Gordon Cordina

Chairman

ESG CAFC NRC NED *

Dr Gordon Cordina is a leading economist in the Maltese Islands, with a professional experience spanning 25 years covering banking, policy-making, academia and private sector consultancy. He serves as Chairman of the Board of Directors and ESG Committee and is also co-chairman of the Nominations and Remuneration Committee. Dr Cordina is a graduate of the University of Cambridge and the University of Malta. His main area of academic interest is the growth and macroeconomic dynamics facing economies that are prone to heightened risks.

Dr Cordina has several years of Board and Risk Committee experience in major financial institutions in Malta, amongst which at Bank of Valletta p.l.c. Dr Cordina served as Manager of the Research Department of the Central Bank of Malta, Director General of the National Statistics Office of Malta, Head of the Economics Department of the University of Malta and Economic Advisor to the Malta Council for Economic and Social Development. Through the private consultancy firm he co-founded in 2006, he is involved in a number of local and international research projects and consultancy assignments with institutions including the EU Commission, NGOs and private sector entities. Dr Cordina is a visiting senior lecturer at the University of Malta.

Dr Cordina was appointed Chairman of Bank of Valletta p.l.c. in October 2020, of MAPFRE MSV Life p.l.c in September 2021 and director of MAPFRE Middlesea p.l.c. in September 2022.

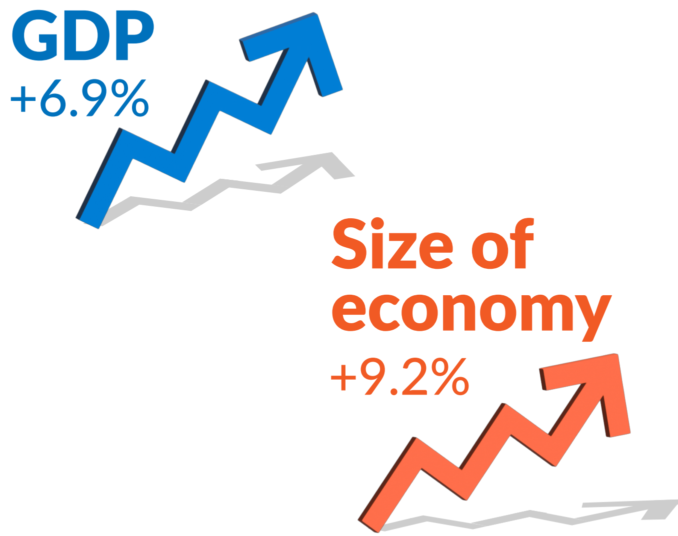
Chairman's statement

Gordon Cordina
Chairman

3 Positive outcomes for 2022

- *Resolution of Deiulemar case*
- *Removal of Malta from the FATF's increased monitoring process*
- *Issuing of Callable Senior Non-Preferred Notes on the International Market*

THE ENVIRONMENT WE OPERATE IN



In 2022 the international economic landscape was shaped by three interrelated developments. As anticipated, the global economic recovery from the COVID-19 pandemic progressed further, and positively, growth generally turned out higher than expected. However, this rapid pick-up in international demand strained again supply chains, causing prices to rise. This effect was amplified by the outbreak of the war in Ukraine, whose consequences produced a second major shock within a short period of time. The economic effect of this conflict was a surge in worldwide inflation, thus unleashing a problem which countries had not experienced for many years. In response, central banks across the globe have raised official interest rates significantly in 2022 and have done so in bigger and quicker steps than normal. Further interest rate tightening is planned for 2023. A decade-long period of exceptionally accommodative monetary policy ended, and such conditions are unlikely to be repeated in the foreseeable future.

Notwithstanding such economic headwinds from abroad, Malta's economy continued to exhibit strong dynamism in 2022. The restructuring undergone by the economy over the years, which resulted in sectors gaining in importance and allowing for more even distribution of activity, has paid off in terms of sustaining the country's resiliency. In 2022, real GDP grew by 6.9%, and as a result, the economy's size was 9.2% larger than in 2019. At a macro level, the rebound from the pandemic shock was thus complete, even though in the case of the hardest-hit tourism sector there is still some further progress required. On a positive note, recovery in tourism in 2022 was generally stronger than originally anticipated and this augurs well for the achievement of the target of full recovery by 2024.

