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BOV 465/2023

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

QUARTERLY FINANCIAL OVERVIEW
January to September – Financial Year 2023

GROUP FINANCIAL PERFORMANCE

BOV Group continued to deliver robust financial performance in the third quarter of the year with strong net interest income and capital generation alongside resilient asset quality. Profit before tax for the nine months was €163.5 million compared with a loss before tax of €48.7 million, as restated, in the comparative period. Group profits have been restated by €7.0 million in share of results from insurance associates, reversing a €5.4 million loss in September 2022. This was a result of the implementation of IFRS 17 by the Group's associated companies, which accounting standard introduced a new methodology for the valuation of insurance contracts. The performance of the Group in 2022 was impacted by the out-of-court settlement of the Deiulemar case. Excluding the impact of the settlement, the Group's results for the comparative period were a profit before tax of €54.8 million restated.

The favourable performance for the first three quarters of 2023 was attributable mainly to the improvement in the Group's operating revenues totalling €315.9 million, a growth of €113.7 million or 56% compared with the same period in 2022 (9M 2022: €202.3 million):

- Net Interest Income continued to be the dominant catalyst with €253.8 million (9M 2022: €137.3 million), an increase of €116.5 million or 85% compared to the same period in the prior year, reflecting a further growth in customer lending and proprietary investment portfolios. Furthermore, the upward repricing of interest rates, a larger investment book coupled with positive returns on liquid assets invested short-term continue to substantially benefit the interest income revenues. Higher interest expense was also registered this financial period primarily due to the 10% Callable Senior Non-Preferred Notes, issued by the Bank in 4Q 2022 to meet regulatory requirements.

- Net Fees and Commissions, Exchange and other revenues amounted to €62.1 million, down by €2.8 million or 4% (9M 2022: €65.0 million). Net commissions declined by €0.8 million, or 2% vis-à-vis the same period last year mostly due to the removal of deposit-related fees to corporate customers and a persisting slowdown in investment-related commissions. The latter was partially compensated for by growth in advances and capital markets related commissions.

- Operating costs in the first three quarters of the year amounted to €139.0 million (9M 2022: €132.3 million) an increase of €6.7 million or 5% compared to the same period in 2022. This net movement is owing to lower regulatory costs and professional fees offset by further investment in human resources and digitisation efforts.

Net Expected Credit Losses ('ECL') for the period to September 2023 was a net charge of €13.1 million (9M 2022: €10.1 million net charge). This charge represented business growth and stronger coverage against specific exposures with increased risk offset by releases in ECL on facilities with improved collateral coverage or reduced outstanding balances.

The Bank's policy to build a robust coverage against high-risk non-performing exposures persists with a €3.7 million charge as part of the total net ECL charge for the period. Write-off of non-performing debt (net of recoveries) amounted to €1.8 million charge. As per Company Announcement (BOV461), the Bank is currently in advanced negotiations to sell a portion of its portfolio of non-performing loans with a view to strengthening its capital and liquidity buffers, and to ensure that the Bank's resources are focused on servicing loans with a better prospect of recoverability.

As at 30 September 2023, the ECL coverage for credit-impaired assets stood at 53.6% (December 2022: 53.8%) while the ratio of non-performing to the total credit portfolio stood at 4.0% (December 2022: 3.5%).

The Bank sustained its momentum in executing strategic actions, with the Bank allocating an additional €6.7 million in the first nine months of 2023 (9M 2022: €6.6 million).

The share of profit from insurance associates for the first three quarters of 2023 amounted to €6.4 million, aligned with the recently adopted IFRS 17 standard implemented by the associates (9M 2022: €1.5 million restated).

GROUP FINANCIAL POSITION

The Group's Total assets reduced by €118.8 million and stood at €14.4 billion as at the end of the third quarter of 2023, lower by 1% compared to the year ended 2022 (December 2022 restated: €14.5 billion). The decrease was driven by lower levels in customer deposits while still supporting growth in the loan book and further investment in treasury securities. The Group's liquidity ratio as at 9M 2023, stood at 458.5%, up from 426.3% as at December 2022, significantly above the minimum regulatory requirement. Effective management of surplus liquidity was upheld in the first nine months of the year with cash and short-term assets decreasing by 35% or €1.2 billion.

