

# ANNUAL GENERAL MEETING 2020

## CEO'S STATEMENT

Rick Hunkin

**BOV**

Bank of Valletta

Dear Shareholders,

I join the Chairman in warmly welcoming you to this **Forty Sixth Annual General Meeting** of the BOV Group.

In view of the ongoing COVID-19 pandemic and in the best interest of health and safety of everyone, this AGM is being held remotely.

COVID-19 has disrupted us all and it was unfortunate that we could not meet earlier this year to present you with the Bank's 2019 results. Given quite a bit of time has passed, I will focus on just the highlights of the Bank's results for 2019 and then talk about what is going on at the moment with the new strategic focus. The full results and commentaries are available in the Bank's Annual Report and Financial Statements which are on the Bank's website.

## **BOV PERFORMANCE HIGHLIGHTS**

In 2019 the BOV Group reported a profit before tax of €89.2m (which compares with €71.2m for 2018). Profit attributable to shareholders of €63.5m results in earnings per share of 10.9 cents, compared to 8.8 cents the previous year.

Adjusting for an additional contingent liability provision of €25m and additional costs associated with our transformation programme of €23.9m, underlying profit was €138.1m. This is a reduction of only 6% year on year, despite us withdrawing from certain higher risk areas of the business, but also reflective of the positive local economy which had sustained demand for credit during that period.

The balance sheet continued to grow during 2019, with gross advances to customers being 1.9% higher than 2018 at €4.7 billion. Deposits were also up by 2.1%, which reflected growth from local retail economic activity, thus offsetting substantial reductions in deposits held by international clients.

Capital strength was evidenced by an improvement in the CET1 ratio - at the year end this stood at 19.5%, an increase of 120 basis points over last year.

A strong performance in the local economy during 2019 resulted in an increase in net loans and advances by €87 million, primarily in the consumer finance portfolio, which includes home loans. We also saw growth in the SME segment, supported by the various funding schemes made available to small businesses.

## **2019 - A PIVOTAL YEAR TOWARDS A SAFER, STRONGER BANK**

### **DE-RISKING**

We continued to put significant effort and investment into de-risking our portfolio through a new risk appetite framework. We have increased controls and tightened our policies and addressed past control failings. This required investment of €23.9m during 2019 and we continued investing during 2020 to ensure that the Bank is aligned with international best practice.

### **CORE BANKING SYSTEM**

We successfully migrated to a new Core Banking System replacing the Bank's main IT system that had been in place for over twenty years. The Bank now has a modern IT platform which we will continue to build upon to offer improved electronic services and bespoke products and services to our customers. We have also invested in making our IT systems safer and more resilient.

## **BEYOND 2019**

### **BOV AND COVID-19**

Although the period under review is the financial year 2019, it is clear that the COVID-19 pandemic will impact the Bank's profitability for 2020.

From the beginning of the pandemic, the Bank focused on protecting and supporting our staff and customers in dealing with the various challenges they faced. We set-up a multi-disciplinary Incident Management Team which continuously assessed the situation and implemented measures to maintain the highest level of health and safety for customers as well as for our employees.

Throughout these months Bank of Valletta has been instrumental in supporting the business community and has partnered with the Malta Development Bank. Through the COVID-19 Guarantee Scheme, the Bank has extended close to €252 million in loans with attractive rates of interest to 371 business customers facing liquidity shortages and bank financing for working capital requirements. The Bank also granted loan moratoria to nearly three thousand customers, 73% of whom were retail customers.

### **POSTPONEMENT OF DIVIDEND PAYMENT**

In view of the current scenario the Bank is following ECB direct guidance on dividend distribution and as announced towards the end of October dividend payments are being further postponed. The Board of Directors has decided to withdraw its original recommendation to the Annual General Meeting to approve the payment of a final dividend in respect of Financial Year 2019, and to reassess the situation during the first quarter of Financial Year 2021. I understand this is not welcome news for shareholders, but I hope you'll understand this is an unprecedented situation we are all facing.

