-term credit	-	0.0	0.0	0.0	0.0	0%
Collective investment undertakings	-	0.0	0.0	0.0	0.0	0%
Equity	192.2	0.0	192.2	0.0	235.7	123%
Other items	352.4	0.0	352.4	0.0	402.0	114%
Total	**13,492.6**	**2077.4**	**13180.8**	**202.3**	**3978.6**	**30%**

Table 23: EU CR5- Standardized Approach

€ millions																	
	Risk weight															**Total**	*Of which: unrated*
	0%	**2%**	**4%**	**10%**	**20%**	**35%**	**50%**	**70%**	**75%**	**100%**	**150%**	**250%**	**370%**	**1250%**	**Others**		
Exposure classes																	
Central governments or central banks	5,982.5	-	-	-	5.0	-	-	-	-	-	-	-	-	-	-	5,987.5	-
Regional government or local authorities	42.1	-	-	-	60.7	-	-	-	-	-	-	-	-	-	-	102.8	-
Public sector entities	105.7	-	-	-	-	-	71.3	-	-	-	-	-	-	-	-	177.0	-
Multilateral development banks	286.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	286.6	-
International organisations	93.2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	93.2	-
Institutions	3.5	-	-	-	857.3	-	544.9	-	-	5.1	8.4	-	-	-	-	1,419.3	-
Corporates	-	-	-	-	35.3	-	113.2	-	-	1,153.9	-	-	-	-	-	1,302.4	-
Retail	-	-	-	-	-	-	-	-	848.8	-	-	-	-	-	-	848.8	-
Secured by mortgages on immovable property	-	-	-	-	-	1,919.5	498.7	-	-	-	-	-	-	-	-	2,418.2	-
Exposures in default	-	-	-	-	-	-	-	-	-	110.2	19.5	-	-	-	-	129.7	-
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	-	-	73.1	-	-	-	-	73.1	-
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unit or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity	65.8	-	-	-	-	-	-	-	-	53.6	-	72.9	-	-	-	192.2	-
Other items	70.3	-	-	-	9.5	-	-	-	-	174.4	-	89.7	-	-	8.5	352.4	-
Total	**6,649.6**	**-**	**-**	**-**	**967.9**	**1,919.5**	**1,228.1**	**-**	**848.8**	**1,497.1**	**100.9**	**162.6**	**-**	**-**	**8.5**	**13,383.1**	**0.0**

6 Counterparty Credit Risk

The CRR defines 'counterparty credit risk' (CCR) as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. The Group is exposed to CCR through over-the-counter (OTC) derivative exposures which are used to hedge against adverse interest rate and currency movements. For this reporting period, OTC derivative exposures relate to interest rate swaps, currency forwards, and currency swaps.

To calculate the CCR, the Group follows the Original Exposure Method (as defined in CRR2, Article 282), taking into consideration the netting arrangements in place while accounting for potential future changes. This netting process reduces the credit risk and settlement risk to a single net claim on the party to the contract.

Table 24: EU CCR1 – Analysis of CCR exposure by approach

€ millions		a	b	c	d	e	g	g	h
		Replacement cost (RC)	**Potential future exposure (PFE)**	**EEPE**	**Alpha used for computing regulatory** exposure value	**Exposure value pre-CRM**	**Exposure value post-CRM**	**Exposure value**	**RWEA**
1	Mark to market	5.0	3.6	0.0	1.4	10.1	10.1	10.1	3.3
2	Original exposure	0.0	0.0	0.0	1.4	0.0	0.0	0.0	0.0
3	Standardised approach	0.0	0.0	0.0	1.4	0.0	0.0	0.0	0.0
4	IMM (for derivatives and SFTs)	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
5	*Of which securities financing transactions*	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
6	*Of which derivatives and long settlement transactions*	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
7	*Of which from contractual cross-product netting*	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
8	Financial collateral simple method (for SFTs)	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
9	Financial collateral comprehensive method (for SFTs)	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
10	VaR for SFTs	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
11	**Total**	**5.0**	**3.6**	**-**	**-**	**10.1**	**10.1**	**10.1**	**3.3**

Table 25: EU CCR3- Standardized Approach – CCR exposures by regulatory portfolio and risk

€ millions	Risk Weight											Total
	0%	*2%*	*4%*	*10%*	*20%*	*50%*	*70%*	*75%*	*100%*	*150%*	*Others*	
Exposure classes												
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-
Regional government or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	3.61	-	1.77	3.80	-	-	-	-	-	9.17
Corporates	-	-	-	-	-	-	-	-	0.90	-	-	0.90
Retail	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Other items*	-	-	-	-	-	-	-	-	-	-	-	-
Total exposure value	**-**	**-**	**3.61**	**-**	**1.77**	**3.80**	**-**	**-**	**0.90**	**-**	**-**	**10.07**

