Bank of Valletta

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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 2024

SUMMARY

The Bank of Valletta Group has achieved strong financial results for the nine months ending September 2024, generating a profit before tax of €223.7 million, up by 36.9% over the same period in the prior year (3Q2023[1]: €163.5 million). This translates into a 22.5% pre-tax Return on Average Equity, representing approximately an improvement of 3.8% over the equivalent number recorded in the same period last year. These positive results have been achieved from the key business areas of the Bank, including credit and investments, and reflect the Bank's continuous focus towards operational efficiency, customer centricity and sustainable growth.

The Group's operating income amounting to €359.2 million for this period (3Q2023: €315.9 million) is the result of the continuous expansion of loan portfolios, a drive to improve and diversify net fee and commission income as well as continued effort on the balance sheet optimisation strategy. The latter is reflected in the fact that the 50bps reduction in ECB interest rates over the nine months did not result in marked reductions in interest income. The Bank has been steadily investing in longer-term high-quality assets which should guarantee more stable income streams over the coming months and years, in an environment where interest rates are foreseen to continue heading downwards to the 2% medium-term target, as inflation subsides.

The main driving force for the sustained positive performance was the credit portfolio where the year-to-date growth has exceeded 9%, which is more than what was achieved during the full year of 2023. The strong results were achieved across the whole book, where both commercial and retail business lines managed to register high levels of drawdowns and increased sanctioned amounts, with the latter auguring well for future balance sheet growth. The positive performance was also prevalent on the asset quality side, where the overall non-performing exposures ratio decreased to 2.8% of total balances, as compared to 3.1% in December 2023. This was reflected in the cumulative impairment changes where a €9.5 million impairment reversal was registered. The coverage ratio on the non-performing assets has also been strengthened during the period, increasing to 44.9% from the 43.9% of the 2023 year-end position.

The investments book maintained an upward trend and increased to €5.9 billion as a result of the purchase of high-quality paper instruments, generating interest income of €92 million over the nine-month period under review. On the liabilities side, one notes that customer deposits increased by 1% since the beginning of the year, with the increase coming both from personal and non-personal customers.

[1] The term '3Q2023', 'period' and '3Q2024' throughout the Company announcement refers to the period January to September.

Operational efficiency continues to attract high level of focus within the Bank's financial management, with the cost-to-income ratio standing at 42.1%, driven by cost management and procurement excellence initiatives. The investment in technology, business process reengineering and above all, the customer experience focus are components making up the Bank's transformation strategy for the longer term which are delivering positive financial and operational efficiency results. Operational Resilience has also been at the forefront of the Bank's agenda with several actions being taken forward to prepare the Bank for DORA regulatory requirements. The Bank continues to invest heavily in its IT security infrastructure to ensure that emerging risks are properly mitigated and actioned upon in a proactive manner.

During the period under consideration, the Bank has also continued to optimise its capital and liquidity management with advanced preparations for the introduction of upcoming related regulations, with the most material one being the Capital Requirements Regulations (CRRIII). From a capital perspective, this regulation, which will become effective as from 1st January 2025 brings about significant changes to the way that the Bank will need to account for risk weighted assets and related capital allocations for specific asset classes. In order to ensure that the Bank has sufficient capital buffers to cater for the projected growth in its loan book, a capital issuance has been announced aimed at strengthening the Bank's Tier 2 capital reserves by the end of this year. Through this initiative, the Bank is committing itself to continue servicing the market in its financing requirements, at both the business and personal levels.

The Bank has commissioned an independent study with respect to measures intended to optimise shareholder value. It is expected that the board will deliberate on the outcome of this study by the end of the year. From a dividend perspective, at the beginning of October 2024, and as also announced in the recent company announcement having reference BOV493, the Bank has declared an interim cash dividend of €0.0924 gross per share (€0.06 net of tax). This is equivalent to a gross dividend amount of €53.8 million out of profits for the 6 months (€35 million if considered net of tax) with a payout ratio of 36%.

