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Half Yearly Results
30 June 2020

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27 August 2020

LOMBARD BANK MALTA p.l.c.
HALF-YEARLY RESULTS FOR 2020

- Group Profit Before Tax was €5.0m (H1 2019: €6.2m).
- Profit Attributable to Equity Holders was €3.1m (H1 2019: €3.8m).
- Group Operating Income was €28.9m (H1 2019: €29.9m).
- Bank Cost-to-Income Ratio stood at 59.6% (H1 2019: 47.4%).
- Customer Deposits stood at €900.7m (FYE 2019: €865.0m).
- Loans & Advances to Customers reached €557.1m (FYE 2019: €552.0m).
- Group Total Assets stood at €1,077.6m (FYE 2019: €1,042.3m).
- Bank Advances to Deposits Ratio was 61.4% (FYE 2019: 63.5%).
- Total Capital Ratio stood at 15.9% (FYE 2019: 16.0%).

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Directors' Report

The first half of 2020 has been extraordinary with COVID-19 having a major impact on individuals, businesses and the world economy as a whole. During this period, we sought to adapt to the circumstances and changed our operations accordingly so as to remain effective in meeting the needs of our customers. This we did efficiently and to our customers' expectations.

However, in the wider context, most economic sectors experienced substantial disruption to activities with negative consequences that could well take years to recover from. The Group has in place contingency plans which include various measures that are being executed as the situation unfolds and circumstances evolve. These plans are monitored and updated on an ongoing basis while constant risk assessments are undertaken in line with developments and recommended measures issued by the Government of Malta, Public Health Authorities and regulators from time to time.

Although it is difficult to quantify the impact of COVID-19 on the Group's business, the pandemic has directly or indirectly dented the results for the first half of 2020. Whereas we had a strong start to 2020, however, as the year progressed and uncertainty increased, stress on margins on most operational lines of business became more prevalent.

Against this setting the Group registered a Profit before Tax of €5.0m, down from €6.2m for the same period last year while the Bank's Profit before Tax was €3.6m, down from €4.8m in H1 2019. The resilient performance by both the Group and the Bank is considered to be satisfactory and in line with revised targets for the period in the context of the economic downturn.

Loans and Advances to Customers increased marginally by 1%. Customer deposits rose by 4% while the resultant Group Net Interest Income of €9.3m was 9% lower and remains the main revenue driver. Persistent low interest rates continue to put pressure on interest margins.

The Bank relies on a diversified liquidity funding base, which over the years has proven to be relatively stable, while the impact of low-to-negative interest rates continues to be well managed.

Fee and commission income for the Group was down by 11% mainly on the back of much lower volume of transactions reflecting the reduced economic activity especially in the second quarter of 2020.

Group Employee Compensation and Benefits rose by 3% and are expected to continue to increase in view that the Group employs and wants to retain high-quality staff. While operating costs remain under control, compliance obligations continue to present significant challenges both in terms of expense as well as human resources. COVID-19 necessitated increased costs in ensuring that maximum safety is integrated in the working environment for the benefit of staff and customers.

The charge for 'Credit Impairment Losses' as determined by International Financial Reporting Standard 9 (IFRS 9) for H1 was €1.1m compared to €1.9m in the comparative period last year. The Bank continued to experience an increase in alignment by borrowing customers to the terms and conditions of sanction. At the reporting date the asset quality of the Bank's financial assets remains sound and there is no evidence of an increase in Credit risk. The Bank will continue to closely monitor its exposures in the light of developments so as to align the "Expected Credit Loss" as determined by IFRS 9 accordingly.

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Both Common Equity Tier 1 Ratio (CET1) as well as Total Capital Ratio stood at 15.9%, Regulatory minimum in terms of EU Regulation No. 575/2013 being 4.5% and 8.0% respectively.

Bank Advances to Deposits Ratio was 61.4% (FYE 2019: 63.5%), indicative of a healthy liquidity buffer.

These results confirm that the strategies implemented by the Group provide a solid basis for continued strong growth. The uncertainty that this pandemic has brought with it calls for continuous fine-tuning and swift judicious action – be this in respect of our day-to-day operations as well as our business plan itself.

Notwithstanding these challenges and the uncharted territory that may lie ahead we are confident that we have in place robust financial fundamentals, a dedicated and competent workforce as well as the appropriate work ethic to see us through such unprecedented times.

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Lombard Bank Malta p.l.c.