The suite of published forecasts for the Maltese economy indicate that the country is expected to continue growing despite the challenges posed by inflation and the higher interest rate scenario. The future annual growth is however likely to be closer to the long-term average of around 4%, rather than the exceptionally high rates which were recorded in some years before the pandemic.

In 2022, household consumption has continued to expand, boosted by the release of pent-up demand, and supported by the growth in jobs and the confidence offered by a historically low unemployment rate. Malta's labour market proved resilient despite the end of the government's wage supplement scheme, which had been in place to protect jobs since the beginning of the pandemic. In turn, so far, there have been no signs that the spike in Malta's annual inflation, which in certain months exceeded 7%, has created any significant downside impact on consumption patterns.

The high inflation rate, which had not been anticipated at the beginning of the year, was in sharp contrast with the low rates recorded in Malta over the past decade. Still, the price shock which faced resident households and businesses was lower than that experienced across the euro area, because of the government's decision to freeze energy prices. The additional fiscal cost in the form of subsidies to the energy supplier meant that in 2022 the fiscal deficit remained high, despite the phasing out of pandemic-related support.

The exceptionally strong fiscal support which has been in place since 2020 has pushed Malta's public debt close to the 60% of GDP benchmark, reversing most of the decline which had taken place over the previous decade. In a very small open economy, it makes sense for the government to assume a key role in stabilising the economy and protecting households and businesses against temporary external shocks. However, in the eventuality that part of the energy price shock turns out to be permanent, it is important that an appropriate exit strategy is established and communicated in a timely manner to enable economic agents to absorb the shock smoothly.

Apart from the partial protection against inflation, most bank borrowers in Malta have to date also been shielded from the 250 basis points interest rate increases implemented by the European Central Bank in 2022. The latter aided BOV's profitability as the new interest rate environment enabled the bank to save costs which were previously incurred when depositing excess liquidity with the central bank. Moreover, the rise in international interest rates generated higher revenue from the subset of borrowers whose interest rate is directly linked to foreign rates. At the same time, BOV's strong funding, underpinned by resident deposits, offered leeway for the bank to postpone the normalisation of its lending rates for households and small businesses. When setting its base rate for loans and deciding on the types of deposit products to offer, BOV will remain guided by its objective to strike the right balance among all its stakeholders, while ensuring that changes are gradual and well communicated. As Malta's largest bank, BOV is conscious that its actions have a material impact on the economy and is a key enabler of the country's economic prospects.

In 2022 there were three positive highlights for BOV which augur well for the Bank's future. Firstly, the resolution of the Deiulemar case, through an out-of-court settlement, although producing a one-off significant impact on the yearly financial performance, has eliminated a serious litigation risk which could have acted as a serious drag on BOV's operations. Secondly, the announcement that Malta was no longer subject to the FATF's increased monitoring process, eliminated the risk of a prolonged grey listing status, which could eventually have impacted BOV's performance and its ability to service clients effectively. Thirdly, the successful issue of Callable Senior Non-Preferred Notes on the international market will allow BOV to meet its statutory requirements and be able to expand its activities when these fit within its risk appetite.

Both the resolution of the Deiulemar case and the issue of the international notes have placed the Bank on a significantly more secure footing to plan its business.