SHORT-TERM ECONOMIC OUTLOOK

In recent months, the economic landscape progressed in line with the Bank's expectations. Following the June interest rate cut, the European Central Bank lowered interest rates again in September and in October. The ECB's Deposit Facility Rate has so far been reduced by 75 basis points from its peak. The likelihood remains that more easing will take place over the coming months, as inflationary pressures across the euro area abate further. BOV is well-prepared for this new scenario. The overall financial effect from the ECB's rate reduction path has been contained so far, and is expected to remain limited, thanks to the strategic shift in the balance sheet towards longer term assets held to maturity, and the expansion in the loan portfolio.

The latest economic statistics and forecasts point to relatively benign conditions in Malta, with positive effects on the Bank's business development initiatives and the quality of its assets. The economic outlook has not changed much in recent months as the robust economic growth momentum persisted, with real GDP expanding by 5.9% in the first half of 2024. In turn, the annual inflation rate eased to slightly above 2% in recent months and is expected to proceed around this level in the absence of unexpected shocks. The unemployment rate is projected to remain stable around its historic low of 3%. At a sectoral level, activity related to tourism and real estate maintained a positive performance. These sectors are a major component of the Banks' portfolio. Looking forward, the Bank will continue to sustain economic growth within a wider development context of increasing productivity and investment in ESG dimensions, which are fundamental bases for longer-term business competitiveness and credit quality.

FINANCIAL PERFORMANCE HIGHLIGHTS

The table hereunder provides a summary of the Group's financial performance during the period:

	Net Interest Income	Net fee & Commission Income	Profit before tax	Return on Average Equity (pre-tax)	Cost-to-Income Ratio	Gross Loans to Deposit Ratio	CET 1 Ratio
	€ m	**€ m**	**€ m**				
3Q2024	290.5	56.6	223.7	22.5%	42.1%	55.7%	22.5%
3Q2023	253.8	53.7	163.5	18.7%	46.1%		
Dec2023						51.7%	22.7%
Change in €	+36.7	+2.9	+60.2				
Change in %	+14.5%	+5.4%	+36.9%	+3.8%	-4.0%	+4.0%	-0.2%

Key Financial Metrics

- **Net Interest Income:** Continued efforts in this core business area of the Bank during the first nine months of 2024, has resulted in an increase in Net Interest Income of €36.7 million with a total for the period of €290.5 million or an increase of 14.5% when compared to the same period in the prior year (3Q2023: €253.8 million). This brought about an additional expansion in both the customer lending and proprietary investment portfolios over the last twelve months, as well as improved deposit rates achieved on cash balances. The interest expense was broadly on the same levels as those prevailing in the previous year with the main impact driven by the MREL bond.

- **Net Fee and Commission:** This source of income reached €56.6 million (3Q2023: €53.7 million), marking an increase of €2.9 million, or 5.4% compared to the same period last year. Credit-related and Trade Finance activities maintained positive momentum, with notable improvements in card and investment-related fee income. This source of income remains a very important revenue stream for the Bank as it ensures a diversified balance of revenue sources which will sustain the Bank's operating profit going forward.

- **Operating Costs:** When excluding strategy related costs, these costs were registered at €144.5 million (3Q2023: €139.0 million), an increase of €5.5 million or 4.0% compared to the same period in 2023. This increase aligns with the Group's continued efforts to prioritise talent development, compensation and benefits, technological advancements and regulatory compliance. The Bank continued to focus on its procurement excellence methodology ensuring that operational costs and human resources are optimised. The capacity planning program introduced during the year is now moving to a new phase aiming to streamline operations and optimise resource allocation. This exercise ensures that the Bank is equipped with the skills and knowledge to thrive in a rapidly evolving industry whilst enhancing professional growth for our employees as part of the Bank's transformation journey. The total Cost-to-Income ratio as at the end of September stood at 42.1% which is 4.0% lower than the 46.1% achieved in the same period in 2023.

- **Strategy:** The spend for the period in this respect amounted to €6.8 million, which is marginally higher than the €6.7 million reported in 3Q2023. During this reporting period, the Bank continued to invest in its strategic initiatives, with a particular focus on technological advancements.