Income Statements for the period 1 January 2020 to 30 June 2020

	Group		Bank	
	30/06/20	30/06/19	**30/06/20**	30/06/19
	€ 000	€ 000	**€ 000**	€ 000
Interest receivable and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	**10,991**	11,903	**10,974**	11,869
- on debt and other fixed income instruments	**970**	965	**904**	903
Interest expense	**(2,709)**	(2,694)	**(2,679)**	(2,695)
Net interest income	**9,252**	10,174	**9,199**	10,077
Fee and commission income	**2,440**	2,754	**1,874**	2,160
Fee and commission expense	**(159)**	(132)	**(159)**	(132)
Net fee and commission income	**2,281**	2,622	**1,715**	2,028
Postal sales and other revenues	**17,025**	16,376	**425**	157
Dividend income	**12**	165	**12**	165
Net trading income	**319**	523	**331**	447
Other operating income	**5**	14	**56**	24
Operating income	**28,894**	29,874	**11,738**	12,898
Employee compensation and benefits	**(11,657)**	(11,278)	**(3,764)**	(3,463)
Other operating costs	**(9,892)**	(9,614)	**(2,828)**	(2,351)
Depreciation and amortisation	**(1,131)**	(785)	**(405)**	(303)
Provisions for liabilities and other charges	**(45)**	(50)	**(7)**	(8)
Credit impairment losses	**(1,129)**	(1,954)	**(1,099)**	(1,944)
Profit before taxation	**5,040**	6,193	**3,635**	4,829
Income tax expense	**(1,724)**	(2,135)	**(1,239)**	(1,669)
Profit for the period	**3,316**	4,058	**2,396**	3,160
Attributable to:				
Equity holders of the Bank	**3,053**	3,801	**2,396**	3,160
Non-controlling interests	**263**	257	**-**	-
Profit for the period	**3,316**	4,058	**2,396**	3,160
Earnings per share	**6.9c**	8.6c		

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Lombard Bank Malta p.l.c.

Statements of Comprehensive Income for the period 1 January 2020 to 30 June 2020

	Group		Bank	
	30/06/20	30/06/19	**30/06/20**	30/06/19
	€ 000	€ 000	**€ 000**	€ 000
Profit for the period	**3,316**	4,058	**2,396**	3,160
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Investments measured at FVOCI				
Net (loss)/gain in fair value, before tax	**(902)**	1,691	**(770)**	1,627
Net loss on financial assets reclassified to profit or loss on disposal, before tax	**(84)**	(8)	**(84)**	(8)
Net (loss)/gain attributable to change in credit risk	**(3)**	20	**(3)**	20
Income taxes	**300**	(573)	**300**	(573)
Items that will not be reclassified to profit or loss:				
Net loss on investments in equity instruments measured at FVOCI	**(1,803)**	(483)	**(1,803)**	(483)
Remeasurements of defined benefit obligations	**74**	43	**-**	-
Income taxes	**603**	154	**631**	169
Other comprehensive income for the period, net of income tax	**(1,815)**	844	**(1,729)**	752
Total comprehensive income for the period, net of income tax	**1,501**	4,902	**667**	3,912
Attributable to:				
Equity holders of the Bank	**1,263**	4,619		
Non-controlling interests	**238**	283		
Total comprehensive income for the period, net of income tax	**1,501**	4,902		

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Lombard Bank Malta p.l.c.