During the period to September 2023, the Bank assisted both the business and personal clients with their funding requirements, leading to a net expansion in the loan portfolio of €401.5 million or 7%. In view of the increased investment opportunities, the treasury portfolio increased by €556.8 million or 12%. The vast majority are measured at amortised cost reflecting the Bank's primary business model to hold securities until maturity with a view to collecting interest revenues over the life of the investment.

Customer deposits contracted circa 1% in the last quarter and 4% since December 2022, in line with the Bank's expectations given the current market conditions with positive interest rates and various investment opportunities including within the local market such as Malta Government Bonds and other private issues.

Net loans and advances to customers as at 30 September 2023 amounted to €6.0 billion (December 2022: €5.6 billion). The increase in loans was experienced both in the corporate and retail lending portfolios. These developments led to a favourable increase in the Group's net loans to deposits ratio from 46.0% in December 2022 to 49.5% as at the end of September 2023.

Total Group Equity increased to €1.2 billion, up by €108.5 million on the December 2022 position, as restated. Group equity as at end 2022 has been restated, against the Investment in equity-accounted investees, to reflect the new value of investment following IFRS 17 implementation. The Group's capital ratios remained strong and above regulatory requirements, with the CET 1 and total capital ratios as at September 2023 of 22.7% (December 2022: 21.8%) and 26.1% (December 2022: 25.4%), respectively. The 2023 capital ratios are inclusive of 9M 2023 profits and proposed interim dividend for comparative purposes.

The Group's net asset value as at 30 September 2023 amounted to €1.2 billion resulting in €2.1 net asset value per share (December 2022: €1.1 billion restated resulting in €1.9 net asset value per share).

ECONOMIC UPDATE

The current international economic environment is characterised by subdued growth, dragged by the high inflationary environment and the monetary policy tightening implemented over the past months. The interest rate increases carried out by the ECB since July 2022 have pushed rates to historically high levels, quickly reversing the prolonged period of exceptionally low rates. There is broad consensus that rates are close, if not already, at the peak, particularly as headline inflation across the euro area has started to trend downwards. However, ECB rates are likely to remain high for some time, until there are clear indications that the euro area inflation has embarked on a path which is consistent with the ECB's 2% medium term inflation target.

The Maltese economy has so far been mostly shielded from the interest rate shock, as the pass-through has been mostly channelled to the bond market via higher yields, and in those cases where interest rates are directly linked to foreign rates. BOV's large deposit base allows it to benefit from the ECB's attractive returns on the deposit facility and achieve higher yields from its bond portfolio, thus supporting the Bank's net interest income. The structure of BOV's balance sheet allows the Bank to continue offering mortgages and most business loans at attractive rates, while obtaining higher returns from loans linked to foreign rates. BOV believes that the decision to limit the pass-through of interest rates to the domestic economy remains adequate, as demonstrated by the Bank's profitability and balance sheet dynamics. This has also potentially avoided more pressures on households and most businesses on top of those created by the elevated inflation rate. Despite the energy subsidies provided by the government, Malta's inflation is proving more persistent than originally anticipated, and thus remains the main area of concern, as in the rest of the euro area.

Against this background, the Maltese economy has remained resilient during the nine months to September 2023, achieving annual real GDP growth rates of 5.0% and 3.9% during the first two quarters, driven by household consumption and exports. Economic growth has remained significantly above that recorded in the euro area, auguring well towards the attainment of the full year's outturn, which latest forecasts place close to 4%. Labour market conditions are also expected to remain stable, with Malta's unemployment rate, hovering below 3%, amidst ongoing job creation. Such benign conditions support borrowers' repayment capabilities and therefore maintain BOV's asset quality.

STRATEGY 2023 UPDATE

During the last quarter, the Bank worked diligently to further enhance banking services, improve customer experiences, and increase operational efficiency. To date, substantial strides were made in these key focus areas.

The strategy remains firmly anchored on business process re-engineering, a critical move designed to enhance operational efficiency, reduce costs, and improve the Bank's financial performance. The Bank has been making significant strides in streamlining its processes, eliminating redundancies, and automating routine tasks, allowing its teams to focus on more strategic, value-adding activities.