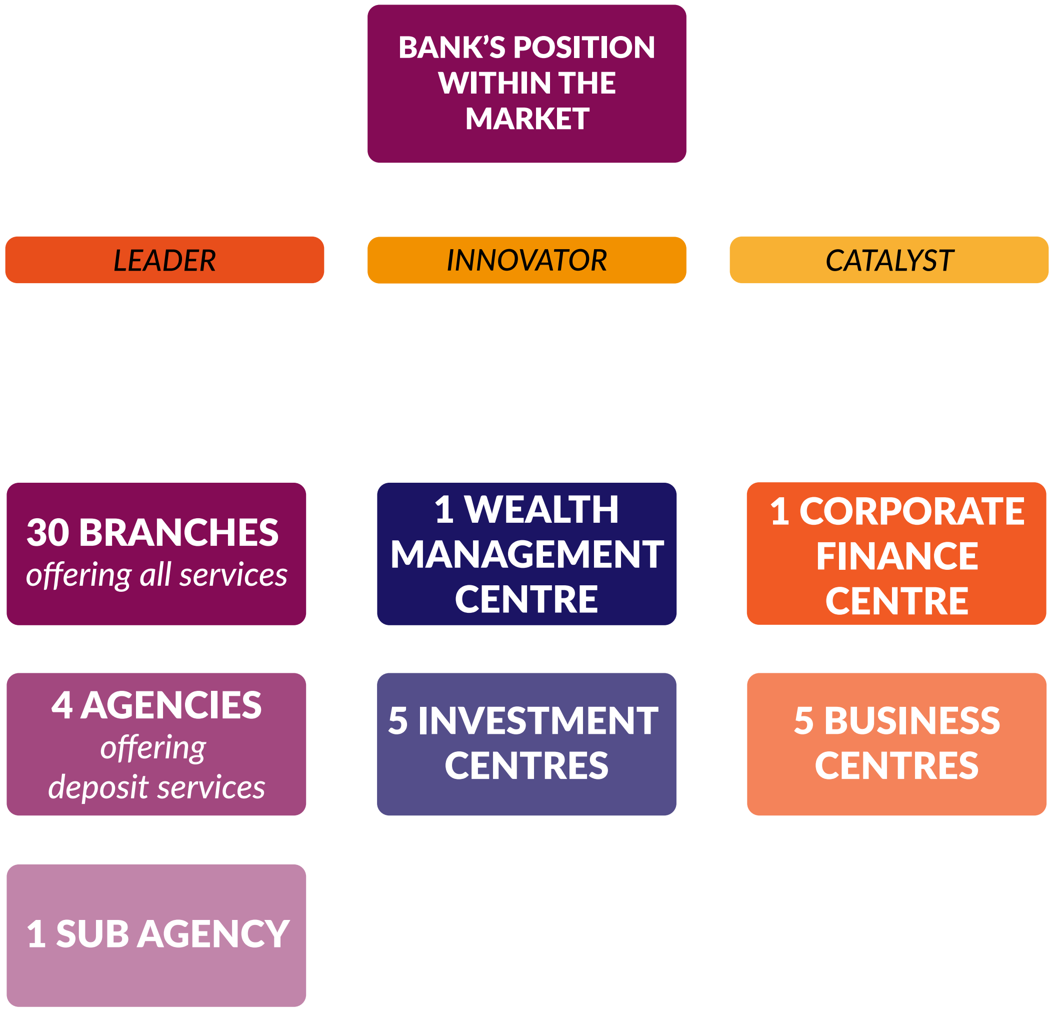
Recent years have been challenging for the Bank and resulted in a period where no dividends were distributed. The Board considers it prudent to maintain this stance for the time being, to support the capital and liquidity of the Bank, and to meet the regulatory expectations. Once conditions improve, and subject to the guidance provided by the competent authorities, the Board intends to re-establish the pattern of stable and predictable distribution of dividends.

In 2023, the Board will be approving a new strategy for the bank to cover the period 2024 to 2026. The updated strategy will place more emphasis on the customer, while aiming to have in place the right digital means and meet the regulatory expectations which have increased over time.

Renewal is essential for BOV to continue occupying a leading role in Malta. In this respect, the Bank recognises the need to face and embrace the challenges and opportunities brought about by technology. In 2023 BOV will continue its journey to shape banking in Malta into the future, while remaining customer centric. BOV is also determined to be a leader in the shift towards a new paradigm, where through its actions it can help focus on the broader concept of wellbeing which factors environmental, social and governance goals.

Over the years, the Bank has been there to support the community. In the coming years the Bank will be taking its mission to the next level, by undertaking a leading role in ESG matters. This objective will not only shape how the Bank acts in shouldering its own responsibility towards climate, environmental and social concerns, but it will also guide the way we offer our services, to foster a culture of responsibility towards ESG among our clients too. This priority will be in line with the ESG regulatory requirements which over time are likely to become more onerous and be consistent with new market expectations in this sphere.

Changes have been implemented and more will be necessary, but there is increasing confidence about a brighter future. I thank our shareholders for their continued support. Now that the COVID-19 pandemic is behind us, the Bank looks forward to improved interaction with our shareholders. I also thank the executive team and staff for their valuable work and commitment to support the bank's performance. We have reached a good stage of our improvement journey.



Kenneth Farrugia
Director & CEO
ED

Mr Kenneth Farrugia is the Chief Executive Officer of Bank of Valletta p.l.c. Mr Farrugia sits on the Board of Directors of the Bank as an Executive Director, chairs the Executive Committee and is a member of several management committees. Mr Farrugia also chairs the Board of Directors of BOV Fund Services Limited and sits on the Board of Directors of BOV Asset Management Limited.