Statements of Financial Position at 30 June 2020

	Group		Bank	
	30/06/20	31/12/19	**30/06/20**	31/12/19
	€ 000	€ 000	**€ 000**	€ 000
Assets				
Balances with Central Bank of Malta, treasury bills and cash	**212,647**	182,348	**211,402**	181,701
Cheques in course of collection	**1,822**	1,214	**1,822**	1,214
Investments	**122,452**	111,731	**118,495**	107,806
Loans and advances to banks	**105,787**	121,060	**107,537**	115,678
Loans and advances to customers	**557,059**	552,043	**557,061**	552,055
Investment in subsidiary	**-**	-	**15,733**	15,732
Investment in associate	**1,684**	1,684	**1,645**	1,645
Intangible assets	**2,028**	2,000	**339**	399
Property, plant and equipment	**46,806**	43,348	**26,618**	23,536
Assets classified as held for sale	**134**	134	**134**	134
Current tax assets	**-**	193	**-**	-
Deferred tax assets	**8,980**	9,801	**8,462**	9,258
Inventories	**1,155**	1,468	**401**	804
Trade and other receivables	**7,483**	5,625	**1,393**	1,817
Accrued income and other assets	**9,514**	9,648	**4,763**	4,380
Total assets	**1,077,551**	1,042,297	**1,055,805**	1,016,159
Equity and Liabilities				
Equity				
Share capital	**11,044**	11,044	**11,044**	11,044
Share premium	**18,530**	18,530	**18,530**	18,530
Revaluation and other reserves	**18,042**	19,832	**16,172**	17,901
Retained earnings	**72,787**	69,722	**69,533**	67,137
Equity attributable to equity holders of the Bank	**120,403**	119,128	**115,279**	114,612
Non-controlling interests	**7,488**	7,674	**-**	-
Total equity	**127,891**	126,802	**115,279**	114,612
Liabilities				
Amounts owed to banks	**6,455**	5,871	**6,455**	5,871
Amounts owed to customers	**900,679**	864,993	**907,763**	868,832
Provisions for liabilities and other charges	**2,429**	3,236	**641**	1,173
Current tax liabilities	**825**	1,128	**733**	1,124
Deferred tax liabilities	**5,918**	6,832	**4,890**	5,804
Other liabilities	**23,308**	21,949	**14,660**	13,271
Accruals and deferred income	**10,046**	11,486	**5,384**	5,472
Total liabilities	**949,660**	915,495	**940,526**	901,547
Total equity and liabilities	**1,077,551**	1,042,297	**1,055,805**	1,016,159
Memorandum items				
Contingent liabilities	**10,938**	11,671	**11,068**	11,773
Commitments	**226,301**	225,826	**227,410**	226,934

These condensed interim financial statements were approved by the Board of Directors on 27 August 2020 and signed on its behalf by:

Michael C. Bonello, *Chairman*

Joseph Said, *Director & Chief Executive Officer*

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Lombard Bank Malta p.l.c.

Statements of Changes in Equity for the period 1 January 2020 to 30 June 2020

Group

	Attributable to equity holders of the Bank						
	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total € 000	Non-controlling interests € 000	Total equity € 000
At 1 January 2019	11,044	18,530	17,356	61,380	108,310	7,525	115,835
Comprehensive income							
Profit for the period	-	-	-	3,801	3,801	257	4,058
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
Net changes in fair value arising during the period	-	-	789	-	789	18	807
Reclassification adjustments							
- net amounts reclassified to profit or loss	-	-	(5)	-	(5)	-	(5)
Net change attributable to changes in credit risk			13	-	13	-	13
Remeasurements of defined benefit obligations	-	-	21	-	21	8	29
Total other comprehensive income for the period	-	-	818	-	818	26	844
Total comprehensive income for the period	-	-	818	3,801	4,619	283	4,902
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners:							
Dividends to equity holders	-	-	-	(1,436)	(1,436)	(429)	(1,865)
Total transactions with owners	-	-	-	(1,436)	(1,436)	(429)	(1,865)
At 30 June 2019	11,044	18,530	18,174	63,745	111,493	7,379	118,872
At 1 January 2020	**11,044**	**18,530**	**19,832**	**69,722**	**119,128**	**7,674**	**126,802**
Comprehensive Income							
Profit for the period	**-**	**-**	**-**	**3,053**	**3,053**	**263**	**3,316**
Other comprehensive income							
Fair valuation of financial assets measured at FVOCI:							
Net changes in fair value arising during the period	**-**	**-**	**(1,766)**	**-**	**(1,766)**	**(38)**	**(1,804)**
Reclassification adjustments							
- net amounts reclassified to profit or loss	**-**	**-**	**(54)**	**-**	**(54)**	**-**	**(54)**
Net change attributable to changes in credit risk			**(3)**		**(3)**	**-**	**(3)**
Remeasurements of defined benefit obligations	**-**	**-**	**33**	**-**	**33**	**13**	**46**
Total other comprehensive income for the period	**-**	**-**	**(1,790)**	**-**	**(1,790)**	**(25)**	**(1,815)**
Total comprehensive income for the period	**-**	**-**	**(1,790)**	**3,053**	**1,263**	**238**	**1,501**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners:							
Dividends to equity holders	**-**	**-**	**-**	**-**	**-**	**(429)**	**(429)**
Transfers and other movements	**-**	**-**	**-**	**12**	**12**	**5**	**17**
Total transactions with owners	**-**	**-**	**-**	**12**	**12**	**(424)**	**(412)**
At 30 June 2020	**11,044**	**18,530**	**18,042**	**72,787**	**120,403**	**7,488**	**127,891**

Lombard Bank Malta p.l.c.