In line with its commitment to uphold the highest standards of corporate governance, the Bank continues to make significant investments in ensuring full compliance with its regulatory obligations. The Bank has worked closely with regulatory bodies and established robust systems and processes to meet and exceed its compliance requirements.

Recognising the increasing role of technology in shaping the future of banking, the Bank has been making considerable improvements to its digitisation efforts. The Bank is utilising emerging technologies to digitise its operations, enhance its online platforms, and offer innovative digital banking solutions to its customers by leveraging the Voice of the Customer insights.

The Bank's focus on customer service experience remains unwavering. The Bank is continually working on enhancing its customer service delivery, product offering with a keen emphasis on personalisation, responsiveness, and convenience. The Bank is also making significant improvements to its retail network, with an aim to expand its reach, enhance its service delivery, and offer its customers a seamless banking experience.

Employees are the backbone of the organisation, and their welfare is paramount to the Bank's success. The Bank is undertaking several initiatives to enhance employee satisfaction and productivity. These include improved training programs, employee wellness programmes, flexible work arrangements, competitive compensation packages and a more inclusive and diverse work environment. The Bank is committed to maintaining open and transparent communication with its employees about its strategic direction. This helps employees with the Bank's goals and fosters a sense of ownership and pride in their work.

Finally, the Bank remains committed to its Environmental, Social and Governance ESG goals. The Bank understand that its role as a bank extends beyond providing financial services – the Bank has a responsibility towards society and the environment. The Bank has consciously integrated ESG considerations into its business decisions and is working towards creating a more sustainable, inclusive, and responsible banking model.

The Bank's focused strategy and commitment to operational excellence, customer satisfaction, and responsible banking will steer us towards sustained growth and success.

BOV
Bank of Valletta

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ('ESG') UPDATE

The Bank continues to target its efforts towards conducting sustainable and diligent banking. This is in line with the growing appetite from customers and investors alike who seek sustainable financing and investing solutions.

At the start of the third quarter of 2023, the Bank launched Climate & Environmental (C&E) questionnaires aimed at corporate clients operating in elevated risk sectors with material credit exposure. This collection of information seeks to achieve a better understanding of the Bank's corporate customers' transition journey. This proactive approach will provide valuable insights directly from its clients, allowing the Bank to align its product offerings that better satisfy the clients' evolving needs to adjust towards a more sustainable business model. In the future, ESG questionnaires will form part of the Bank's credit annual review and as well as the Bank's assessment when lending to new corporates operating within the elevated risk sectors.

During 3Q 2023, through a Remuneration Policy Working Group, BOV intensified the process of actively integrating Climate & Environmental targets into the variable component of remuneration for top management personnel.

Moreover, the Bank continuously strives to address social risk matters by providing support to vulnerable members of society. Particularly, during the month of September, the Bank took several initiatives to show support for the LGBTIQ+ community as part of Pride week taking place in Malta. The Bank practices inclusion of the LGBTIQ+ community to ensure all employees and customers feel safe and comfortable. It aims to use inclusive and gender-neutral language, avoids stereotypes and promotes education about the LGBTIQ+ community amongst its workforce.

Notes

The financial information on which this Quarterly Financial Overview 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 55 to 70 of 2022 ESEF Annual Report & Financial Statements.