### **LITIGATION ISSUES**

I have put a lot of focus and effort into closing out contingent liabilities arising from past legal issues, which have been dragging on for many years, and I am pleased to say that we are making real progress. The historic property fund issue has been settled in the Bank's favour and was closed in 2019 and very recently we also successfully closed the case of the Swedish Pension Agency (SPA), being the sole investor in the Falcon Fund SICAV. The settlement amount was €26.5 million, which is significantly lower than the alleged loss of more than €88 million which was being claimed by SPA. This means that some of the money previously provided for will be released back to the profit and loss account and the Bank's total provisions for all contingent liabilities will also be reduced significantly.

The Bank is also very active in seeking to resolve the Deiulemar case although the outcome is very dependent on legal proceedings.

### **USD CORRESPONDENT BANK**

As we had announced last October, Bank of Valletta has been advised by Raiffeisen Bank International that it is seeking to terminate its US\$ correspondence relationship with the Bank with effect from 31 March 2021.

The Bank is in discussions with Raiffeisen Bank regarding the ongoing correspondent banking relationship supporting US\$ payments with a view to satisfying any concerns and restoring the position.

We are at the same time actively considering alternative routes to diversify the available channels for the payment of US\$.

## **BOV 2023 - A FUTURE-PROOF BANK**

As well as dealing with the pandemic, the Bank has also been working on a new strategic framework which we have titled BOV 2023. It is designed to make Bank of Valletta a more resilient and more profitable bank: better, simpler and faster.

The three pillars of the new strategy are:

1. Investment in the digitalisation of products and services – this is both to simplify internal processes and to make it easier for customers to transact with us and is at the heart of the strategy. We need to adapt to deal with the changing way in which people interact with their bank these days.
2. Rebalancing of our balance sheet - The interest rates on deposits will remain low on a global scale. This means that our customers won't get the rate of return that they might hope for and at the same time the Bank incurs a huge cost when depositing these funds with overseas institutions. We will guide a segment of our customers to achieve a better balance in their portfolios by helping them to identify alternative investment products that give them better returns than their deposit accounts. These considerations will of course be proposed within the risk profile of the customer.
3. Finally, we will improve the customer experience by reforming unnecessarily long and complex processes and updating systems that do not usefully support customer interactions.

We have already started making changes and you'll see further changes in the coming months.

## CONCLUSION

That was 2019, when life was 'normal' and the business environment was thriving. We started 2020 with a firm determination to finalise our risk transformation programme and to define a forward looking strategy for a futureproof Bank of Valletta. COVID-19 has brought about many challenges, but it didn't prevent us delivering a clear strategic plan that will ensure the long-term sustainability of the Bank. The Bank and the financial services industry is facing some real challenges with the implementation of tighter Anti Financial Crime and Risk controls, increased pressure on net interest margins caused by record low interest rates and disruption to traditional business models as new banking technology comes onstream.

Clearly the uncertainty brought about by COVID-19 has made the situation more challenging for everyone; however, we will be investing heavily in our systems, processes and our people and we will be working relentlessly to see the successful implementation of the BOV 2023 Strategy.

I fully agree with the Chairman that the present situation around Coronavirus is a significant concern and at BOV we will continue to do all we can to ensure the welfare and protection of all our staff and customers.

I thank our many customers for whom we are their bank of choice, our shareholders for their unwavering trust and support, the supervisory authorities with whom we have a close working relationship, my management team and all our employees for their unrelenting commitment towards Bank of Valletta.

As COVID-19 is affecting all the local economic sectors, an impact on the BOV Group is inevitable. I'm proud that Bank of Valletta is rising to the occasion right now by supporting businesses, customers and the wider Maltese community. We will come out of this together and as Malta's leading bank we are committed to helping the Maltese economy recover and thrive once again.

Rick Hunkin  
**Chief Executive Officer**  
26 November 2020

Issued by Bank of Valletta p.l.c., 58, Triq San Żakkarija, Il-Belt Valletta VLT 1130 - Malta  
Bank of Valletta p.l.c. is a public limited company regulated by the MFSA and is licensed to  
carry out the business of banking and investment services in terms of the Banking Act (Cap.  
371 of the Laws of Malta) and the Investment Services Act (Cap. 370 of the Laws of Malta).

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**Bank of Valletta**