- **Net Expected Credit Losses (ECL):** ECL movements amounted to a net release of €9.5 million (3Q2023: €13.1 million net charge) which was influenced mainly by asset grading quality improvements as well as strengthened collateral positions. The Bank's NPL strategy factors in various measures to improve its losses including obtaining higher coverage against high-risk non-performing exposures to improve recoverability. Despite the decreased ECL, the Stage 3 coverage ratio increased by 100bps during the period to 44.9% (December 2023: 43.9%). The ratio of non-performing loans to the total credit portfolio continued to decrease and stands at 2.8% (December 2023: 3.1%). The net value of non-performing debt written-off, after recoveries, is negligible for the period.

GROUP FINANCIAL POSITION

- **Total Assets:** The Group's total assets stood firm at €14.5 billion as at the end of September 2024, showing minimal change from the end of 2023 (December 2023: €14.5 billion). The Bank's strong asset base is reflective of a steady growth and strong market position along the years, backed up by a sticky deposit base which continued to increase during the nine months.

- **Cash and Short-Term Funds:** During the first three quarters of 2024, the Bank continued to actively optimise its Balance sheet to enhance financial stability and performance. The decline in cash and short-term funds by €1.1 billion or 46.7% as at the end of September 2024 compared to December 2023 portrays the deployment of liquid assets in its Treasury portfolio increasing by €542.1 million and the expansion in quality credit by an additional €561.0 million compared to December 2023.

- **Treasury Investments:** The Bank's treasury portfolio has seen significant growth, with a 10.1% uplift in balances during the period under review to reach €5.9 billion (December 2023: €5.4 billion). Most of these investments are measured at amortised costs, aligning with the Bank business model to hold securities until maturity to collect interest revenues. The portfolio is made up of highly rated securities ensuring a low-risk profile and stable returns and manageable risk weighted assets consumption.

- **Net Loans and Advances to Customers:** The credit portfolio (on a net basis and including Fair Value and Loss loans) has shown consistent growth with the balance as at end of September standing at €6.7 billion (December 2023: €6.2 billion), resulting in a 9.1% increase primarily due to sustained growth across all segments including business loans, home loans and personal loans, whilst also maintaining a strong focus on credit quality. Consequently, there has been a positive increase in the Group's gross loan-to-deposits ratio from 51.7% in December 2023 to 55.7% as at the end of September 2024.

- **Customer Deposits:** Deposits experienced a marginal increase of €122.0 million or 1.0% continuing with the trend in the previous quarter and resulting in a closing balance of €12.3 billion (December 2023: €12.2 billion) with the main increase resulting from business deposits and by a lesser amount retail deposits.

- **Liquidity:** The Group's liquidity remains well above the minimum regulatory requirements, with the LCR ratio at the end of September 2024 being 372%, up from the 362% outstanding as at December 2023.

- **Total Group Equity:** The Group's total equity was registered at €1.4 billion, an increase of €117.6 million or 9.3% compared to December 2023 position. The Group's capital ratios remained strong and above regulatory requirements, with the CET 1 and total capital ratios as at September 2024 of 22.53%[2] (December 2023: 22.66%) and 25.63%[2] (December 2023: 25.94%), respectively. The net asset value per share at the end of the third quarter of 2024 stood at €2.4 per share (December 2023: €2.2 per share).

STRATEGY IMPLEMENTATION

STRATEGY UPDATE

During this quarter focus remained anchored around the optimisation of the Bank's human, financial and other material resources to deliver on the Bank's Strategy 2024–2026. As at end of September, the Bank had 48 ongoing strategic initiatives, with 32 initiatives successfully completed. The Bank's key performance indicators demonstrate that the Bank's project management capabilities are increasingly improving, with the deployment of both predictive and agile methodologies and practices. The results reinforce the Bank's ambition to automate even more processes and strengthen its digital footprint across the organisation.

During this quarter, refurbishment works peaked with the upgrade of the Bank's Republic Street Valletta branch, positioning this as the Bank's flagship branch driven by modern, faster and more secure banking services. This development reaffirms the Bank's commitment to strike a bold balance between physical and digital channels to allow our customers their choice of service channel.