Unquote

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

2 November 2023

Statements of profit or loss

For the nine months ended 30 September 2023

	The Group		The Bank	
	Sep-23	Sep-22 restated	Sep-23	Sep-22
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	240,266	140,764	240,266	140,764
- on debt and other fixed income instruments	48,872	17,465	48,872	17,465
Interest expense	(35,349)	(20,942)	(35,349)	(20,942)
Net interest income	**253,789**	**137,287**	**253,789**	**137,287**
Fee and commission income	63,862	64,830	57,693	57,936
Fee and commission expense	(10,177)	(10,322)	(10,177)	(10,322)
Net fee and commission income	**53,685**	**54,508**	**47,516**	**47,614**
Dividend income	1,277	557	8,339	9,303
Net trading income	7,260	9,972	7,239	9,949
Net loss on investment securities and hedging instruments	(80)	(75)	(80)	(75)
Operating income	**315,931**	**202,249**	**316,803**	**204,078**
Employee compensation and benefits	(82,256)	(71,636)	(80,312)	(69,794)
General administrative expenses	(48,402)	(52,705)	(47,017)	(51,357)
Amortisation of intangible assets	(9,670)	(8,638)	(9,595)	(8,638)
Depreciation	(5,411)	(5,933)	(5,374)	(5,886)
Net impairment charge	(13,099)	(10,070)	(13,100)	(10,070)
Operating profit before litigation settlement	**157,093**	**53,267**	**161,405**	**58,333**
Net Litigation settlement charge	-	(103,513)	-	(103,513)
Operating income/(loss)	**157,093**	**(50,246)**	**161,405**	**(45,180)**
Share of results of equity-accounted investees, net of tax	6,380	1,537	-	-
Profit/(loss) before tax	**163,473**	**(48,709)**	**161,405**	**(45,180)**
Income tax (expense)/credit	(54,720)	17,442	(56,174)	16,095
Profit/(loss) for the period	**108,753**	**(31,267)**	**105,231**	**(29,085)**
Earnings per share	**18.6c**	**(5.4c)**	**18.0c**	**(5.0c)**

Statements of Financial Position

as at 30 September 2023

	The Group			The Bank	
	30-Sep-23	31-Dec-22 Restated	1-Jan-22 Restated	30-Sep-23	31-Dec-22
	€000	€000	€000	€000	€000
ASSETS					
Balances with Central Bank of Malta, treasury bills and cash	2,208,561	3,389,261	4,626,066	2,208,561	3,389,261
Financial assets at fair value through profit or loss	113,568	146,363	138,986	113,288	146,211
Investments	5,156,683	4,567,064	3,568,669	5,156,683	4,567,064
Loans and advances to banks	531,277	394,546	452,469	531,277	394,546
Loans and advances to customers at amortised cost	5,961,557	5,560,076	5,097,598	5,961,557	5,560,076
Investments in equity-accounted investees	105,446	100,206	99,735	72,870	72,870
Investments in subsidiary companies	-	-	-	6,230	6,230
Intangible assets	50,753	56,047	56,074	50,617	55,836
Property and equipment	131,928	132,691	130,622	131,872	132,605
Current tax	-	20,706	28,640	-	21,017
Deferred tax	50,547	67,898	84,563	50,466	67,872
Assets held for realisation	12,451	12,138	11,740	12,451	12,138
Other assets	12,206	7,227	5,423	14,495	7,227
Prepayments	18,987	18,521	12,091	17,251	16,112
Total Assets	**14,353,964**	**14,472,744**	**14,312,676**	**14,327,618**	**14,449,065**
LIABILITIES					
Derivative liabilities held for risk management	11,766	4,535	5,485	11,766	4,535
Amounts owed to banks	298,823	77,074	560,117	298,823	77,074
Amounts owed to customers	12,040,113	12,547,911	12,176,854	12,045,352	12,554,584
Current tax	21,040	-	-	23,451	-
Deferred tax	7,031	7,054	6,717	7,031	7,054
Other liabilities	194,235	191,552	203,141	193,845	191,284
Provisions	19,564	16,518	104,449	19,414	16,368
Derivatives designated for hedge accounting	1,259	2,167	12,157	1,259	2,167
Debt securities in issue	376,450	350,260	-	376,450	350,260
Subordinated liabilities	162,717	163,237	163,237	162,717	163,237
Total Liabilities	**13,132,998**	**13,360,308**	**13,232,157**	**13,140,108**	**13,366,563**
EQUITY					
Called up share capital	583,849	583,849	583,849	583,849	583,849
Share premium account	49,277	49,277	49,277	49,277	49,277
Revaluation reserves	56,468	57,212	58,438	56,356	57,100
Retained earnings	531,372	422,098	388,955	498,028	392,276
Total Equity	**1,220,966**	**1,112,436**	**1,080,519**	**1,187,510**	**1,082,502**
Total Liabilities and Equity	**14,353,964**	**14,472,744**	**14,312,676**	**14,327,618**	**14,449,065**