

ANNUAL GENERAL MEETING 2020

CHAIRMAN'S STATEMENT

Dr Gordon Cordina

I am honoured to join the Board of Bank of Valletta as Chairman, especially at this juncture when the Bank is being called to set the foundations for its continued future profitability, stability and growth, amid significant headwinds in the operating environment. This is no mean challenge, but it is one which I am gladly sharing with my colleagues on the Board, the Executive Team led by Rick Hunkin, and the members of staff.

The Board at the Service of the Shareholders

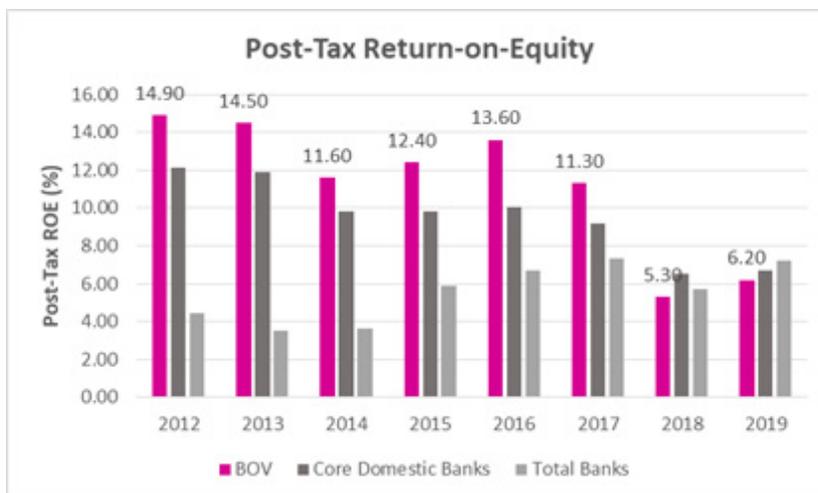
The Board that I am chairing serves the entire community of shareholders, striving to maximise the productivity of the precious capital which you make available to the Bank. It aims to set the right tone from the top, especially with respect to critical areas such the fight against financial crime, managing cybercrime risks, and navigating the turbulences of the COVID-19 event. The Bank is working hard to rise to the occasion and protect its interests, those of its customers and ultimately the Maltese economy. Your Board is overseeing and constructively challenging the implementation of the Bank's strategy by the executive team. It also plays a central role in sustaining productive relationships with the regulators, which are key to the Bank's reputation and strength.

Where we are Coming From

The past few years have not been invariably kind to Bank of Valletta. The Bank remained profitable, liquid and strongly capitalised, while continuing to invest in technological and human capital. But it had to struggle to keep safe from crime and other risks, to meet evermore exacting standards of compliance and to rise to the formidable challenges emanating from litigation and jurisdictional issues. In a number of respects, it fell short from fulfilling the justifiable expectations of stakeholders. Bank of Valletta made remarkable strides forward in the past two years. But these struggles are far from over, and not only for our Bank.

The European banking scene has grown accustomed to weak profitability. Persistently low interest rates, high levels of non-performing loans, and the cost of regulatory reforms have now been taking their toll for years. The situation is no different in Malta, where the small size of the market further limits the scope for consolidation and contributes to more intense competition. Between 2013 and 2019, the post-tax return-on-equity of core domestic banks slipped from 12.1 percent to 6.7 percent¹. The return registered by Bank of Valletta fared no better, standing at 6.2 percent in 2019, in part reflecting provisioning against risks. I believe that the Bank has the potential to deliver better returns in the longer term, being the largest bank in the country with a strong brand and a treasure chest of talent.

But the present juncture grips our attention and efforts as perhaps at no other time in living memory.



Where We Stand

I cannot overemphasize the economic distress being caused by the ongoing COVID-19 situation. The global economy faces heightened risks from non-performing loans, real estate market volatility, and public debt sustainability. In Malta, these risks are mitigated by high levels of liquidity and a strong fiscal position which are sustaining the economic integrity of firms and households. This, in spite of a 7.7% drop in Gross Domestic Product registered during the first half of 2020. While the risks to macroeconomic stability are currently well-managed, concerns could well intensify if the situation persists beyond the first half of 2021.