For the Bank's commercial customers, an automated application for the BOV SME Invest Package was launched, and the restructuring of the Bank's Business Centres is also well underway. At the personal customer levels, work is also progressing on the simplification of customer onboarding as well as the automation of deceased customer administrative requirements alongside various other similar initiatives. The Bank is also continuously monitoring identified risks associated where a number of initiatives are being taken forward aimed to implement mitigation actions as part of its strategic alignment and governance measures.

On a more general note, Bank of Valletta is dedicating efforts to enhance its competencies in customer service excellence, leadership development, digital upskilling, innovation, as well as those in the ESG space. Digitalisation continues to be high on the Bank's agenda, as it continues to strengthen the required foundational pillars towards this end through Cloud enabled platforms and improved data management capabilities. At the same time, ongoing training and upskilling programs and engagement initiatives, supported by employer branding campaigns continue to be key in attracting and retaining the best talent.

Looking ahead, the Bank remains strongly committed to adapting its business and operational model to market dynamics, continue driving innovation across products, services and processes and foster an organisation-wide culture of service excellence. All these initiatives will enable the Bank to strengthen its focus on stakeholder value, customer centricity and operational efficiency, and equally sustain its performance in the years ahead of us.

[2] The capital ratios are exclusive of profits for the third quarter. Retained earnings are added to the capital ratio computations upon publication of the interim and annual results.

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ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) UPDATE

The Bank continues to make significant progress in its Environmental, Social, and Governance (ESG) strategy, with a robust governance framework in place to meet the evolving demands of sustainability and regulatory standards. A key focus for the 2024-2026 period remains the reduction of Scope 1 and Scope 2 carbon emissions. BOV's ongoing climate transition efforts have seen further developments this quarter with ongoing visibility on the calculations of its scope 1, 2, and 3 emissions. The Bank has its own Climate Stress Test modelling, as well as other scenario analysis to guide strategic planning. This enables the Bank to anticipate and adapt to various climate-related risks and opportunities.

BOV continued to demonstrate its commitment to embed sustainability at the core of its risk management processes. One of the critical steps taken this quarter was the introduction of a risk indicator which monitors the Bank's wealth management investment towards companies active in the fossil fuel sector. The Bank aims to reduce and retain a minimum percentage towards such industry in the referred portfolio. This initiative not only supports broader strategic goals but also safeguards the long-term financial resilience of the Bank.

Performance management and remuneration frameworks fully embed ESG considerations. The key performance indicators constitute 10% of the Bank's corporate objectives, directly impacting the corporate portion of performance bonuses for employees, reinforcing a shared commitment to sustainability across the organisation.

During the third quarter of the financial year 2024, the Bank launched its green home loan products; 'Green Home First' and 'Green Home Plus'. These loan options provide prospective homeowners with access to discounted interest rates for financing either their primary or secondary residence, should they have an eligible Energy Performance Certificate (EPC) at the application stage. This initiative not only aims to make homeownership more affordable but also underscores the Bank's dedication to fostering energy-efficient and eco-friendly housing solutions for a sustainable future.

The Bank continues its progress toward full compliance with the Corporate Sustainability Reporting Directive (CSRD). During the third quarter, BOV's focus has been on aligning its operations with the European Sustainability Reporting Standards (ESRS). These improvements are designed not only to enhance compliance but also to provide a more robust foundation for our ESG strategy moving forward.

In addition, the Bank is currently engaged with third parties to enhance the materiality assessment following the new risks reports submitted by the EU Commission, which includes, inter alia, nature and biodiversity. The concept is to completely align to the specificities of Malta and the EU, to further assess the Climate and Environmental Hazards, both on a micro level basis, and sectorial. The enhancement foresees the quantification of the financial incurrence of the physical and transition risks per sectors.

In conclusion, BOV has made considerable progress over the past quarter in its ESG journey. From setting ambitious emissions reduction targets to aligning with the latest reporting standards, it is building a foundation for long-term sustainability and financial resilience.

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 79 to 91 of 2023 ESEF Annual Report & Financial Statements.

