



Bank of Valletta

Office of the Company Secretary

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BOV/351

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 Bank) has today, 15 March 2019, approved the audited financial statements for Financial Year ended 31 December 2018. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting which is scheduled for Thursday, 9 May 2019. A preliminary statement of annual results is being attached herewith in terms of the Listing Rules.

The Board of Directors further resolved to recommend for the approval of the Annual General Meeting, a bonus share issue of one (1) share for every ten (10) shares held which will be allotted to shareholders on the Bank's share register as at close of business on 11 June 2019¹. The bonus share issue will be funded by a capitalisation of reserves amounting to €53,077,206.

Application will be made for the necessary authorisations concerning the Listing of the bonus share issue on the Malta Stock Exchange.

With a view of continuing to strengthen its capital base, over the course of this year the Bank intends to issue an instrument, eligible for Additional Tier One capital to institutional investors. Moreover, the Bank intends issuing a Subordinated Bond in the third quarter of 2019 to replace the 5.35% BOV Subordinated Bond 2019.

Shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange, as at the close of business on 9 April 2019², will receive notice of the Annual General Meeting together with the Financial Statements for the financial year ended 31 December 2018.

Unquote

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

15 March 2019

¹ Tuesday 11 June 2019 will include trades undertaken up to and including Thursday 6 June 2019.

² Tuesday 9 April 2019 will include trades undertaken up to and including Friday 5 April 2019.



**PRELIMINARY STATEMENT
OF ANNUAL RESULTS**

31 December 2018

Statements of profit or loss

for the year ended 31 December 2018

Basis of preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the period ended 31 December 2018, as approved by the Directors on 15 March 2019, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2018	2017	2018	2017
	12 months to Dec 2018	15 months to Dec 2017	12 months to Dec 2018	15 months to Dec 2017
	€000	€000	€000	€000
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	165,177	198,997	165,177	198,997
- on debt and other fixed income instruments	48,719	60,197	48,719	60,197
Interest expense	(57,350)	(76,247)	(57,350)	(76,247)
Net interest income	156,546	182,947	156,546	182,947
Fee and commission income	92,368	98,787	83,346	87,587
Fee and commission expense	(11,231)	(12,498)	(11,231)	(12,498)
Net fee and commission income	81,137	86,289	72,115	75,089
Dividend income	1,075	1,925	12,828	17,682
Trading profits	18,019	22,290	18,007	22,338
Net gain on investment securities and hedging instruments	989	7,022	989	7,022
Operating income	257,766	300,473	260,485	305,078
Employee compensation and benefits	(65,696)	(79,750)	(63,043)	(76,507)
General administrative expenses	(54,596)	(59,463)	(53,093)	(57,806)
Amortisation of intangible assets	(4,607)	(4,933)	(4,607)	(4,933)
Depreciation	(5,699)	(7,105)	(5,636)	(7,035)
Net impairment reversal	10,816	6,227	10,816	6,227
Operating profit before litigation provision	137,984	155,449	144,922	165,024
Litigation provision	(75,000)	-	(75,000)	-
Operating profit	62,984	155,449	69,922	165,024
Share of results of equity-accounted investees, net of tax	8,214	19,287	-	-
Profit before tax	71,198	174,736	69,922	165,024
Income tax expense	(19,788)	(55,238)	(19,357)	(56,180)
Profit for the period	51,410	119,498	50,565	108,844
Earnings per share	09c7	27c1	09c6	24c7

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2018

	The Group		The Bank	
	2018	2017	2018	2017
	12 months to Dec 2018 €000	15 months to Dec 2017 €000	12 months to Dec 2018 €000	15 months to Dec 2017 €000
Profit for the period	51,410	119,498	50,565	108,844
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	-	1,379	-	1,379
tax thereon	-	(483)	-	(483)
- change in fair value	-	(7,443)	-	(7,443)
tax thereon	-	2,605	-	2,605
Debt investments at FVOCI				
- change in fair value	(1,958)	-	(1,958)	-
tax thereon	685	-	685	-
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	(1,904)	-	(1,904)	-
tax thereon	666	-	666	-
Property revaluation	12,762	2,005	12,762	2,005
tax thereon	(1,276)	(201)	(1,276)	(201)
Remeasurement of actuarial losses on defined benefit plans	(3,777)	15	(3,777)	15
tax thereon	1,322	(5)	1,322	(5)
Other comprehensive income for the period, net of tax	6,520	(2,128)	6,520	(2,128)
Total comprehensive income for the period	57,930	117,370	57,085	106,716