Statements of Changes in Equity for the period 1 January 2020 to 30 June 2020

Bank

	Share capital € 000	Share premium € 000	Revaluation and other reserves € 000	Retained earnings € 000	Total equity € 000
At 1 January 2019	11,044	18,530	15,490	59,097	104,161
Comprehensive income					
Profit for the period	-	-	-	3,160	3,160
Other comprehensive income					
Fair valuation of financial assets measured at FVOCI:					
Net changes in fair value arising during the period	-	-	743	-	743
Reclassification adjustments					
- net amounts reclassified to profit or loss	-	-	(5)	-	(5)
Net change attributable to changes in credit risk	-	-	14	-	14
Total other comprehensive income for the period	-	-	752	-	752
Total comprehensive income for the period	-	-	752	3,160	3,912
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners:					
Dividends to equity holders	-	-	-	(1,436)	(1,436)
Total transactions with owners	-	-	-	(1,436)	(1,436)
At 30 June 2019	11,044	18,530	16,242	60,821	106,637
At 1 January 2020	**11,044**	**18,530**	**17,901**	**67,137**	**114,612**
Comprehensive income					
Profit for the period	**-**	**-**	**-**	**2,396**	**2,396**
Other comprehensive income					
Fair valuation of financial assets measured at FVOCI:					
Net changes in fair value arising during the period	**-**	**-**	**(1,672)**	**-**	**(1,672)**
Reclassification adjustments					
- net amounts reclassified to profit or loss	**-**	**-**	**(54)**	**-**	**(54)**
Net change attributable to changes in credit risk			**(3)**		**(3)**
Total other comprehensive income for the period	**-**	**-**	**(1,729)**	**-**	**(1,729)**
Total comprehensive income for the period	**-**	**-**	**(1,729)**	**2,396**	**667**
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners:					
Dividends to equity holders	**-**	**-**	**-**	**-**	**-**
Total transactions with owners	**-**	**-**	**-**	**-**	**-**
At 30 June 2020	**11,044**	**18,530**	**16,172**	**69,533**	**115,279**

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Lombard Bank Malta p.l.c.

Statements of Cash Flows for the period 1 January 2020 to 30 June 2020

	Group		Bank	
	30/06/20	30/06/19	**30/06/20**	30/06/19
	€ 000	€ 000	**€ 000**	€ 000
Cash flows from operating activities				
Interest and commission receipts	**13,877**	15,044	**13,931**	15,056
Receipts from customers relating to postal sales and other revenue	**11,872**	14,237	**425**	157
Interest and commission payments	**(3,093)**	(2,457)	**(3,093)**	(2,458)
Payments to employees and suppliers	**(24,072)**	(20,851)	**(7,328)**	(6,007)
Cash flows attributable to funds collected on behalf of third parties	**3,731**	(3,510)	**-**	-
Cash flows from operating profit before changes in operating assets and liabilities	**2,315**	2,463	**3,935**	6,748
(Increase)/decrease in operating assets:				
Treasury bills	**(11,521)**	2,205	**(11,521)**	2,206
Deposits with Central Bank of Malta	**(421)**	(471)	**(421)**	(471)
Loans and advances to banks and customers	**(5,335)**	(25,143)	**(6,535)**	(24,142)
Other receivables	**533**	(5,414)	**219**	(5,676)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	**35,675**	14,327	**38,931**	14,755
Other payables	**218**	34	**532**	296
Net cash from / (used) in operations	**21,464**	(11,999)	**25,140**	(6,284)
Net income tax (paid) / refunded	**(1,025)**	973	**(817)**	1,171
Net cash flows from / (used) in operating activities	**20,439**	(11,026)	**24,323**	(5,113)
Cash flows from investing activities				
Dividends received	**12**	165	**12**	164
Interest received from investments	**1,093**	1,039	**999**	952
Proceeds on maturity/disposal of investments	**5,409**	1,597	**5,179**	1,596
Purchase of investments	**(18,876)**	(11,133)	**(18,876)**	(11,133)
Purchase of property, plant and equipment and intangible assets	**(3,696)**	(1,794)	**(2,498)**	(622)
Net cash flows used in investing activities	**(16,058)**	(10,126)	**(15,184)**	(9,043)
Cash flows from financing activities				
Dividends paid to equity holders of the Bank	**-**	(1,436)	**-**	(1,436)
Dividends paid to non-controlling interests	**(426)**	(429)	**-**	-
Payment of Lease Liability	**(255)**	(13)	**(103)**	(13)
Net cash flows used in financing activities	**(681)**	(1,878)	**(103)**	(1,449)
Net increase/ (decrease) in cash and cash equivalents	**3,700**	(23,030)	**9,036**	(15,605)
Cash and cash equivalents at beginning of period	**254,902**	212,193	**251,372**	199,848
Cash and cash equivalents at end of period	**258,602**	189,163	**260,408**	184,243

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Lombard Bank Malta p.l.c.

