



Bank of Valletta

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BOV/430

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Capital Markets Rules, issued by the Malta Financial Services Authority:

Quote

INTERIM DIRECTORS' STATEMENT

January to March – Financial Year 2022

The BOV Group delivered a Profit Before Tax of €22.0 million for the first quarter of 2022, up by €12.7 million from the same period in 2021. This improvement reflects the ongoing but as yet incomplete recovery from the COVID-19 pandemic, further underpinned by encouraging economic activity. Notwithstanding, the Group anticipates evolving risks emanating from geo-political instability which may potentially impact the local economy and the Bank's business. Against these developments, the Group retains a cautious outlook especially in respect of its stance towards credit provisioning, with first quarter performance not necessarily representative of 2022 full year results.

The Group's revenues in the first quarter of 2022 were €58.4 million, up by 5% over the comparable period in 2021. This is mainly due to consistent growth in lending, particularly home loans coupled with increased revenues from payments and card business.

Operating costs for the first three months were higher by 3% versus the same period in 2021, mainly attributable to higher employee compensation costs driven by an increase in headcount as well as the Group's contribution to the Deposit Guarantee Scheme ('DGS') linked to higher customer deposit levels. Investment in BOV2023 Strategy continued with particular focus on transforming our processes and improving customer experience albeit at a relatively slower pace due to specific regulatory commitments whilst continuing to invest in strengthening risk governance and controls.

A net Expected Credit Losses ('ECL') reversal of €7.0 million contributed to profitability in the first quarter of 2022. This reflected more favourable economic circumstances positively affecting the expected performance of specific sectors and individually significant exposures coupled with better collateralised positions. Furthermore, a charge of €4.8 million was taken in the quarter with respect to long outstanding non-performing loans, supporting the Group's prudent approach. The Bank continues to actively assess its expected credit losses as economic prospects evolve.

The share of results from insurance associates decreased materially when compared to the same period in 2021 largely driven by a more cautious future outlook impacting the outcome of actuarial models.

Net loans and advances to customers increased by 2% during the first quarter of 2022. Growth was reported in both business and home loans, with the latter being the main driver. Customer deposits increased by 1% over the period, predominantly in shorter term deposits.

During the second quarter of 2022, the Bank intends to continue strengthening its Minimum Requirement for Own Funds and Eligible Liabilities ('MREL') position in line with ongoing regulatory requirements. The planned issuance of a senior preferred bond on the international market will be specifically undertaken to meet our MREL target for the foreseeable future.

Strategy BOV 2023

The Bank's ongoing digitalisation strategy is evolving by leveraging new technologies and adopting leaner processes with a view to increase efficiency and accuracy. In particular, the entire processes behind two core customer service offerings, namely home loans and investment services, continued to undergo extensive simplification and digitalisation in recent months through end to end streamlined digital processes that heighten customer centricity and user experience.

The Bank remains committed towards continuously enhancing the service offered through its extensive branch footprint by improving the working environment for our colleagues while enhancing the customer experience with a modern layout which seeks to decrease waiting times and augment privacy. Following the inauguration of the concept branch in Sliema in 2021, the modernisation of the branch network continued to progress swiftly with refurbishments now completed at the Paola, Siggiewi and Zurrieq branches.

The pace of transformational change continues to be critically balanced with the Bank's obligation to deliver superior controls in line with regulatory requirements. To this end, the Bank continues to invest heavily in strengthening and digitising its Risk, Compliance and Audit functions. This investment enables BOV to remain resilient and sustainable while significant efforts are being dedicated to minimise any negative impacts on customers.

Russia / Ukraine conflict

The Bank continues to monitor and assess new developments for potential impact to the Bank's position and asset quality following the Russian invasion of Ukraine earlier this year.

Within its loan book, the Bank is not significantly exposed to Russia or Russian nationals. Additionally, exposures stemming from Ukraine, or its bordering countries are also low and insignificant when compared to the total lending portfolio.

The Bank is reviewing closely the possible economic and business effects as both Russia and Ukraine are major exporters of key global inputs, in areas such as energy, metals and crops. Malta's direct trade links with both countries are small and concentrated in specific products. However, the indirect effects, stemming from the price dynamics of products traded in international markets, as well Malta's other trading partners' economic dependence on Russia and Ukraine, make this adverse supply shock of direct relevance to businesses and households in Malta.

Consequently, the Bank carried out an impact assessment to gauge the indirect impact of the Russian-Ukraine conflict on those sectors that may be impacted due to supply bottlenecks for a number of resources or materials. The Bank simulated three different severity scenarios, and is satisfied that even in the most stressful of these scenarios the Bank would be able to absorb the adverse impact. The

situation will continue to be monitored, given the possibility that the fluid situation could potentially deteriorate.

Notes

The financial information on which this Interim Directors' Statement is based, is extracted from unaudited accounts of the Group which are prepared in accordance with the Group's accounting policies as described on pages 50 to 65 of 2021 ESEF Annual Report & Financial Statements.

Unquote



Dr. Ruth Spiteri Longhurst B.A., LL.D.
Company Secretary

5 May 2022