

ANNUAL GENERAL MEETING 2021

CEO'S STATEMENT

Rick Hunkin

Dear Shareholders,

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

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

I will focus on highlights from the Bank's results for 2020 and I will also update you on what is going on at the BOV Group in a number of areas, especially progress with the BOV 2023 strategy.

The full results and commentaries are available in the Bank's Annual Report and Financial Statements which are available on the Bank's website.

BOV PERFORMANCE HIGHLIGHTS

Naturally the financial results for 2020 were impacted by the COVID-19 pandemic, but nevertheless underlying performance remained strong.

The global COVID-19 pandemic has caused huge disruptions in the business world and in our day-to-day lives. Sectors of the economy such as tourism, accommodation and restaurants have been particularly hard hit and we can only hope for a swift return to some degree of normality.

Recognising the key role BOV plays in the Maltese economy and in the communities and customers we serve, we provided significant and widespread support to our clients as they experienced financial strain and liquidity constraints. We provided extensive support by way of loan moratoria and through the Government/Malta Development Bank supported scheme.

Our businesses and consumers are thus far proving remarkably resilient under such challenging conditions, but we have had to recognise provisions given the increase in credit risk. Although the duration of COVID-19 impact remains uncertain, returning to normality could result in the potential release of some of these provisions.

We have been required to provide for loans which have been non-performing for some time under regulations which will impact through to 2023. We have significantly increased our real focus on such debts, and we saw recoveries during 2020 as a result. This focus continues and we aim to reduce this back book of loans to limit further provisions and effect recoveries where possible.

Our de-risking programme continued in 2020 and during that year we invested further, in creating a lower risk profile for the Bank with a significantly improving control environment. Our risk appetite now reflects a better balance of risk and reward and such investment is critical to delivering a sustainable bank.

As we recently announced, the investment in de-risking is now significantly reduced as de-risking projects are phasing into a business-as-usual situation and we will move future investments towards our strategy delivery and drive towards stronger growth and sustainability.

As a result of all of these factors, the bottom-line results for 2020 were significantly down on prior year. Adjusting for the direct impact of the pandemic and other one-off items, the underlying performance of the bank remained strong despite an interest rate environment which is creating persistent headwinds. Our new strategy is focused on ensuring that the bank is well positioned to deliver future growth and more consistent and sustainable performance once the operating environment stabilises.

FINANCIAL PERFORMANCE OF THE GROUP

Turning now to the specific numbers.

Bank of Valletta Group reported a profit before tax of €15.2 million for the year ended 30 December 2020, a decrease of €74 million or -83% when compared to 2019.

When adjusted for a number of items, profit before tax would be €100.7 million, a reduction of €37.4 million or 27% when compared to prior year when profit before tax was €138.1 million.

The most significant specific items were:

- €38.1 million related to increases in credit provisions with charges predominantly attributed to COVID-19
- €39.8 million in impairment charges for long outstanding non-performing loans driven by changes in regulatory policy in light of the current economic environment.
- €15.8 million investment in the Bank's transformation programme, offset by an €8.1 million net litigations provision release following the settlement of the Swedish Pensions Agency (SPA) case.

Net interest income of €146.8 million, €6 million lower than 2019, remains the main revenue driver. Growth in deposits coupled with persistent negative interest rates continue to impact the Bank's net interest margin. Securities, previously generating positive returns, have been maturing and are now being re-invested at lower or negative rates.

Commission and Trading revenues were €78.8 million, down by €12.1 million year on year, and this area was most severely impacted by the COVID-19 restrictions. We saw reductions in card usage and in the payments business as economic activity slowed significantly - especially during the initial lock-down period.

Operating costs increased by €15.9 million or 11.5% to €154.6 million. This was mostly due to increased staff costs as well as continuous investment in new skills, resources, and training. The investment in the Bank's new IT core banking system implemented at the start of this year has led to increased amortisation cost of €4 million.

The cost to income ratio was 66.8% (2019: 55.7%)

BALANCE SHEET POSITION

Group total assets reached €12.9 billion as at December 2020 - an increase of 5% over the previous year. Customer deposits grew by €642 million (6%).

Cash and short-term funds increased by €106.6 million or 2.6% over the year. The Group liquidity ratio stands at 463% reflecting the extraordinary deposit growth that has outpaced loan demand. The financial investments portfolio decreased by 5.2% or €172 million year on year. The decrease relates to the maturing debt securities which were partly replaced at lower yields.