Segmental analysis for the period 1 January 2020 to 30 June 2020

	Banking services		Postal services		Total	
	30/06/20	30/06/19	**30/06/20**	30/06/19	**30/06/20**	30/06/19
	€ 000	€ 000	**€ 000**	€ 000	**€ 000**	€ 000
Operating income	**11,595**	12,733	**17,299**	17,141	**28,894**	29,874
Segment result - Profit before taxation	**3,633**	4,825	**1,407**	1,368	**5,040**	6,193
	30/06/20	31/12/19	**30/06/20**	31/12/19	**30/06/20**	31/12/19
	€ 000	€ 000	**€ 000**	€ 000	**€ 000**	€ 000
Segment total assets	**1,034,879**	997,087	**42,672**	45,210	**1,077,551**	1,042,297

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Asset encumbrance

Banking Rule 07 transposed the provisions of the EBA Guidelines on Disclosure of Encumbered and Unencumbered Assets (EBA/GL/2014/03) and introduced the requirement to disclose information about asset encumbrance.

This disclosure is meant to facilitate an understanding of available and unrestricted assets that could be used to support potential future funding and collateral needs. An asset is defined as encumbered if 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.

The disclosure 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.

Encumbered and unencumbered assets

	Carrying amount of encumbered assets	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Bank	**€ 000**	**€ 000**	**€ 000**	**€ 000**
At 30 June 2020				
Equity instruments	**-**	**-**	**8,857**	**8,857**
Debt securities	**9,963**	**9,963**	**100,334**	**100,334**
Other assets	**3,629**	**3,629**	**933,022**	**933,022**
	13,592	**13,592**	**1,042,213**	**1,042,213**
At 31 December 2019				
Equity instruments	-	-	10,786	10,786
Debt securities	8,596	8,596	89,059	89,059
Other assets	3,629	3,629	904,089	904,089
	12,225	12,225	1,003,934	1,003,934

Lombard Bank does not encumber any collateral received. As at 30 June 2020, the Bank did not have any outstanding liabilities associated with encumbered assets and collateral received.

The Bank undertakes the following types of encumbrance:

i. Pledging of a deposit with the Central Bank of Malta in favour of the Depositor Compensation Scheme.
ii. Pledging of Malta Government Stocks held in terms of Directive No. 8 (Chapter 204 of the Central Bank of Malta Act) as security for a facility not currently utilised.

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Explanatory Notes

1. Reporting Entity

Lombard Bank Malta p.l.c. is a credit institution incorporated and domiciled in Malta with its registered address at 67, Republic Street, Valletta. The condensed interim financial statements of the Bank as at end of the six months ended 30 June 2020 include the Bank, subsidiaries and equity-accounted investee (together referred to as 'the Group').

The audited financial statements of the Group as at and for the year ended 31 December 2019 are available upon request from the Bank's registered office and are also available for viewing on its website at https://www.lombardmalta.com/en/financial-results.

2. Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard 34 - 'Interim Financial Reporting'. These include the comparative statements of financial position information as of 31 December 2019 and the comparative statements of profit or loss, statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows information for the period ended 30 June 2019. The interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The condensed interim financial information has been extracted from the Bank's unaudited half yearly financial statements. It has not been subject to an audit in accordance with the requirements of International Standards on Auditing nor to a review in accordance with the requirements of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

In preparing the condensed interim financial information, the Board has considered the contents of the Public Statement issued by the European Securities and Markets Authority dated 20 May 2020 (ESMA 32-63-972) the objective of which is to promote transparency and consistent application of European requirements for information provided in the half-yearly reports under the current circumstances related to the COVID-19 outbreak.

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3. *Accounting policies*

The accounting policies applied are consistent with those of the annual consolidated financial statements of Lombard Bank Malta p.l.c. for the year ended 31 December 2019, as described in those financial statements. The Bank did not early adopt any new standards, amendments and interpretations to existing standards applicable to periods after 31 December 2019 and the Bank's management is of the opinion that there are no requirements that will have a possible significant impact on the Bank's consolidated financial statements in the period of initial application.