Unquote

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

31 October 2024

Statements of profit or loss
For the nine months ended 30 September 2024

	The Group		The Bank	
	Sep-24	Sep-23	Sep-24	Sep-23
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	237,438	240,266	237,438	240,266
- on debt, other fixed income instruments and derivatives	92,023	48,872	92,003	48,872
Interest expense	(38,919)	(35,349)	(38,919)	(35,349)
Net interest income	**290,542**	**253,789**	**290,522**	**253,789**
Fee and commission income	69,184	63,862	62,726	57,693
Fee and commission expense	(12,622)	(10,177)	(12,622)	(10,177)
Net fee and commission income	**56,562**	**53,685**	**50,104**	**47,516**
Dividend income	436	1,277	8,178	8,339
Trading profits	11,798	7,260	11,780	7,239
Net loss on investment securities and hedging instruments	(108)	(80)	(108)	(80)
Operating income	**359,230**	**315,931**	**360,476**	**316,803**
Employee compensation and benefits	(90,640)	(82,256)	(88,631)	(80,312)
General administrative expenses	(45,424)	(48,402)	(44,115)	(47,017)
Amortisation of intangible assets	(9,828)	(9,670)	(9,753)	(9,595)
Depreciation	(5,396)	(5,411)	(5,371)	(5,374)
Net impairment reversal/(charge)	9,539	(13,099)	9,539	(13,100)
Operating profit	**217,481**	**157,093**	**222,145**	**161,405**
Share of results of equity-accounted investees, net of tax	6,252	6,380	-	-
Profit before tax	**223,733**	**163,473**	**222,145**	**161,405**
Income tax expense	(76,408)	(54,720)	(77,751)	(56,174)
Profit for the period	**147,325**	**108,753**	**144,394**	**105,231**
Earnings per share	**25.2c**	**18.6c**	**24.7c**	**18.0c**

Statements of Financial Position

as at 30 September 2024

	The Group		The Bank	
	30-Sep-24	31-Dec-23	30-Sep-24	31-Dec-23
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	1,255,320	2,353,317	1,255,320	2,353,317
Financial assets at fair value through profit or loss	101,680	113,853	100,013	113,562
Investments	5,244,874	4,366,633	5,244,874	4,366,633
Pledged investments	650,665	986,829	650,665	986,829
Loans and advances to banks	184,092	196,307	184,093	196,307
Loans and advances to customers at amortised cost	6,686,818	6,114,589	6,686,818	6,114,589
Investments in equity-accounted investees	113,963	110,098	72,870	72,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	47,254	54,642	47,218	54,531
Property and equipment	138,633	134,172	138,596	134,125
Deferred tax	34,125	34,025	34,037	33,937
Assets held for realisation	12,088	11,979	12,088	11,979
Other assets	11,696	12,746	11,693	12,746
Prepayments	18,372	17,758	16,546	15,682
Total Assets	**14,499,580**	**14,506,948**	**14,461,061**	**14,473,337**
LIABILITIES				
Derivative liabilities held for risk management	5,083	4,154	5,084	4,154
Amounts owed to banks	33,372	315,651	33,372	315,651
Amounts owed to customers	12,274,235	12,152,216	12,277,408	12,157,044
Current tax	30,117	28,079	30,679	28,912
Deferred tax	7,435	7,435	7,435	7,435
Other liabilities	202,753	198,178	202,191	197,651
Provisions	21,690	20,166	21,542	20,016
Debt securities in issue	376,844	350,099	376,844	350,099
Subordinated liabilities	162,717	163,237	162,717	163,237
Total Liabilities	**13,114,246**	**13,239,215**	**13,117,272**	**13,244,199**
EQUITY				
Called up share capital	583,849	583,849	583,849	583,849
Share premium account	49,277	49,277	49,277	49,277
Revaluation reserves	56,912	59,628	56,800	59,516
Retained earnings	695,296	574,979	653,863	536,496
Total Equity	**1,385,334**	**1,267,733**	**1,343,789**	**1,229,138**
Total Liabilities and Equity	**14,499,580**	**14,506,948**	**14,461,061**	**14,473,337**