Mr Farrugia began his career at Bank of Valletta in 1985. Over this period, he has occupied various executive positions covering the Bank's asset management, retail banking and credit business areas.

Mr Farrugia also occupied various financial services related industry positions including Chair of the Malta Asset Servicing Association, Chair of Malita Investments p.l.c which is listed on the Malta Stock Exchange, board member of the European Fund and Asset Management Association as well as Chair of FinanceMalta, Malta' national promotional body for the financial services industry.

Mr Farrugia is a Harvard Business School Alumnus, having completed a General Management Program at Harvard Business School.

CEO's Commentary

OPERATING INCOME

€293.4 million

+21%

NET INTEREST INCOME

€201.9 million

+29%

NET FEE AND COMMISSION INCOME

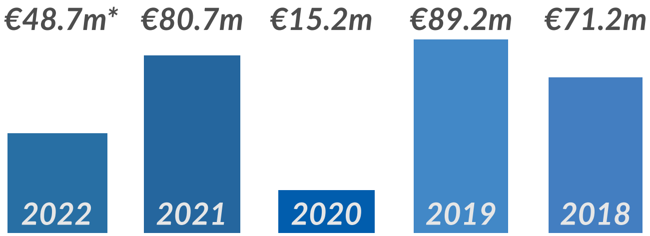
€76.6 million

+2.6%

As I reflect on the key events that shaped this financial year, FY2022 has yet again followed on the heels of the previous year and ended to be both challenging and rewarding in equal measure. As the world was gradually emerging from the pandemic, the war in Ukraine brought about the onset of significant instability, economic sanctions against Russia, an unprecedented surge in inflation as well as the ensuing decision by the world central banks to increase interest rates in strong succession. These developments have all left their mark in one way or another on the global world economies to include Malta. On the other hand, on the positive side, the removal of Malta from the grey-list as well as the Bank's settlement of the Deiulemar legal case, despite the negative financial impact of its resolution, gave a positive tone to the year under review.

Despite these challenges, as a result of the Bank's strong franchise in the domestic market and robust business model foundations, we managed to deliver strong organic growth, while at the same time remaining very well capitalised with a strong capital ratio. In fact, the Bank registered a double-digit year-on-year percentage growth in operating revenue, whilst containing the operating costs to a single digit percentage increase.

PROFITS FOR THE LAST 5 YEARS



**Profit of €151.7 million before the one-off net settlement of €103.0 million Deiulemar litigation.*

Overall, our core commercial banking value streams remained strong during the year as a result of a continued recovery in business activity, which in turn positively impacted the strength and quality of our loan book. We have also carefully managed the inflationary impact on our operating costs, especially in the light of the rising inflation forecasts, which brought about an increase in wages and other operating expenses.

Moreover, during this reporting period, results were positively impacted by a net release of estimated credit losses ('ECL') reflecting better economic conditions relative to FY2021 coupled with significant recoveries of past debts.

These positive results have been driven by the collective collaboration and commitment of our loyal, and highly committed employees. This has enabled us to further drive forward our strategic journey towards a lean, and at the same time digital led, business and operational model. Our key focus remains centred around the optimisation of our business and operational model aiming to ensure that we create and deliver value to our customers and other key stakeholders, in order to meet, and possibly exceed, their expectations.

Financial performance of the Group

Bank of Valletta Group delivered a profit before tax for FY2022 of €48.7 million compared to €80.7 million achieved in the previous year. However, when one considers the one-off net settlement of €103.0 million Deiulemar litigation, inclusive of legal fees, which took place in May 2022, the profit before tax was registered at €151.7million, an increase of €71.0 million, or 88% higher when compared to the results in FY2021.

Operating Income

The Group maintained its business momentum in FY2022 and delivered solid revenue growth led by client-driven activities and equally positive interest rate dynamics. Overall, total operating income at €293.4 million, increased by €50.4 million or 21%, compared to 2021 with the most significant increase notable in net interest income ('NII').

Net interest income

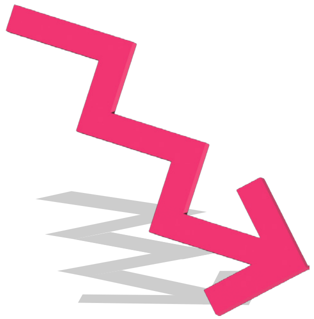
Net interest income generated during FY2022 was €201.9 million compared to €156.3 million in the same period last year and remained the main revenue driver representing 69% of operating income.