Standards, interpretations and amendments to published standards effective in 2020

In 2020, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 January 2020. The adoption of these revisions to the requirements of IFRSs as adopted by the EU, did not result in changes to the Group's accounting policies impacting the Group's financial performance and position.

The global reform of Interbank Offered Rates ('IBOR') benchmarks is still uncertain as to timing and methods of transition. In any case, the Group does not have any significant exposure to IBOR on its financial instruments that will be replaced or reformed as part of this market-wide initiative. The Group's lending is priced against the Bank's base rate with hardly any exposure to floating rates. The Group has no floating rate financial liabilities with no deposit products being dependent on IBOR.

4. *COVID-19 Update*

Maintaining business continuity without service interruptions while protecting the well-being of staff and customers, was, and remains, a foremost consideration of the Bank's COVID-19 related plans. When the first cases of the COVID-19 transmission in Malta were identified, the Bank immediately recognised this as a significant risk and set up a COVID-19 response team.

As part of the contingency planning, the Bank took measures to adopt technology in working schedules so that to-date at least 40% of staff are setup to work remotely. Remote working was implemented so as to ensure that a good balance was maintained between staff working 'in-office' and those working remotely, and adopted in functions that lent themselves well to such work practices. As a result of these arrangements, our staff complement remained stable during the course of the pandemic.

All branches remained open for business and customers were provided with a full service. That said, the Bank took action to actively encourage customers to shift to electronic channels, among others, by limiting branch opening hours, taking action to reduce over the counter cash, cheque transactions and face to face meetings.

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In this regard the Bank took measures to curtail the risk on on-site infection with for instance the provision of hand sanitisers, clear and visible instructions for effective hand-washing, provision of gloves to customer-facing staff, increased frequency cleaning of offices, suspension of business travel to those countries indicated as having a high risk of transmission of COVID-19, issue of face masks to staff and introducing acrylic screens, limiting number of people in meetings and conducting meetings electronically when possible and observing the two metre distance rule. Naturally all this comes at a cost.

As a result of the measures taken, the Bank does not have any plans to curtail operations.

5. Assumptions, judgements and credit risk in a COVID-19 scenario

As set out in the Annual Report 2019 under 'Accounting estimates and judgements' (page 133), the measurement of the Expected Credit Loss allowance for financial assets measured at amortised cost and Fair Value through Other Comprehensive Income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour.

The COVID-19 pandemic gave rise to levels of uncertainty that required increased use of estimation and judgement since 31 December 2019, especially in relation to effects that the pandemic will be having on the local and international economy. Judgement in this context, to name a few, would include assumptions as to duration of the pandemic, change in collateral value, central support to business, availability of medical facilities and solutions and level of response to central authority directives. The situation is still highly fluid and there is little to no visibility on the extent of the impact on the economy by the end of 2020. Stressed probabilities of default (PDs) used in the sectorial macroeconomic variables were adjusted to reflect the forecasted severe Central Bank of Malta forecasts. However, at the reporting date the asset quality of the Bank's financial assets remains sound and there is no evidence of an increase in credit risk. The Bank will continue to closely monitor its exposures in the light of developments so as to align the Expected Credit Loss accordingly.

The methodology used for the calculation of the ECL is elaborated in the Annual Report 2019 on pages 79 to 87 and has not changed since.

On 25 March 2020 the European Banking Authority (EBA) issued guidance 'Statement on the application of the prudential framework regarding Default, Forbearance and IFRS9 in light of COVID-19 measures' clarifying that 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 a significant increase in credit risk occurred. Credit institutions are, however, still obliged to assess the credit quality of exposures benefitting from these measures and identifying any situation of unlikeliness to pay of the borrower.

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The moratoria is meant to be a temporary measure to assist borrowers in addressing loan repayment disruptions resulting from COVID-19. Expert judgement was applied to identify whether a significant increase in credit risk exists by distinguishing between a borrower taking up payment deferrals for temporary liquidity issues related to Government imposed restrictions and borrowers taking up payment deferrals that will lead to long-term financial difficulties over the life of the exposure, thus recognised as a significant increase in credit risk.

On 13 April 2020 the Central Bank of Malta issued Directive 18 (in terms of Legal Notice 142) specifying parameters for granting of COVID-19 measures and other Government guaranteed assistance.

Following the outbreak of the pandemic the Bank contacted its borrowing customers offering assistance.