Statements of financial position

as at 31 December 2018

	The Group		The Bank	
	2018 €000	2017 €000	2018 €000	2017 €000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	246,299	159,684	246,299	159,684
Financial assets at fair value through profit or loss	206,206	326,291	205,227	325,316
Investments	3,314,955	3,374,541	3,314,955	3,374,541
Loans and advances to banks	3,644,933	3,431,383	3,644,933	3,431,383
Loans and advances to customers at amortised cost	4,362,983	4,162,032	4,362,983	4,162,032
Investments in equity-accounted investees	108,510	109,461	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	42,043	28,453	42,043	28,453
Property and equipment	119,155	105,222	118,978	105,048
Current tax	7,606	12,034	7,086	9,379
Deferred tax	71,769	60,217	71,769	60,217
Assets held for realisation	4,335	5,972	4,335	5,972
Other assets	7,880	5,955	7,880	5,872
Prepayments and accrued income	10,314	39,385	8,851	40,317
Total Assets	12,146,988	11,820,630	12,094,439	11,767,314
LIABILITIES				
Financial liabilities at fair value through profit or loss	8,812	11,957	8,812	11,957
Amounts owed to banks	146,021	192,196	146,021	192,196
Amounts owed to customers	10,414,908	10,100,625	10,417,999	10,102,164
Debt securities in issue	40,197	95,400	40,197	95,400
Deferred tax	5,743	4,519	5,743	4,519
Other liabilities	196,421	195,751	196,204	195,428
Provisions	95,767	2,000	95,767	2,000
Accruals and deferred income	539	12,451	-	11,958
Derivatives designated for hedge accounting	10,206	12,053	10,206	12,053
Subordinated liabilities	234,241	231,591	234,241	231,591
Total Liabilities	11,152,855	10,858,543	11,155,190	10,859,266
EQUITY				
Called up share capital	530,772	525,000	530,772	525,000
Share premium account	49,277	45,427	49,277	45,427
Revaluation reserves	50,034	33,194	49,922	33,082
Retained earnings	364,050	358,466	309,278	304,539
Total Equity	994,133	962,087	939,249	908,048
Total Liabilities and Equity	12,146,988	11,820,630	12,094,439	11,767,314
MEMORANDUM ITEMS				
Contingent liabilities	335,405	253,851	335,405	253,851
Commitments	1,881,392	1,858,191	1,881,392	1,858,191

Statements of changes in equity
 for the year ended 31 December 2018

	Attributable to Equity holders of the Bank				
	Share Capital	Share Premium Account	Revaluation Reserves	Retained Earnings	Total
	€000	€000	€000	€000	€000
The Group					
At 01 October 2016	390,000	988	35,332	302,841	729,161
Profit for the period	-	-	-	119,498	119,498
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	896	-	896
- change in fair value transferred to profit or loss, net of tax	-	-	(4,838)	-	(4,838)
Property revaluation, net of tax	-	-	1,804	-	1,804
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	10	10
Total other comprehensive (loss)/income	-	-	(2,138)	10	(2,128)
Total comprehensive income for the period	-	-	(2,138)	119,508	117,370
Transactions with owners, recorded directly in equity:					
Rights issue	105,000	44,439	-	-	149,439
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(33,883)	(33,883)
	135,000	44,439	-	(63,883)	115,556
At 31 December 2017	525,000	45,427	33,194	358,466	962,087
Adjustments on initial application of IFRS9	-	-	9,573	(17,779)	(8,206)
Adjusted balance at 1 January 2018	525,000	45,427	42,767	340,687	953,881
Profit for the year	-	-	-	51,410	51,410
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(1,273)	-	(1,273)
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,238)	-	(1,238)
- change in fair value transferred to retained earnings, net of tax	-	-	(1,246)	1,246	-
Property revaluation, net of tax	-	-	11,486	-	11,486
Release of surplus on sale of property, net of tax	-	-	(462)	462	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(2,455)	(2,455)
Total other comprehensive (loss)/income	-	-	7,267	(747)	6,520
Total comprehensive (loss)/income for the year	-	-	7,267	50,663	57,930
Transactions with owners, recorded directly in equity:					
Scrip Dividend	5,772	3,850	-	(9,622)	-
Dividends to equity holders	-	-	-	(17,678)	(17,678)
	5,772	3,850	-	(27,300)	(17,678)
At 31 December 2018	530,772	49,277	50,034	364,050	994,133