Healthy growth in both the corporate and personal lending portfolios was significantly supported by the rising of interest rates in the Eurozone as of mid-year 2022 which reduced the burden of interest expense paid. Back in 2016, the European Central Bank ('ECB') had introduced a negative interest rate which had, year on year, a noteworthy negative impact on NII performance. This stemmed from the Bank's high levels of liquidity, resulting in interest being charged on the surplus overnight funds deposited with the Central Bank of Malta. Consequential to the ECB's interest rate rises in 2022, negative interest has firstly reduced significantly and then moved to positive territory. Furthermore, a decrease in interest expense relating to term deposits of €4 million has also played a role in the reduced interest expense.

TOTAL COSTS

€192.6 million

-1.5%



Commissions and other income

Commission income increased by 2.6% on a year-on-year basis across all business lines partially subdued by weaker performance in investment services due to the dampened investor sentiment and volatile capital markets. Half-way through the year, the high balance fee for our corporate clients was removed as this was directly related to interest rate environment. Further growth was driven by the fair value movements particularly those on equity investments that are measured at Fair Value Through Profit or Loss reflecting latest share prices.

Costs

Total costs for FY2022 amounted to €192.6 million which results in a 1.5% decrease over that registered in FY2021.

Operating costs, which exclude strategic initiatives costs of €7.8 million, stood at €184.8 million (2021: €172.5 million) up by 7.1% or €12.3 million compared to prior year. This increase was mainly driven by human capital requirements in specialised areas and associated growth in average compensation. During the year, BOV introduced a voluntary occupational pension scheme as well as stepped up its early retirement scheme which further contributed to higher employee costs. Regulatory costs have declined compared to FY2021 in view of the change in Deposit Guarantee Scheme ('DGS') legislation back in October 2022 coupled by a slower growth in customer deposit levels (2022: 3% increase whilst FY2021: 8% increase).

The pace of strategic change continued to be critically balanced with the Bank's obligation to deliver superior controls in line with regulatory requirements, the optimisation of the Bank's operations and the thrusts to further strengthen the customer service experience. To this end, strategic initiatives investment for FY2022 was at €7.8 million versus €23.1 million in FY2021. The year under review has seen the modernisation of several processes through business process re-engineering as well as the automation initiatives driven by robotic process automation and the introduction of an online solution for home loans.

Releases of credit provisions

During this financial year, the Bank has experienced a net release of Expected Credit Losses ('ECL') of €49.1 million (FY2021: €18.9 million net release). The main factor behind this shift was the decision, taken earlier in the year, to release COVID-19 provisions amounting to €24.9 million booked in prior years. Throughout FY2022, the impact from the COVID-19 pandemic continued to decline as Malta shifted gradually back to normality.

As at December 2022, the Bank implemented a new internal credit rating system ('ICRS') to support the management of its business loan portfolio. This new model enables the Bank to differentiate between different credit profiles as from the origination of credit exposures, avoiding concentration in a few grades. The ICRS model was integrated with the ECL model which has now been enhanced to cater for further triggers indicating significant increases in credit risk across the business portfolio. During the first half of FY2023, the Bank will be working on a similar model for the Retail loan portfolio.

The outcome of the ECL model, €7.1 million release, is a combination of drivers emanating from the introduction of the new ICRS, changes resulting from the annual model calibration exercise and changes on the credit portfolio in terms of volumes, asset quality and collateral coverage.

A further release in expected credit losses of €13.3 million relates to changes in post-model adjustments held against the non-performing portfolio as at December 2022. This release represents a reversal of prior year adjustments on loans in the non-performing category for less than 4 years and other reversals driven by changes in the non-performing portfolio resulting from settlements and write-offs. The non-performing exposures, particularly long outstanding, are deemed as highly risky in terms of recoverability. This supports the need for further provisions in addition to those resulting from the ECL model.

The Bank continues to monitor and closely manage the portfolio of non-performing loans and as at December 2022, the non-performing exposures ('NPE') ratio improved from 4.1% in 2021 to 3.5%, whilst the stock of NPLs decreased by €17.5 million. During the year a total of €11.4 million charge in provisions resulted from write offs of credit-impaired assets. The latter were offset by €15.1 million in recoveries from past debts. The ECL coverage of the credit impaired assets is marginally lower at 53.8% (2021: 54.1%).

