ANNUAL GENERAL MEETING 2022

CEO’S STATEMENT

Rick Hunkin

Bank of Valletta

Dear Shareholders,

I join the Chairman in welcoming you to the Forty Eighth Annual General Meeting of the BOV Group.

I will focus on highlights from the Bank's results for 2021 and will also update you on developments that are occurring in a number of areas within the Group.

The full results, together with commentaries, can be found in the Bank's Annual Report and Financial Statements, which are available on the Bank's website.

STRONG FINANCIAL RESULTS IN 2021 DESPITE VARIOUS CHALLENGES

While the financial year under review was another challenging year for both the Maltese and global economy, it is pleasing that we were able to deliver much-improved net results for the Bank for 2021.

This is against a backdrop of economies still recovering from Covid, and a prevailing negative interest rate environment which continues to prove punitive for BOV, reducing our net interest margin considerably. In addition, Malta's grey-listing created some pockets of market nervousness, while inflationary increases, fuelled further by geo-political instability, may mean we will continue to see some uncertainty for a while longer.

Our transformation journey continues, and we have made some good strides across a number of areas, but still with much to do. We have initially focused on improving the way we serve customers as more are now carrying out transactions in a digital manner, resulting in fewer manual processes and an improved customer service. Ongoing work focuses upon simplifying and streamlining a range of customer facing processes, in addition to finalising work on strengthening governance, risk and compliance systems.

Last year we also increased focus on the investments side of our business, achieving significant growth in sales, leading to higher commissions and improved returns through our MMSV Life partnership.

FINANCIAL PERFORMANCE OF THE GROUP

The Group reported an €80.7 million in profit before tax for financial year 2021 when compared to the previous year's €15.2 million. This translates to a pre-tax return on equity of 7.3% and earnings per share of €9.6 cents compared with €2.4 cents in the same period 2020.

Total combined operating Income saw a recovery from 2020 as many areas saw a return to levels exceeding those seen in 2019, with the exception of foreign exchange income, where trade levels have not yet fully recovered post Covid.

Net interest income of €156.3 million, grew by €9.5 million or 6.5 percent when compared to financial year 2020 propelled by strong growth in home loans and business lending, helping to offset the challenge of negative interest rates and growing deposits.

Net Commissions exceeded pre-COVID-19 levels at €74.6 million. This represents an increase of €7.3 million, or 10.9%, on prior year. Higher income was registered across the main business pillars, especially credit and investment-related activity.

In terms of total costs, these saw a sizeable overall increase, to €195.6 million (up €25.2 million or 14.8% over the previous year). However, this incorporates our strategic investment costs of €23.1 million (up by €7.3 million versus last year), and a number of specific items not expected to recur totalling €6.1 million (such as the €2.6 million fine imposed by Financial Intelligence and Analysis Unit ('FIAU') and €1.4 million disbursements on card fraud). Furthermore, costs payable to the Deposit Guarantee Scheme ('DGS') increased by €4.8 million during the year as the growth in retail deposits continued.

Adjusting for these items we saw an underlying increase in our operating costs of €5.7 million, or 3.7%. This was mainly in employee costs as we added expertise in areas such as risk, compliance, IT and digital capabilities, as investment in modernisation and digitisation of key systems continues.

A major factor in the turnaround from 2020 to 2021 was the impact of Expected Credit Losses ('ECLs'). In 2021 we saw a net release of €18.9 million as we saw improving performance in specific assets and improving collateral, compared to the 2020 substantial net charge of €65.1 million, which had been driven by prudent provisioning against COVID-19 and legacy Non-Performing Loans ('NPLs').

BALANCE SHEET POSITION

As at December 2021, total assets of the Group continued to grow and exceeded the €14 billion mark, an 11% increase on the previous year. Customer deposits grew strongly and remain at a significant surplus. Although these provide the main source of funding for the Group's business and investments, the surplus creates a high level of cost to the group in a negative interest rate environment as we have very limited opportunities to manage the investment of these funds more effectively. The Group's treasury investment portfolio therefore also increased by €260 million to €3.7 billion, and although it is mainly comprised of highly rated securities, it is increasingly delivering negative returns.

This surplus liquidity position remaining materially high, does however afford the Group very strong cash and liquidity positions. With cash and short-term funds reaching €4.6 billion by year end, an increase of €828 million or circa 22% over the previous year. The Bank's liquidity ratio at year end stood at 444%, marginally lower from the 463% as at December 2020, reflecting the high deposit growth over the years and consistently outpacing the demand for loans.