Statements of changes in equity
 for the year ended 31 December 2018

	Share Capital	Share Premium Account	Revaluation Reserves	Retained Earnings	Total
	€000	€000	€000	€000	€000
The Bank					
At 1 October 2016	390,000	988	35,220	259,568	685,776
Profit for the year	-	-	-	108,844	108,844
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	896	-	896
- change in fair value transferred to profit or loss, net of tax	-	-	(4,838)	-	(4,838)
Property revaluation, net of tax	-	-	1,804	-	1,804
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	10	10
Total other comprehensive income/(loss)	-	-	(2,138)	10	(2,128)
Total comprehensive income for the year	-	-	(2,138)	108,854	106,716
Transactions with owners, recorded directly in equity:					
Rights issue	105,000	44,439	-	-	149,439
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(33,883)	(33,883)
	135,000	44,439	-	(63,883)	115,556
At 31 December 2017	525,000	45,427	33,082	304,539	908,048
Adjustments on initial application of IFRS9	-	-	9,573	(17,779)	(8,206)
Adjusted balance at 1 January 2018	525,000	45,427	42,655	286,760	899,842
Profit for the period	-	-	-	50,565	50,565
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(1,273)	-	(1,273)
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(1,238)	-	(1,238)
- change in fair value transferred to retained earnings, net of tax	-	-	(1,246)	1,246	-
Property revaluation, net of tax	-	-	11,486	-	11,486
Release of surplus on sale of property, net of tax	-	-	(462)	462	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(2,455)	(2,455)
Total other comprehensive (loss)/income	-	-	7,267	(747)	6,520
Total comprehensive (loss)/income for the year	-	-	7,267	49,818	57,085
Transactions with owners, recorded directly in equity:					
Scrip Dividend	5,772	3,850	-	(9,622)	-
Dividends to equity holders	-	-	-	(17,678)	(17,678)
	5,772	3,850	-	(27,300)	(17,678)
At 31 December 2018	530,772	49,277	49,922	309,278	939,249