Share of profit from Associates

The Group's share of profit from insurance associates for the year resulted in a profit of €1.9 million (2021: €14.5 million profit), a significant decline of €12.6 million compared to the comparative period, largely driven by the volatility of global financial markets during the year and rising interest rates.

Balance Sheet position

Total assets of the Group stood at €14.5 billion as at 31 December 2022, marginally higher than the comparative year (2021: €14.4 billion). The funding of the Bank remains primarily through customer deposits with more than half of these driven by retail deposits. Customer deposits as at end of 2022 amounted to €12.5 billion resulting in a growth of a further 3% compared to December 2021 (2021: €12.2 billion). Growth was experienced in both retail and corporate deposits with increases in retail deposits at a much higher rate than that of business clients. Earlier in FY2022, measures were taken by the Bank to manage the growth in liquidity, namely by decreasing interest rates and refraining from offering term deposit products. The Bank closely monitors its liquidity position and aims to offer stability to the market by balancing out the net impact arising from positions held in customer deposits as well as loans and advances.

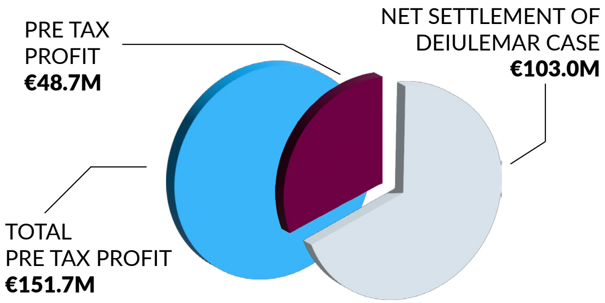
Increasing Eurozone interest rates brought about new market opportunities easing excess liquidity from the €4.6 billion reached as at December 2021 to 3.4 billion for December 2022 leading to a growth in investments, primarily in Euro denominated securities, of €1 billion or 28% when compared to December 2021. Effective rate of return on treasury investments improved from 0.40% in 2021 to 0.47% in 2022 with the increase mainly driven from securities in foreign currency. Most of the treasury assets are 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.

In order to meet regulatory requirements pertaining to the minimum requirement for own funds and eligible liabilities ('MREL'), on 6 December 2022, the Bank issued €350 million Callable Senior Non-Preferred Notes with the final maturity date of the notes being 6 December 2027 at coupon rate of 10% per annum. The issue attracted an order book of high-quality money accounts of around €460 million, with amounts evenly split between domestic and international investors. Investor participation was a diverse one, with official institutions accounting for around 32.1% of the Notes allocated, followed by public and private banks at 28%, asset managers at 24.5% and hedge funds at 13.1% (other 2.3%). In terms of geographical diversification, domestic accounts were allocated 53.7% of the final size and 46.3% were allocated to a portfolio of international investors. These notes are traded on the Irish Stock Exchange. This issue will also allow the Bank to increase its lending book and expand investment horizons of its treasury operations.

Net loans and advances to customers amounted to €5.6 billion, an increase of €436.4 million during the year, up 8.4% compared to FY2021. Retail gross balances grew by 8.5% with home loans dominating this segment whilst business balances contributed at a growth rate of 6.6% versus prior year.

The Bank's liquidity ratio as at year end stood at 426%, down from 444% as at December 2021. This drop reflects the decrease in liquid assets year on year as these were transformed into investments yielding a higher rate of return. Notwithstanding, the Group's liquidity position remains significantly above the minimum regulatory requirement. The Group's gross advances to deposits ratio stood at 46%.

DEIULEMAR EFFECT ON PRE TAX PROFIT



As stated earlier, post the Deiulemar settlement, the Group's capital ratios remained strong and above regulatory requirements, with the CET 1 and total capital ratios as at 31 December 2022 of 21.79% (December 2021: 21.90%) and 25.39% (December 2021: 25.53%), respectively.

Deiulemar settlement

In May 2022, the Bank reached an out of court settlement agreement, without any admission of fault, bringing all legal claims surrounding the Deiulemar issue to an end. The Bank shall not have any further ongoing contingent or actual liability relating to this claim. The impact of this settlement is that BOV's 2022 profitability has been impacted by €103 million, which is the settlement of €182.5 million less the provisions already raised by the Bank in view of previous offers and assessment of legal costs.