Net loans and advances to customers stood at €5.2 billion, €335 million or 6.9% higher than December 2020, with strong growth across business lending and home loans portfolios. The Bank continued to support requests for financial assistance from customers through payment moratoria and the provision of government guaranteed funding through our BOV MDB COVID-19 assist scheme.

A solid growth in home loan lending was registered during the year. In order to offer a product suite that continues to meet ever-changing customer needs, we streamlined home loans into four core products, meeting requirements for primary and secondary residences, as well as investment and rental opportunities.

The growth in both deposits and loans resulted in a net Advances to Deposits Ratio which stood at 44.1%. This remains considerably above other local banks

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

DIVIDEND PAYMENT

Following an approval from the Board of Directors, on the 9th December 2021, the Bank declared an interim dividend payment of €0.0264 per share. This represented a gross payment of €15,413,620 which was paid on 28 January 2022.

With the uncertainties of the last few months however, the Board decided to adopt a cautious approach and hence did not feel it had to recommend the distribution of a final dividend for financial year 2021.

DEIULEMAR UPDATE

On the 4th May 2022, the Bank announced that after lengthy and detailed discussions with legal representatives of the Deiulemar bankruptcy, including some 13,000 bondholders, an out-of-court settlement agreement has been reached, without any admission of fault, which brought to an end, all legal claims surrounding this issue.

The Bank agreed to pay a full and final settlement in the sum of €182.5m in respect of the €370m judgement handed down by the Court of First Instance in Torre Annunziata. In turn, this extinguished all claims from either side and BOV will have no further ongoing contingent or actual liability, and approximately €370m of collateral previously posted, has been returned directly to BOV.

Given existing provisions held against this potential liability, BOV will incorporate an additional one-off charge into its profit and loss results for 2022 in the region of €100m. The Bank has an extremely strong capital position and continues to meet all regulatory requirements when assimilating the impact of this settlement agreement. The removal of uncertainty further increases confidence in the Bank's longer-term sustainability.

TRANSFORMATION OF OUR ANTI-FINANCIAL CRIME PROCESSES

On 17TH December 2021, the Financial Intelligence and Analysis Unit ('FIAU') imposed a fine of €2.6 million on the Bank as an administrative penalty for a reporting failure where beneficial ownership information for 2,442 corporate customers had not been updated to the Central Bank Account Register (CBAR). There is no suggestion that any of the affected accounts were involved in money laundering or were financing terrorism. The Bank took immediate action and collaborated with the FIAU in a full and transparent manner.

UPDATE ON CORRESPONDENT BANKING AND GREYLISTING

Malta's greylisting has not materially impacted the Bank's operations. However, if prolonged, the greylisting could impact relationships with foreign banks and counterparts, including significant increase in monitoring requirements. In the first half of 2021, we addressed the issue of correspondent banking relationships in US Dollar and ensured business continuity.

UPDATE ON THE STRATEGIC PLAN BOV 2023

In 2020 the Board approved a strategy that plans to take BOV on a digital transformation journey over the coming years, whilst ensuring our governance, risk and compliance systems continue to improve. We embarked upon a major transformation programme for our branches, both operationally, with staff re-training and re-skilling, and with new improved branch composition that saw the launch of the new Tas-Sliema branch and the refurbishment of Paola, Siġġiewi, and Żurrieq branches earlier this year.

We have also strongly supported the migration of transactions towards more efficient electronic means of payment and progress here has been substantial, as we have seen significant volumes processed electronically, with the number of cheques processed down by more than 50%.

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

CLOSING STATEMENT

In conclusion, Bank of Valletta is going through a significant and necessary period of transformation, which will leave it better placed to serve customers moving forward and ensure a more sustainable long -term future. The bank has faced a number of challenges in recent years and we recognise this has on occasion impacted our ability to provide the level of service our customers deserve. This will be our focus as we move forward, and I am extremely grateful to all our customers for their loyalty and ongoing support. I also wish to extend a well-deserved thank you to all employees who face these challenges and are responding so well to the demands that such a transformation brings. I remain confident that our ambitious strategic plan, which has already started showing early signs of marked improvement, will transform Malta's largest bank into a more effective, efficient and sustainable bank for the future. Thank you.

Rick Hunkin
Chief Executive Officer
2 June 2022

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