From the perspective of Bank of Valletta, it is noted that the sectors worst hit by the pandemic are among the most capital intensive in the Maltese economy, accounting for the largest sectorial exposures on its balance sheet. These include activities reliant on inbound tourists, chiefly accommodation and food service activities, and transport. The wholesale and retail trade was impacted by the closure of non-essential service, a shift in consumption patterns, and the postponement

¹ Central Bank of Malta - Financial Stability Report 2019, 2018, and 2017 (Appendix B – Financial Soundness Indicators)

of big ticket purchases. Taken together, these sectors account for almost 30 per cent of the bank's credit exposure before the COVID-19 event: their economic value added fell by a roughly equivalent rate during the first half of 2020.

It is noteworthy that the bank remained profitable during the period, with a post-tax return on equity of 1.9 per cent. Perhaps more importantly, this result was obtained without the bank having in any way retreated from its efforts to sustain technology investments and to strengthen its human capital in risk and compliance functions.

We have not seen signs of significant distress in the financial position of our business and retail clients up to this point. Yet, we are well aware that conditions could deteriorate, especially if short-term liquidity issues turn into longer-term solvency problems for clients who are especially vulnerable to a prolongation of the COVID-19 event. The Bank is closely monitoring the situation and undertaking all measures necessary to safeguard its financial soundness and that of its clients, in collaboration with the relevant institutions.

The Road Ahead

The bank's history in recent years and the over-riding need to emerge from the COVID-19 episode in a position of strength are factors which, individually and jointly, compel the Bank to transform its way of doing business to future-proof it for decades to come. This cannot be a superficial exercise, but a radical change from the inside out affecting all operations and interactions with internal and external stakeholders. It is needed to ensure the continued relevance of the bank to the Maltese economy, to deliver better returns to shareholders and is indeed mandated by our regulators.

Toward this, the Board has entrusted the CEO and his Executive Team with an ambitious transformation strategy which will lift the Bank to a place among the best of its peers in Europe. Its design and implementation is being supported by professionals with international-level track records in these processes. We can thus look forward to a bank which will be future-proofed in terms of technologies, digitalisation and information management. It will be an ever more valued partner to our personal and business customers, and an active leader and reputable contributor to the entire Maltese community and to the environment. The bank furthermore aims to enhance the work experience of its staff, and to provide opportunities for personal development commensurate with capabilities and potential.

Very importantly for today's meeting, the strategy will target the maximisation of shareholder value in the medium term, with a vision to restore the payment of dividends at levels that are adequate, stable and predictable. We note that the value of market capitalisation for Bank of Valletta is under one half the net asset value on the balance sheet. Considering the specific characteristics of the stock market in Malta and the likely outcomes of major risks, indications are that there is room for shareholder value to improve. Perhaps the major risk in this space is the ongoing litigation case in Italy, where the Bank reiterates its position founded on multiple and independent sources of legal advice that the claim against it is without merit. It is however contingent upon the bank to preserve capital until the effective likely outcome of this case becomes clearer. Our regulators are understandably highly concerned about the consequences of the pandemic on the European banking sector overall. As a result, they are directly instructing banks to preserve all capital until such time as the final potential credit losses, resulting from severe impact upon bank customers, are known. This means that dividend payments are for the time being effectively prohibited.

We can look forward to a resumption of a steady dividend policy in future. Meanwhile the Bank will be considering options to continue ensuring the best interests of its shareholders, fully aware of their needs and expectations.

I call upon you shareholders to continue to support the Bank in this period of difficulty and transformation. I make this call on the strength of the knowledge that through your past and on-going sacrifices, together with the commitment and hard work of your staff, Executive Team and Board, Bank of Valletta has now embarked upon a path to recovery towards sustained and sustainable business performance.

Coda:
The Bank of Valletta brand will soon turn fifty. As the Bank is coming of age, it is our prime, collective and individual responsibility to give it the best foundation for its success for decades to come.

Dr Gordon Cordina
Chairman
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