Bank of Valletta p.l.c.

Annual Report

2021

Bank of Valletta

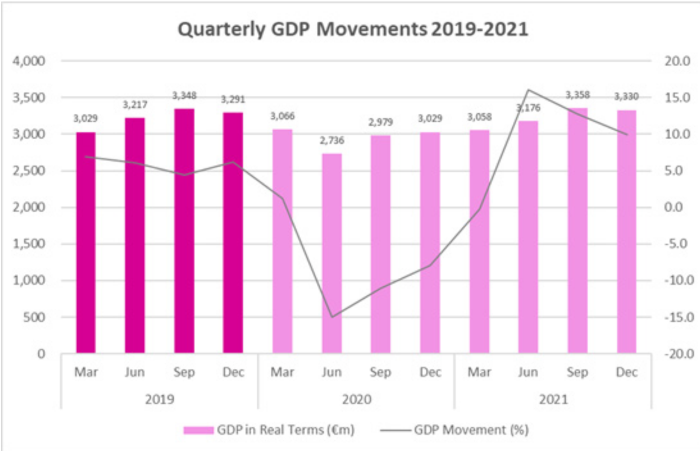
Chairman's Statement

Gordon Cordina

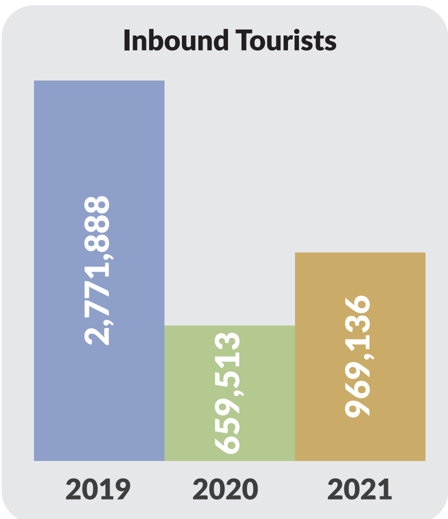
Economic Overview

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

The Maltese economy is not immune from these forces. GDP levels during 2021 were back up to the equivalent levels of 2019[1], following the pandemic shock of 2020. The Central Bank of Malta (CBM) anticipates the Maltese economy to continue on its recovery path, with an average projected growth of 5.0 percent for the years 2022 through 2024[2]. Headwinds to recovery remain in the uncertainty of global demand, external inflationary shocks, and the challenges to sustain competitiveness across economic sectors. While Malta fares better than most EU economies in terms of its fiscal resilience, this strength cannot be relied upon indefinitely to meet surmounting external shocks.



Sectorial Vulnerability and the Effect on Bank Lending



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

The sectors reliant on inbound tourism were the worst hit by the pandemic in 2020, and continued to lag behind during the year under review. The number of inbound tourists between January and December 2021 stood at 968,136 – an improvement over 2020 but only 35.2 percent of tourist arrivals for 2019[3].

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

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

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

1 National Statistics Office, News Release 037/2022 – Gross Domestic Product: Q4/2021 dated 1 March 2022
2 Central Bank of Malta, Outlook for the Maltese Economy dated 2022:1
3 National Statistics Office, News Release 019/2022 – Inbound Tourism: December 2021 dated 14 February 2022

On the other hand, a number of segments continued to grow and outperform other economic sectors, despite the disruption caused by the pandemic. Notably, construction, arts and entertainment, which includes the i-gaming sector, information and communication services, financial services and public administration, witnessed an expansion in output for the second year running. In 2020, these industries saw their collective contribution to GVA increase to 39.5 percent, from 34.9 percent in 2019. During 2021, the collective output of these sectors grew by a further 8.1 percent, when compared to 2020.

As noted in previous communications, some of the most vulnerable sectors happen to be capital intensive sectors, and as such amongst the Bank's most important segments in terms of loans and advances. Loans and advances for accommodation and food service activities, transport and storage, wholesale and retail trade, administrative and support services, and other service activities made up 37.7 percent (2020: 36.3 percent) of the Bank's lending to business customers or 18.6 percent (2020: 18.4 percent) of total loans and advances to customers as at the end of 2021.

Provisioning for COVID-19

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

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

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

Corporate Social Responsibility (CSR)

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

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

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

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

Post-Pandemic Strategy

In June 2021, Malta launched its National Post-Pandemic Strategy[4], focusing on:

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

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

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

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

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

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

The Evolving Banking Business Model

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

All this necessitated a rethink, and as announced last year, going forward the Bank will rely increasingly on pricing which reflects the cost of the associated service and digitisation to better manage its cost base.

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

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

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

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

4 National Post-Pandemic Strategy dated June 2021

Dividend Policy

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

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

Looking Ahead

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

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

Twenty twenty-one was another challenging year in which the Bank continued to provide its support to Maltese households and the business community. I would like to thank all our staff for their hard work and dedication. I also thank, the Executive team for their headship, the Board, and all our shareholders and customers for their crucial support and look ahead to the path to recovery for the Bank and the economy at large.

Signed by Gordon Cordina (Chairman) on 22 March 2022

CEO's Commentary

Rick Hunkin

STRONG FINANCIAL RESULTS IN 2021 DESPITE VARIOUS CHALLENGES

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

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

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

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

Financial performance of the Group

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

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

Operating Income

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

Interest Income

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

Commissions and other income

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

Costs

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

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

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

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

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

GROUP 2021 HIGHLIGHTS

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

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

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

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

Specific increases in credit provisions

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

Share of profit from Associates

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

Balance Sheet position

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

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

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

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

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

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

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

Deiulemar Update

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

Anti-Financial Crime Transformation

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

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

Correspondent Banking and Greylisting

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

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

Further Update on the Strategic Plan BOV 2023

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

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

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

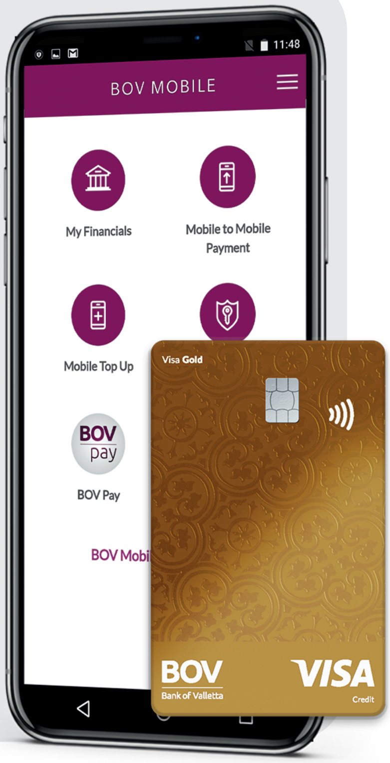
Although we have made good progress in a number of areas, we have had to balance the pace of change we would like to make with both managing our staff through a major transformation and the need to ensure our risk and control environment is continually improved to ensure we are able to meet current,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

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

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

INCREASE
IN VOLUME OF ELECTRONIC PAYMENTS

50%
DECREASE IN CHEQUES PROCESSED



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

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

Closing statement

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

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