**These include derivatives which serve as a 'back-to-back' to derivatives created for Collective Investment Schemes*

Table 26: EU CCR8 – Exposures to CCPs

€ millions	EAD post CRM	RWAs
Exposures to QCCPs (total)	-	0.14
Exposures for trades at QCCPs (excluding initial margin and default fund contributions)	3.61	0.14
of which:	-	-
(i) OTC derivatives	3.61	0.14
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-
Exposures to non-QCCPs (total)	-	-
Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions)	-	-
of which:	-	-
(i) OTC derivatives	-	-
(ii) Exchange-traded derivatives	-	-
(iii) SFTs	-	-
(iv) Netting sets where cross-product netting has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Prefunded default fund contributions	-	-
Unfunded default fund contributions	-	-

Internal limits and collateral management procedures are in place to address situations where the probability of default of a particular counterparty is positively correlated to the exposure with the same counterparty. This is referred to as wrong-way risk, whereby both the mark-to-market exposure and the riskiness of the counterparty, increase simultaneously. The Treasury Management Policy (TMP), which sets the limits on the maximum exposures held in derivatives, assumes that the business relationship with most counterparties is an ongoing one. Therefore, the limits are primarily based on the worst long-term credit rating of the counterparty. Requests falling outside the TMP are also reviewed by Credit Risk Sanctioning Department and approved by the Chief Risk Officer (CRO) or the BoD according to the magnitude of exposure. Limits are reviewed annually or more frequently in the event of a downgrade of the counterparty. The Financial Planning, Analysis, and Reporting Department (FPARD) monitors on a monthly basis the hedge effectiveness of the Bank's derivatives.

The Bank ensures that an International Swaps and Derivatives Association (ISDA) agreement with the respective counterparties is in place prior to effecting a transaction and that the agreement covers the deal in question. Furthermore, in order to secure the collateral, the Bank enters into an agreement with the counterparties in accordance with the Credit Support Annex (CSA) under the ISDA agreement. The CSA is a schedule to the ISDA Master Agreement. By virtue of such CSAs, a party to a derivative who has exposure to its counterpart will post collateral to cover such exposure by way of an outright title transfer of such collateral. All CSAs held by the Bank are of a two-way nature. Variation margin is exchanged on a daily basis.

The Credit Rating Downgrade Threshold clause in some CSA agreements is designed to trigger a series of events which may include the termination of transactions by the non-affected party if the credit rating of the affected party falls below a specified level. Nevertheless, the amount of collateral posted will not change in the event the Bank suffers a credit rating downgrade. The Bank did not enter into any credit derivative exposures/hedges during financial year 2020 and in the first half of 2021, neither relating to its own credit portfolio, nor in order to conduct intermediation activities. In relation to this, the Bank does not make reference to EU CCR6 in the Pillar 3 Disclosures report. In addition, it does not hold any credit reserves with respect to CCR since the collaterals and margins in place are deemed to suffice.

Table 27: EU CCR5 – Composition of collateral for CCR exposures

€ million								
	Collateral used in derivative transactions				**Collateral used in SFTs**			
	Fair value of collateral		**Fair value of posted collateral**		**Fair value of collateral**		**Fair value of posted collateral**	
	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated	Segregated	Unsegregated
Collateral type								
Cash – domestic currency	0.01	-	31.80	-	-	-	-	-
Cash – other currencies	-	-	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-	-	-
Other sovereign debt	-	-	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The collateral element listed in table EU CCR5 is used purely for risk mitigation. It is used to support (and not to reduce further) CCR exposures.

'Credit Valuation Adjustment' (CVA) is defined by the CRR as an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects potential mark-to-market losses due to counterparty migration risk on bilateral OTC derivative contracts. The CVA charge is computed in accordance with the Standardized Method as defined in Article 384 of the CRR.

Table 28: EU CCR2- Transactions subject to own funds requirements for CVA risk

€ millions	Exposure value	RWAs
Total transactions subject to the Advanced method	0.0	0.0
(i) VaR component (including the 3× multiplier)	0.0	0.0
(ii) SVaR component (including the 3× multiplier)	0.0	0.0
Transactions subject to the Standardised method	10.1	0.1
Transactions subject to the Alternative approach (Based on the Original Exposure Method)	0.0	0.0
Total transactions subject to own funds requirements for CVA risk	**10.1**	**0.1**

7 Securitization

In light of the Covid-19 pandemic, the Bank has taken a proactive approach and announced a number of measures in order to support the business community during these challenging times, when the business continuity is adversely affected by the current instability caused by the advent of Covid-19 in Malta. This is being done in order to ensure that businesses are able to steer through this difficult patch. Measures taken by the Bank included various schemes and products aimed at supporting personal and business customers, including the MDB Guarantee Scheme – 'BOV-MDB COVID Assist'. The BOV-MDB COVID Assist is a financing scheme aimed at assisting local Small and Medium Sized Enterprises (SMEs) and larger enterprises facing unprecedented disruptions brought about by the Covid-19 outbreak. It is aimed to enable them to meet working capital requirements, aiding them with running costs such as employees' wages and salaries, bills, pending invoices, acquisition of stock, maintenance costs and expenses that are critical for the smooth running of the business. The internal approval process to sanction loans falling under this scheme follows the Bank's Credit Policy.

The securitized exposures being guaranteed by the MDB guarantee Scheme, have been approved by the European Commission under the Temporary Framework for State aid measures to support the economy in the current Covid-19 outbreak.

