



Bank of Valletta

Office of the Company Secretary

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BOV/408

COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Listing Rules, issued by the Listing Authority

Quote

The Board of Directors of Bank of Valletta p.l.c. (the Group) has today, 30 March 2021, approved the attached audited financial statements for Financial Year ended 31 December 2020. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting (AGM) being held on Thursday, 20 May 2021.

Financial Performance of the Group

- Reported profit before tax ('PBT') of €15.2 million (2019: €89.2 million).
- When adjusted for a number of specific items PBT would increase to €100.7 million (2019 - €138.1 million), a reduction of €37.4 million or 27% when compared to prior year.
- The most significant specific items were:
 - €38.1 million related to increases in credit provisions with charges predominantly attributed to COVID-19
 - €39.8 million in impairment charges for long outstanding non-performing loans driven by changes in regulatory policy in light of current economic environment
 - remaining items are a €15.8 million investment in the Bank's transformation programme, offset by an €8.1 million net litigations provision release following the settlement of the Swedish Pensions Agency (SPA) case.
- The reduction in the normalised operating profit was driven by lower net interest income, COVID-19 impacted Commissions and Trading revenues and higher operating costs.
 - Net interest income of €146.8 million, €6 million lower than 2019, remains the main revenue driver. Growth in deposits coupled with persistent negative interest rates continue to impact the Bank's net interest margin. Securities, previously generating positive returns, have been maturing and are now being re-invested at lower or negative rates.
 - Commission and Trading revenues of €78.8 million, down by €12.1 million year on year, were most severely impacted by the COVID-19 restrictions. Decreases in revenues were predominantly in the card business, where substantially lower card usage was recorded, and in the payments business as economic activity slowed significantly - especially during the initial lock-down period.
 - Operating costs increased by €15.9 million or 11.5% to €154.6 million. This was mostly due to increased staff costs, including €5.2 million paid under the Voluntary Retirement Scheme, as well as continuous investment in new skills, resources, and training. The investment in the Bank's new IT core banking system implemented at the start of this year has led to increased amortisation cost of €4 million.
 - Cost to income ratio was 66.8% (2019: 55.7%).

Balance Sheet Position

- Group total assets of the Group reached €12.9 billion as at December 2020 - an increase of 5% over the previous year. Customer deposits grew by €642 million (6%).
- Cash and short-term funds increased by €106.5 million or 2.6% over the year. The Group liquidity ratio stands at 463% reflecting the extraordinary deposit growth that has outpaced loan demand. The financial investments portfolio decreased by 5.2% or €171 million year on year. The decrease relates to the maturing debt securities which were partly replaced at lower yields.
- Net loans and advances increased by €296 million, or 6.6%, during the year and stand at €4.7 billion as at 31 December 2020.
- CET 1 ratio increased from 19.5% to 20.9%, and the total capital ratio improved from 23.1% to 24.5% as at end of December 2020.

Dividends

In line with the regulators' recommendation, the Board has responsibly decided not to declare distribution of dividends for year 2020.

Strategic Plan – BOV 2023

BOV embarked on a forward-looking strategy for the BOV Group to ensure a best possible plan of action for its long-term sustainability.

The retail banking business model is changing rapidly as the record low interest rates continue to exert pressure on the net interest margin - the largest share of income.

Technological innovation across most business lines and steep regulatory demands for systemic banks such as Bank of Valletta, are changing the traditional banking landscape. BOV is not only accepting these changes but is using them as catalyst for a major shift from the use of cash and cheques to the use of electronic banking channels.

The Chairman and the CEO thanked all Bank employees wholeheartedly for adapting to the current challenging situation and walking the extra mile to provide uninterrupted services to the Bank's customers. Special appreciation went to all BOV front liners, our heroes who have manned our face-to-face channels providing personalised services to customers who required their assistance.

The year 2020 will go down in history as one of the most turbulent years of our times but it has also been a remarkable year for those sectors that have shown and contributed to economic and social resilience. Adapting to change is far from easy but it is the only way forward. The Bank's Board of Directors and Executive Committee are confident that the ambitious strategic plan BOV 2023 will deliver marked improvements in the ways the Bank operates and in the quality of service that the Bank offers to its customers.

The Annual Report and Audited Financial Statements for the year ended 31 December 2020 will be viewed on the Bank's web portal <https://www.bov.com/documents/annual-report-fy2020> and will be attached in a separate company announcement later on today.

Unquote



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

30 March 2021