The Bank set aside €12.5 million as assistance for working capital requirements at favourable terms to its commercial customers. The Bank also considered requests for loan repayment moratoria on a case-by-case basis and also in line with the parameters laid down in CBM Directive 18. Since May 2020 the Bank is also offering working capital loans under the MDB COVID-19 Guarantee Scheme. As at 30 June 2020, no loans were yet drawn down under the MDB COVID-19 Guarantee Scheme.

With regard to retail borrowers, particularly Home Loan customers, the Bank offered a moratorium on up to 80% of loan repayment for a twelve-month period. This initiative was introduced by the Bank before the coming into force of CBM Directive 18 on loan repayment moratoria.

The following is information on loans and advances subject to EBA-compliant moratoria (legislative and non-legislative):

	Gross carrying amount						
		Performing			Non 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)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Loans and advances subject to moratorium	**75,422**	**75,005**	**-**	**931**	**417**	**417**	**417**
of which: Households	14,004	14,004	-	693	-	-	-
of which: Collateralised by residential immovable property	11,994	11,994	-	423	-	-	-
of which: Non-financial corporations	42,793	42,376	-	238	417	417	417
of which: Small and Medium-sized Enterprises	18,017	17,600	-	238	417	417	417
of which: Collateralised by commercial immovable property	38,328	37,966	-	-	362	362	362

There were no inflows to non-performing exposures.

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	Accumulated impairment, accumulated negative changes in fair value due to credit risk						
		Performing			Non 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)		Of which: exposures with forbearance measures	Of which: Unlikely to pay that are not past-due or past-due <= 90 days
	€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Loans and advances subject to moratorium	**(336)**	**(336)**	-	**(15)**	-	-	-
of which: Households	(13)	(13)	-	-	-	-	-
of which: Collateralised by residential immovable property	(13)	(13)	-	-	-	-	-
of which: Non-financial corporations	(227)	(227)	-	(15)	-	-	-
of which: Small and Medium-sized Enterprises	(148)	(148)	-	(15)	-	-	-
of which: Collateralised by commercial immovable property	(212)	(212)	-	-	-	-	-

Breakdown by residual maturity of moratoria:

	Number of obligors	Gross carrying amount							
			Of which: legislative moratoria	Of which: expired	Residual maturity of moratoria				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
		€ 000	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**	**€ 000**
Loans and advances for which moratorium was offered	**98**	**79,299**							
Loans and advances subject to moratorium (granted)	**96**	**75,422**	**5,565**	**-**	**21,369**	**2,662**	**42,248**	**9,116**	**27**
of which: Households		14,004	826	-	920	243	8,731	4,110	-
of which: Collateralised by residential immovable property		11,994	423	-	423	-	8,329	3,242	-
of which: Non-financial corporations		42,793	4,738	-	14,853	2,418	24,369	1,126	27
of which: Small and Medium-sized Enterprises		18,017	2,046	-	1,157	2,094	14,576	190	-
of which: Collateralised by commercial immovable property		38,328	2,474	-	14,008	259	23,125	936	-

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The following is a summary of financial instruments to which impairment requirements in IFRS 9 were applied for the Bank.

	Gross carrying amount[1]			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
	€ 000	**€ 000**	**€ 000**	**€ 000**
At 31 December 2019				
Loans and advances to customers at amortised cost	480,789	46,073	51,611	578,473
Loans and advances to banks at amortised cost	115,697	-	-	115,697
Other financial assets	184,735	-	-	184,735
Debt instruments measured at FVOCI	97,655	-	-	97,655
Total carrying amount	**878,876**	**46,073**	**51,611**	**976,560**
Contingent liabilities and financial guarantee contracts	8,942	-	-	8,942
Undrawn Commitments	224,607	-	-	224,607
Total	**1,112,425**	**46,073**	**51,611**	**1,210,109**
At 30 June 2020				
Loans and advances to customers at amortised cost	**489,090**	**45,175**	**47,522**	**581,787**
Loans and advances to banks at amortised cost	**107,538**	**-**	**-**	**107,538**
Other financial assets	**214,585**	**-**	**-**	**214,585**
Debt instruments measured at FVOCI	**110,297**	**-**	**-**	**110,297**
Total carrying amount	**921,510**	**45,175**	**47,522**	**1,014,207**
Contingent liabilities and financial guarantee contracts	**8,423**	**-**	**-**	**8,423**
Undrawn Commitments	**225,423**	**-**	**-**	**225,423**
Total	**1,155,356**	**45,175**	**47,522**	**1,248,053**

[1] Gross carrying amount includes accrued interest.