In view that the guarantee is capped at portfolio level, the Bank is treating these exposures as follows:

- 10% of the portfolio (which refers to the retained position and is not subject to the guarantee) is treated under the Credit risk Pillar 1 capital requirements in accordance with the Standardized Approach.
- 90% of the portfolio falls under the Synthetic Securitization framework.

In line with Article 244(1a), as an originator, the Bank, is using securitization as a strategy to reduce significant credit risk. The credit risk is predominantly transferred to the third party through synthetic securitization. It is mainly achieved by an unfunded credit protection by the Maltese Government acting through the MDB.

Apart from this type of securitization, the Bank is not involved in other traditional securitization or re-securitization transactions as indicated in table EU SEC1. The Bank is not involved in a securitization process in which it acts as a sponsor where it purchases the exposure from third-party entities on the behalf of investors. Furthermore, it does not act as an investor in third party securitization. Hence, EU SEC 4 does not apply. Also, the Bank does not hold any mentioned roles with reference to the management of a trading book. In this regard, table EU SEC 2 does not apply.

Table 29: EU SEC1 - Securitization exposures in the non-trading book

	€ millions	Institution acts as originator						
		Traditional				Synthetic		
		STS	*of which: SRT*	*Non-STS*	*of which: SRT*		*of which: SRT*	Sub-total
1	**Total exposures**	-	-	-	-	**130.6**	**130.6**	**130.6**
2	**Retail (total)**	-	-	-	-	-	-	-
3	residential mortgage	-	-	-	-	-	-	-
4	credit card	-	-	-	-	-	-	-
5	other retail exposures	-	-	-	-	-	-	-
6	re-securitisation	-	-	-	-	-	-	-
7	**Wholesale (total)**	-	-	-	-	**130.6**	**130.6**	**130.6**
8	loans to corporates	-	-	-	-	-	-	-
9	commercial mortgage	-	-	-	-	-	-	-
10	lease and receivables	-	-	-	-	-	-	-
11	other wholesale	-	-	-	-	130.6	130.6	130.6
12	re-securitisation	-	-	-	-	-	-	-

The Bank's securitization framework follows the Standardized Approach (SEC SA) treatment for risk-weighted exposure amounts as indicated in table EU SEC3. The total exposure of the portfolio as at end June 2021 read €130.6 million and is expected to continue to grow as the Scheme will remain available up till end of September 2021. In addition, as shown in the table EU SEC5 as at June 2021, there were no exposures in default.

Table 30: EU SEC3 - Securitization exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor

	€ millions	Exposure values (by RW bands/deductions)	Exposure values (by regulatory approach)	RWEA (by regulatory approach)	Capital charge after cap
		≤20% RW	SEC-SA	SEC-SA	SEC-SA
1	**Total exposures**	**130.6**	**130.6**	**19.8**	**1.6**
2	**Traditional transactions**	-	-	-	-
3	Securitisation	-	-	-	-
4	Retail underlying	-	-	-	-
5	Of which STS	-	-	-	-
6	Wholesale	-	-	-	-
7	Of which STS	-	-	-	-
8	Re-securitisation	-	-	-	-
9	**Synthetic transactions**	130.6	130.6	19.8	1.6
10	Securitisation	130.6	130.6	19.8	1.6
11	Retail underlying	-	-	-	-
12	Wholesale	130.6	130.6	19.8	1.6
13	Re-securitisation	-	-	-	-

Table 31: EU SEC5 - Exposures securitized by the institution - Exposures in default and specific credit risk adjustments

	€ millions	Exposures securitised by the institution - Institution acts as originator or as sponsor		
		Total outstanding nominal amount		adjustments made during the period
			Of which: exposures in default	
1	**Total exposures**	**214.0**	-	**3.2**
2	Retail (total)	-	-	-
3	residential mortgage	-	-	-
4	credit card	-	-	-
5	other retail exposures	-	-	-
6	re-securitisation	-	-	-
7	Wholesale (total)	**214.0**	-	**3.2**
8	loans to corporates	-	-	-
9	commercial mortgage	-	-	-
10	lease and receivables	-	-	-
11	other wholesale	**214.0**	-	**3.2**
12	re-securitisation	-	-	-

8 Market Risk

The Bank benefits from the trading book exemption in terms of Regulation (EU) 879/2019 (CRR2), Article 94 'Derogation for small trading book business'.

Table 32: EU MR1 – Market risk under the standardized approach

€ millions		
	Outright products	**RWEAs**
1	interest rate risk (general and specific)	-
2	Equity risk (general and specific)	-
3	Foreign exchange risk	0.14
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus approach	-
7	Scenario approach	-
8	**Securitisation** (specific risk)	-
9	**Total**	0.14

Accordingly, as evident by inspection of table 'EU MR1' hereinabove, the only risk for which a Pillar 1 regulatory capital charge is required is foreign exchange risk.

Regulatory capital is allocated under the *Standardized Approach* for the foreign exchange risk. The capital charge for foreign exchange risk using the Basic Method is calculated at 8% of the higher of the sum of all the net short positions and the sum of all the net long positions in each foreign currency.

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