

ANNUAL GENERAL MEETING 2021

CHAIRMAN'S STATEMENT

Dr Gordon Cordina

BOV

Bank of Valletta

INTRODUCTION

It has been around six months since I last addressed this General Meeting, perhaps a relatively short interval but nonetheless marked by significant events for our Bank.

The COVID-19 event was prolonged beyond the original expectations. We stand proud of the fulfilment of our commitments to continue service our clients and sustain economic activity in these particularly trying times. We sensibly prioritised the health and safety of our staff and customers. We were nonetheless afflicted by the human cost of this event in several ways and at one point in the most extreme manner. We remain close to the family and friends of our colleague lost to the pandemic and others who have permanently been left impacted by it.

The Bank redoubled its efforts to protect itself and the Maltese society against financial crime. This is indeed a national priority to sustain financial services activity in our economy, where substantial efforts are expected to bear important results. The success reaped by the Bank in sustaining US dollar correspondence is a reflection of this.

As I already intimated in the previous AGM, the road to the resumption of steady and stable dividend payments requires more sacrifice on the part of shareholders. One key to this is the resolution of the litigation case in Italy, with respect to which the Bank continues to affirm its strong legal position and its offer towards a fair and rapid conclusion. Another is the return to more healthy and sustained levels of profitability, which we can look forward to as economic activity resumes, and especially as we start bearing the fruit of the transformation strategy that the Bank has embarked upon in recent months. This will radically modernise the Bank's offering to its customers and enhance its cost effectiveness in service delivery. It is the cornerstone on which your long term investment in the Bank is founded upon. The Board is fully supportive of and confident in the abilities of our executive team, under the leadership of our CEO, to deliver on the ambitious targets of the strategy.

While we strive and look forward to a better future, we are in the meantime launching a number of initiatives through which the Bank will be offering better value to its shareholders. I hope that these will serve as a token of our good will to provide the best possible service to our shareholder community.

ECONOMIC UPDATE

During the year, the Maltese economy witnessed an unprecedented contraction in its gross domestic product (GDP), decreasing by 7.0 percent in real terms. The worse hit sectors were, unsurprisingly, those reliant on tourist arrivals and non-essential retail activities.

The most vulnerable sectors witnessed a collective decline in their output of circa 23 percent in real terms. These vulnerable sectors are amongst the Bank's most important sectors in terms of our credit lending portfolio and make up more than a third of the Bank's lending to business customers as at the end of 2020.

In the meantime, the Bank increased its provisioning for it to be ready for potentially negative eventualities.

All in all, the Maltese economy showed remarkable resilience to the pandemic shock, thanks in good part to the public support schemes in which Bank of Valletta played a central role. The credit portfolio of the bank is also not being significantly distressed by the event. This said, it is crucial for economic activity to return to a situation of growth in the coming few months in order to avoid undue shocks.

While we believe that we are today closer to the end of the pandemic than we hoped to be this time last year, the fact remains that the road to economic recovery for certain business segments has just started.

The integrity of our firms and households is the most pressing matter at the moment. However, these times also provide an excellent opportunity to take a close look at our modus operandi and reassess our business models and operational strategies, to ensure that once the pandemic is over, we are best prepared for the post-COVID world.

FINANCIAL PERFORMANCE

During 2020, the Bank's financial performance was demonstrably impacted by the pandemic. The Bank registered a pre-tax profit of €15.2 million, driven by decreases in net interest income; decreases in revenues in card business; the increase in net impairment charges and non-performing loans; and an increase in operating costs mainly attributable to the introduction of an early retirement scheme, investments in employee reskilling and depreciation on our new IT core banking system.

As a result, the Bank's post-tax return-on-equity (ROE) decreased from 6.2 percent in 2019 to 1.3 percent in 2020. While this is a significant year-on-year decrease, it remains in line with that of other core Maltese banks which have published their 2020 results to date and above that of our European peers.

During the first quarter of 2021, the financial results of the Bank were much in line with that of last year. Going forward, a high degree of uncertainty remains and the speed at which economies recover will dictate how fast the Bank's performance realigns with past trends.

I reiterate that I believe that our Bank, being the largest bank in the country, has the potential to deliver better returns in the longer term. At the present juncture of unsurpassed challenges, I am satisfied that Bank of Valletta remains profitable, liquid and strongly capitalised, while continuing to invest in technological and human capital.

The successful delivery of the Bank's Strategy will be key to this. Digitisation of processes, the re-organisation of our balance sheet and the improvement of customer experiences are essential to generate profitability on a durable basis.

From a more immediate perspective, the persistent low interest rate scenario has challenged banking business models world-wide, and the viability of banking services will thus increasingly rely on fees and charges. As the largest bank in Malta, we are committed to be industry leaders and take the decisions needed to safeguard the viability of our industry for the mutual benefit of our customers, our shareholders, our employees, and the local economy at large.

Going forward, the Bank is committed to decrease the level of cross-subsidisation of its services and undertakes to introduce a cost structure which reflects the underlying costs of providing particular services. Concurrently, the Bank undertakes to offer digital alternatives, which are often cheaper, safer and faster solutions for our customers.

The Bank will soon be introducing a customers' charter which will govern the introduction and revision of fees and charges from then on. The charter will ensure that the Bank's fees and charges are in line with a number of set principles, including the safeguarding of vulnerable customers, the cost-effectiveness of specific fees, and whether the proposed charge is in line with other objectives of the Bank. The charter will also oversee the ways in which the introduction of future charges is communicated to all stakeholders to ensure better understanding across the board.

The reliance on reasonable charges and fees together with the provision of less costly and more efficient service alternatives is not only a quest for financial returns: it is also the right thing for the Bank to do in order to support the transition of its customer base to improved and more-cost effective experiences and outcomes.

DIVIDENDS

As highlighted in past communications the regulators are not recommending the distribution of dividends, so as to ensure that the Bank is well positioned to meet the high demand on capital and support the local economy till the end of the pandemic. The Bank aims to resume the payment of dividends once the uncertainties surrounding the pandemic and the Deliumar case are resolved and sustainable profitability is ensured through the implementation of the transformation.

CONCLUSION

I would like to conclude by thanking you for your continued support to the Bank. Your sacrifices, together with the dedication and hard work of your staff, Executive Team and Board, have ensured that Bank of Valletta make it this far in its recovery and transformation path, and together, we will make it that the Bank is future-proofed for decades to come.

Dr. Gordon Cordina
Chairman
20 May 2021

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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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