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	Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total
	€ 000	€ 000	€ 000	€ 000
At 31 December 2019				
Loans and advances to customers at amortised cost	3,832	1,346	19,917	25,095
Loans and advances to banks at amortised cost	-	-	-	-
Other financial assets	-	-	-	-
Debt instruments measured at FVOCI	183	-	-	183
Total carrying amount	**4,015**	**1,346**	**19,917**	**25,278**
Contingent liabilities and financial guarantee contracts	1	-	-	1
Undrawn Commitments	39	-	-	39
Total	**4,055**	**1,346**	**19,917**	**25,318**
At 30 June 2020				
Loans and advances to customers at amortised cost	**3,548**	**2,413**	**17,396**	**23,357**
Loans and advances to banks at amortised cost	**-**	**-**	**-**	**-**
Other financial assets	**-**	**-**	**-**	**-**
Debt instruments measured at FVOCI	**180**	**-**	**-**	**180**
Total carrying amount	**3,728**	**2,413**	**17,396**	**23,537**
Contingent liabilities and financial guarantee contracts	**1**	**-**	**-**	**1**
Undrawn Commitments	**85**	**-**	**-**	**85**
Total	**3,814**	**2,413**	**17,396**	**23,623**

Reconciliation of ECL allowance for financial assets as follows:

	€ 000
At 31 December 2019	25,318
Charge for the period	1,099
Write-offs	(3,268)
Unwind of discount	474
At 30 June 2020	**23,623**

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6. Fair values of financial assets and liabilities

The Group's financial instruments categorised as Investments within the Statement of Financial Position are measured at fair value. The Group is required to disclose fair value measurements according to the following hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset either directly i.e. as prices, or indirectly i.e. derived from prices (Level 2).
- Inputs for the asset that are not based on observable market data i.e. unobservable inputs (Level 3).

As at 30 June 2020 and 31 December 2019, investments were principally valued using Level 1 inputs.

No transfers of financial instruments measured at fair value between different levels of the fair value hierarchy have occurred during the interim period under review.

The fair values of all the Group's other financial assets and liabilities that are not measured at fair value are considered to approximate their respective carrying values due to their short-term nature, short periods to repricing or because they are repriceable at the Group's discretion. The current market interest rates utilised for fair value estimation, which reflect essentially the respective instruments' contractual interest rates, are deemed observable and accordingly these fair value estimates have been categorised as Level 2.

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of the financial statements as at and for the year ended 31 December 2019.

7. Related Parties

The Bank has a related party relationship with its subsidiaries, its major shareholder, the National Development and Social Fund, its associates, the Bank's Directors (deemed to be key management personnel together with a number of chief officers) and other related parties, including entities controlled by key management personnel. The Government of Malta is also considered to be a related party, through its control over the National Development and Social Fund. Nevertheless, in its Company Announcement dated 10 August 2018, the Bank reported that the NDSF had reaffirmed that:

Quote
- it does not intend to increase its holdings in the Bank;
- it shall not act in concert with any other shareholders;
- it will seek to reduce its shareholding in the Bank in an orderly manner, at the right market conditions and by agreement with the regulatory authorities;
- it has no intention of exerting any influence on the operations of the Bank; and
- this acquisition will not result in a change in control of the Bank.

Unquote

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The Bank's exposure with the Government of Malta arises through its investment in Government debt securities and treasury bills which instruments are used in the treasury operations of the Bank and are transacted at market prices.

8. Dividends

During the Annual General Meeting of shareholders held on 11 April 2019 the following resolution was approved: "That a final gross dividend of 5 cent (net dividend of 3.25 cent) per share, representing a final gross payment of €2,208,896 as recommended by the Directors, be hereby approved."

On 7 April 2020 the Company issued an announcement (LOM 241) that in view of the European Central Bank's recommendation on dividend distribution during the COVID-19 pandemic (ECB/2020/19) no dividend distribution will occur earlier than 1 October 2020. On 27 July 2020 the European Central Bank issued another recommendation on dividend distributions (ECB/2020/35) stating that until 1 January 2021 no dividends are to be paid out and no irrevocable commitment to pay out dividends is undertaken by credit institutions.

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Statement pursuant to Listing Rules issued by the Listing Authority

I confirm that to the best of my knowledge:

- the condensed interim financial information, prepared in accordance with IAS 34 gives a true and fair view of the financial position of the Group and the Bank as at 30 June 2020 and of their financial performance and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the EU applicable to interim financial reporting, IAS 34, 'Interim Financial Reporting'; and

- the Directors' Report includes a fair review of the information required in terms of Listing Rules.

Joseph Said, *Chief Executive Officer*