BOV has been conservatively preserving capital to ensure it can withstand any eventuality and that this settlement would not impact our ability to comfortably meet continuing regulatory capital requirements. A total of €363 million in pledged assets previously held with an Italian bank are now free from any encumbrance. Released capital may be used to explore additional business opportunities and improve shareholders' value. The Bank has sufficient capital to maintain its ratios well above regulatory requirements, including buffers.

Anti-Financial Crime Transformation

One of our key strategic objectives remains that of implementing the most effective standards to combat financial crime. During 2022 we continued to invest in strengthening our financial crime compliance capabilities across the group to enable us to combat financial crime pro-actively and effectively. We have embarked on a large project to optimise our pre and post transaction monitoring capabilities. We are also undergoing a process to review our client base in a proportionate and risk sensitive manner. We understand, and regret, that the latter process can cause an inconvenience to some customers however this interaction is necessary in view of our regulatory obligations, the expectations of the regulators and ultimately to protect our customers and the jurisdiction. We are also implementing digital solutions that will lead to more efficient interaction with our customers. Financial crime compliance will remain at centre of our focus in the future years and it is equally important that other subject persons in Malta strive to retain the standard reached over the past months which have also led to Malta's removal from the FATF grey list in June 2022.

Strategy Update

In 2020, the Board approved a strategy which planned to take BOV on a transformation journey over three years – BOV 2023. Although external factors such as COVID-19, legal embattlements and the economic effects of the outbreak of the war in Ukraine posed several challenges, we continued moving forward with our strategic ambitions of digitalisation and simplification.

During the subsequent two years, we invested in regulatory and mandatory projects, which led to a lower overall investment level during 2022 as many costs were front-loaded. Despite the regulatory focus, migration to alternative channels has been robust. We implemented several quick wins on service delivery using the latest techniques to provide low-cost-high speed improvements. Moreover, the Bank took forward the re-engineering of a number of processes as well as the streamlining of procedures to deliver customer service improvements.

Through digitalisation, we have already seen early signs of benefit in terms of the faster growth of the Bank's investment and lending businesses. One such initiative was the launch of the Home Loans digital portal, which is providing our customers with ease of access to a home loans financing calculator and the ability to apply for a home loan through a completely digital channel. We have also invested significantly in our credit and wealth management back-office processes to deliver more robust controls to reduce complexity without impacting customer service. On the same note, the branch modernisation programme kicked off in 2021 and is making headway. Four branches are now fully renovated with a refreshed, eco-friendly, and customer-centric layout. Additional branches across the network will undergo similar renovation in the coming months. Another area the Bank has started working on alongside the transformation is the enhancement of internal data capabilities. Through this initiative, the Bank is aiming to markedly strengthen its understanding of the customer. Several other data quality enhancements are also underway which will also support future product development and customer value propositions.

Overall, we have made good progress in many areas, and further improvements are in the pipeline. However, we needed to balance the pace of change we desire when managing staff through a significant transformation whilst continually improving the Group's risk and control environment to ensure compliance with current, new, and emerging regulatory requirements.

Closing statement

I would like to express my deep appreciation to our customers, shareholders and business partners who have played an important role in the achievement of these results. In particular, I am grateful to continue experiencing the loyalty and commitment of our employees, as they strive to support our customers and their requirements, while at the same time maintaining our commitment to responsible and sustainable banking practices. They have exemplified our mission to add and create value to our customers and the Bank and I am proud and grateful to each one of our employees for the results they achieved during this reporting period. I also wish to thank my fellow colleagues on the management team that have once again shown great dedication, energy and care. We are excited about the opportunities ahead of us and we look forward to continue progressing further in FY2023 as we take forward our ambitious transformation program.

Going forward, we will remain anchored to maintain a strong balance sheet, sustain our business value streams, nurture our investment in the Bank's human capital, strengthen our risk, governance and controls, remain relevant to our customers, and lastly support the development of the community we operate in by embedding ESG principles in our business and operational model.

During the course of FY2023, we are also excited to actively develop and prepare a new 3-year strategic plan – BOV2026. Our strategic thrusts revolving around our Customers, Operations, Risk Management and our People will be driven by both Data and Digital led initiatives as key enablers, ensuring ESG is embedded in our business and operational model in the process.