

# ANNUAL GENERAL MEETING 2022

## CHAIRMAN'S SPEECH

Dr Gordon Cordina

Dear Shareholders,

It is my pleasure to address you for the third time at an Annual General Meeting. Once again it had to be held virtually however, I look forward to meeting you in person at our information session on 15<sup>th</sup> June. The period since the last meeting has been a turbulent one in the international scene. As we finally began to see the end of the COVID-19 pandemic, we found ourselves in conflict in Europe, with economic impacts already affecting prices in general, and which may even affect the global economic pace.

With regard to the local economic scenario, we have started to recover in tourism and related sectors, and activity in other sectors is also progressing well. We look forward to getting our country off the grey-list, and welcome the challenge of corporate tax reform as an opportunity to improve our country's competitiveness in a number of areas, most notably those with high added value.

As a bank, we are proud of the way we have handled the pandemic. Over the last two years we maintained our commitment to continue to provide services to our customers while continuing to sustain economic activity in these particularly difficult times.

As I have already mentioned many times before, the main purpose of the Board is to pave the way for the payment of a stable dividend. We mentioned that the litigation case in Italy was a major obstacle that was hindering us from reaching this goal. In this regard, the Bank has relentlessly maintained its strong legal position, and has been willing to come to a conclusion with its offer in the shortest possible time. Today we can look ahead from a position where this obstacle has been removed. This has already translated into a substantial improvement in the Bank's share price, which has risen by around 25% since the last general meeting.

The compensation amount represents the Bank's risk assessment of the likelihood and impact of the results under a wide range of scenarios. It should be noted that in some of these scenarios the possible outcomes for BOV were materially worse and far more damaging in terms of costs for the Bank. In view of this, the Board considered that it would have been wiser to obtain a clearer indication of the expectations of Deiuemar's creditors, and to reach an amicable solution where both sides could close the matter with an acceptable compromise.

Another objective, perhaps even more important, is to return to stronger and more sustained levels of profitability, a task which had already begun last year, but which must continue to be supported by the Bank's transformation strategy. This will lead to offering more modern services, while improving the cost-effectiveness of delivering our services to our customers.

Meanwhile, the Bank has continued to step up its efforts to protect itself and Maltese society against financial crime. This is indeed a national priority to sustain financial services activity in our economy, where substantial and ongoing efforts are expected to yield important results. The sanction that the Bank received from the regulator last year was an important warning of the need to invest in this area to improve our vigilance. It is fair to say that this sanction was not the result of any criminal activity that the Bank was financing.

As we strive and look forward to a better future, we are working with shareholders to translate our results into a dividend at the earliest opportunity. It will also be a pleasure for the Board and the Executive Committee to meet in person with you in a specific information session which will be held in two weeks time.

## **ECONOMIC UPDATE**

In 2021, the Maltese economy recovered from the shock caused by the pandemic. In real terms, Gross Domestic Product grew strongly [+ 9.4%], offsetting the significant decrease [-8.3%] recorded in 2020<sup>[1]</sup>. Positive developments in some sectors have made up for those sectors where the recovery fell short. This is in a context where public debt increased by around € 2.6 billion compared to the end of 2019 (before the pandemic). By the end of 2021, public debt in Malta therefore reached close to € 8.3 billion, corresponding to 57% of Gross Domestic Product [40.7% in 2019].

Gaming, information and communications services, and financial services sectors continued to grow even during the pandemic. However, some of these activities are either not within the Bank's risk appetite framework, or do not require accessive amounts of capital. On the other hand, other business sectors that are more dependent on bank lending have experienced a partial recovery. These include the fields of tourism and accommodation, which suffered the greatest shock when travel was restricted.

In 2021, activity in the housing and food sector improved, but remained about half that recorded in 2019, before the pandemic. Production in the transport and storage sector, as well as wholesale and retail trade, also remained below the 2019 levels, as these sectors depend on the number of incoming tourists. The administrative services sector also remained below pre-pandemic levels.

<sup>[1]</sup>Source: NSO News Release NR037/2022.

In 2021, lending to these four sectors together accounted for almost half (45.8%) [2020: 42.4%] of the Bank's lending to business customers. Accordingly, the Bank will continue to monitor closely and assess how the phasing out of government assistance during the pandemic could affect borrowers. Bank of Valletta will continue to play a key role in supporting the Maltese economy in the transition to a post-pandemic world, including collaboration with other financial operators such as the Malta Development Bank (MDB).

The latest Government figures show that the real growth of the Gross Domestic Product in Malta during the period 2022 - 2025 is forecast at around 4% per year. This is a lower economic growth rate than in the years before the pandemic, but is still strong, which should support the operations of borrowers.