Net loans and advances increased by €296 million, or 6.6%, during the year and stood at €4.7 billion as at 31 December 2020.

CET 1 ratio increased from 19.5% to 20.9%, and the total capital ratio improved from 23.1% to 24.5% as at end of December 2020.

POSTPONEMENT OF DIVIDEND PAYMENT

In view of the current scenario and in line with regulatory guidance, the Board has responsibly decided not to declare distribution of dividends for the year 2020. We understand this may be disappointing news, but it is important to maintain a prudent approach in the current economic environment.

LITIGATIONS UPDATE

We have successfully addressed two of the historic litigation claims long outstanding against the Group, but the Deiuemar claim remains outstanding and continues to be significant. As we have explained before, the Group is adamant, based upon robust legal opinions (including one from Italy's leading independent and specialist authority in these areas), that this claim is wholly without merit. The bank has been making concerted efforts on all fronts to ensure a fair and independent hearing which we have no doubt would reject this claim. The bank continues to explore every option at its disposal to bring about a change in the judicial process and deliver a fair outcome.

The Group has also been exploring various means to resolve this issue, including a settlement offer to the counterparty - the offer was not accepted. No additional provision for litigation over that taken in the last two years is considered necessary and we will continue to work tirelessly until this issue is closed.

CORRESPONDENT BANKING UPDATE

As we announced earlier this month, Bank of Valletta is already receiving payments through Western Union Business Solutions from two major US dollar clearers. Full transition from Raiffeisen Bank International to Western Union Business Solutions started from 10 May 2021.

UPDATE ON THE STRATEGIC PLAN - BOV 2023

One of my first priorities as CEO was to engage the Executive Committee and the Board to create a forward-looking strategy for the BOV Group.

The retail banking business model is changing rapidly as the record low interest rates continue to exert pressure on the net interest margin. Alongside this, technological innovation across most business lines and steep regulatory demands for systemic banks such as Bank of Valletta, are changing the traditional banking landscape.

These technological changes provide the opportunity for us to deliver a more modern and simpler way of serving our customers and we must support the wider drive to automate and move away from high cost processing, especially around the use of cash and cheques, through the greater use of electronic banking channels. Such an approach will enable us to maintain our wide branch network coverage. BOV 2023 places a challenge on the whole organisation to increase efficiency, improve customer service and to focus on generating value for both our customers and the Bank.

We have set up a multi-skilled strategy implementation team tasked with co-ordinating the multiple work streams. The first wave is being implemented and further projects will be embarked upon as the recruitment process in the new organisational structure is finalised.

The main strategic thrusts that underpin the corporate strategy and the ongoing projects are:

- Transformation and digitalisation of the operating model
- Rebalancing the Balance Sheet
- Offering superior value to customers

To ensure that the BOV 2023 strategy is implemented successfully we are putting importance on our key enablers:

- Strong Data Analytics and IT solutions
- Accelerated investment in our people
- Continuous strengthening of our Governance and Risk

I am excited to be driving this intensive transformation programme that will see Bank of Valletta become a more efficient, more digital and more customer-oriented bank.

CLOSING STATEMENT

2020 was an incredibly challenging year, but one where the benefits of strong capital and liquidity buffers were clear. Certain risks remain for the bank, but there are also real potential upsides as we look ahead to the economic recovery in the medium and longer term.

I wish to join our Chairman in thanking all our employees wholeheartedly for adapting to the many challenges that 2020 threw at us and for going the extra mile to provide uninterrupted services to our customers. Special appreciation goes to our front liners, our heroes who have manned our face-to-face channels providing personalised services to customers who required their assistance. 2020 will go down in history as one of the most turbulent years of our times.

Adapting to change is far from easy but it is the only way forward. I am confident that the ambitious strategic plan BOV 2023 we have embarked on will deliver marked improvements in the ways we operate and in the quality of service that we offer to our customers. I encourage all our employees, customers, shareholders, to embrace the change we are facing and pull together, each in their own way, so that in a few years we will look back with pride to have transformed Malta's largest bank into a simpler, straightforward and long term sustainable bank.

Rick Hunkin
Chief Executive Officer
20 May 2021

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).

BOV

Bank of Valletta