The war in Ukraine, and its economic repercussions, is another unexpected blow the country has to face. Foreign prices were already rising before this conflict began, and the war continued to increase inflation. Imported inflation is affecting both the cost of living for households and the cost of production for businesses. To date, this external shock has been less severe than in other European countries. Just as it did during the pandemic, the Maltese Government offered subsidies to alleviate the impact on electricity bills, the cost of fuel and food. This is a temporary solution and from a risk management perspective it would be wise to plan for the eventuality of lasting international price increases.

In view of other emerging challenges, such as those related to Malta's future environmental obligations and changes in the international tax framework, it is time for the country to take a closer look at operations and re-evaluate business models, so that we can meet both current and future challenges. Bank of Valletta will continue to work to be the backbone of the Maltese economy.

## **THE BOV GROUPS' FINANCIAL ASPECT**

Profit before tax for financial year 2021 reached €80.7 million, a strong result compared to the €15.2 million profit registered in 2020. This led to a return on capital investment of 7.3%, a substantial increase of 1.4% over 2020.

This result is considered strong because 2021 was another challenging year both on a national and international level. A year when the pandemic continued to hit business badly but the bank remained focused and available to customers to overcome this difficult time.

The positive results, while auguring well for the future when more economic recovery from the pandemic is expected (although this is being somewhat overshadowed by the crisis in Ukraine), are also affected by higher costs. During the year the Bank continued to invest in its strategy, especially in investing in digital and data quality, as well as in further strengthening its position in the field of controls and compliance. An increase in operating costs was mainly due to increased investment in the IT sector along with other unforeseen recurring costs, such as the €2.6 million fine imposed by the FIAU, €1.4 million in refunds to customers impacted by card fraud and €4.8 million in contributions to the Depositor Guarantee Scheme.

The bank's main revenue increased when compared to 2020 and in some areas exceeded pre-pandemic levels. The Bank is also focused on non-performing loans. This effort has already resulted in the recovery of outstanding debt and is expected to continue to bear fruit in the near future.

During the first quarter of 2022, the Bank also registered a strong financial performance. As you all know by now, in recent weeks the bank reached an agreement on the Deilemar case with the result that the case in the Italian Courts has now been closed. Admittedly, the payment of €182.5 million will have a negative impact on the Bank's earnings this year, but despite this, the Bank's management is positive and is looking forward with more confidence now that the uncertainties surrounding this case are over. This puts the Bank in a good position to consider new opportunities that translate into growth and therefore more returns for the Bank's investors.

Despite the challenges already overcome, the Bank continues to enjoy strong and much-needed capital to continue to face new challenges. Successful implementation of the Bank's strategy will be a key factor in this. Digitizing processes, reorganising our balance sheet and improving the customer experience are key to generating long-term profitability.

From a more immediate perspective, the persistent scenario of low interest rates is challenging banking business models worldwide, and the viability of banking services will thus increasingly depend on fees and tariffs. As the largest Bank in Malta, we are committed to being the leaders of our industry and making the necessary decisions to safeguard the viability of the industry for the mutual benefit of our customers, shareholders, employees, and the local economy as a whole. In this way, the Bank will not only sustain its profits, but above all will be providing its customers with improved and more effective experiences in the delivery of its services.

## **DIVIDEND**

Further to the uncertainties brought about in the last few months, for the financial year 2021, the Board did not feel it had to recommend the distribution of the final dividends for this meeting. As the situation stabilises, with the Deiuemar case now behind us, the Board will be working more calmly towards a proper dividend recommendation while supporting the capital the Bank needs to continue to grow.

## **CLOSING STATEMENT**

I would like to thank you for your continued support to the Bank. Your sacrifices, together with the dedication and hard work of the Bank's employees, the Executive Committee and the Board, are ensuring that Bank of Valletta has reached an important juncture in its progress towards its transformation. Together we will get the Bank ready for the challenges it will face over the coming years.

I would like to extend my thanks to the Chief Executive Officer for his valuable work at the Bank. Under his leadership the Bank has strengthened governance in many areas, and we have been able to defend ourselves in one of the most difficult times of the pandemic. We have been relieved of the burdens of litigation which have been dragging for years. We have strengthened our structures, and prepared the Bank for the challenges and opportunities of the future.

This will be Mr. Hunkin's last address at our annual general meeting, as it is time for him to retire from his work at the Bank. Before inviting him to make his address, on behalf of the entire Board I would like to thank him for his work.

I now introduce our Chief Executive Officer, Mr. Rick Hunkin, to make his address.

**Dr Gordon Cordina**  
**Chairman**  
**2 June 2022**

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**