Statements of cash flows

for the year ended 31 December 2018

	The Group		The Bank	
	2018	2017	2018	2017
	12 months to Dec 2018	15 months to Dec 2017	12 months to Dec 2018	15 months to Dec 2017
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	280,296	301,893	271,267	290,744
Interest, commission and compensation payments	(54,040)	(73,793)	(54,086)	(73,873)
Payments to employees and suppliers	(125,250)	(137,262)	(118,700)	(133,675)
Operating profit before changes in operating assets and liabilities	101,006	90,838	98,481	83,196
(Increase)/decrease in operating assets:				
Loans and advances	(157,854)	16,706	(157,854)	16,706
Reserve deposit with Central Bank of Malta	(749)	(11,254)	(749)	(11,254)
Fair value through profit or loss financial assets	26,063	66,844	26,063	66,844
Fair value through profit or loss equity instruments	11,671	15,843	11,675	15,680
Treasury bills with original maturity of more than 3 months	(7,662)	(4,503)	(7,662)	(4,503)
Other assets	(288)	(2,638)	(372)	(2,564)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	301,801	872,724	303,353	870,840
Other liabilities	(1,331)	17,639	(1,677)	17,523
Net cash from operating activities before tax	272,657	1,062,199	271,258	1,052,468
Tax paid	(20,881)	(42,122)	(21,602)	(41,381)
Net cash from operating activities	251,776	1,020,077	249,656	1,011,087
Cash flows from investing activities				
Dividends received	10,774	8,794	12,828	17,682
Interest received from amortised and other fixed income instruments	54,953	74,725	54,953	74,725
Purchase of debt instruments	(892,021)	(897,650)	(892,021)	(897,650)
Proceeds from sale or maturity of debt instruments	1,021,261	1,155,933	1,021,261	1,155,933
Proceeds from sale of equity instruments	12,296	4,350	12,296	4,350
Purchase of property and equipment and intangible assets	(26,295)	(33,341)	(26,229)	(33,239)
Proceeds from disposal of property and equipment	2,000	-	2,000	-
Net cash from/(used in) investing activities	182,968	312,811	185,088	321,801
Cash flows from financing activities				
Proceeds from rights issue	-	149,439	-	149,439
Interest paid on debt securities and subordinated liabilities	(13,414)	(17,875)	(13,414)	(17,875)
Repayment of debt securities	(55,400)	-	(55,400)	-
Dividends paid to equity holders	(17,678)	(33,883)	(17,678)	(33,883)
Net cash from financing activities	(86,492)	97,681	(86,492)	97,681
Net change in cash and cash equivalents	348,252	1,430,569	348,252	1,430,569
Effect of exchange rate changes on cash and cash equivalents	1,252	772	1,252	772
Net change in cash and cash equivalents after effect of exchange rate changes	347,000	1,429,797	347,000	1,429,797
Net change in cash and cash equivalents	348,252	1,430,569	348,252	1,430,569
Cash and cash equivalents at 1 January	3,278,607	1,848,038	3,278,607	1,848,038
Cash and cash equivalents at 31 December	3,626,859	3,278,607	3,626,859	3,278,607

Highlights

- Profit before tax of €71.2 million compared to €174.7 for the 15 month period to December 2017
- Adjusted Profit before litigation provision stands at €146.2 million
- A Return on Equity of 7.3%, (14.9% when adjusted for the litigation provision), compared to 16.5% for 2017
- Cost/income ratio of 49.1%, up from 47.3% last year
- CET 1 ratio increased from 16.1% at December 2017 to 18.3% at the reporting date
- A bonus issue of 1 for 10 ordinary shares held being recommended
- Shareholders' equity of €994 million, an increase of 3.3% over last year
- Net advances to customers of €4.5 billion, 4.5% higher than December 2017
- Customer deposits of €10.4 billion, up by 3.1% when compared to December 2017

Overview

Bank of Valletta Group is reporting a profit before tax of €71.2 million compared to €174.7 million reported for the 15 month period ended on 31 December 2017, representing a Return on Equity of 7.3%. The profit for the year is stated after a litigation provision of €75 million that the Group is setting aside in respect of ongoing significant claims. Profit before litigation provision amounts to €146.2 million representing an adjusted Return on Equity of 14.9% (FY 2017: 16.5%)

The Board of Directors, having taken note of extensive discussion with regulators, and as announced earlier this year, will not be recommending a final cash dividend for Financial Year 2018. However, the Board of Directors will, at the forthcoming Annual General Meeting, be recommending a bonus share issue of 1 new share for every 10 ordinary shares held.

Litigation provision

The litigation provision consists of a prudential provision against losses that may arise out of ongoing litigation cases, made in terms of IAS 37. Amongst these litigation cases, the Bank is currently involved in three material litigation cases as disclosed in note 33 of the Annual Report for 2017. The Board of Directors keeps these cases under close monitoring to assess the Bank's position in the light of developments as they occur. Should developments so warrant, the Board takes the necessary measures in accordance with the changed circumstances, including making appropriate provisions. Such provisions, including those recognised in these financial statements, are made without prejudice, and do not, in any way, constitute any admission of fault or liability on the part of the Bank.

The litigation and claims provision of €75 million is being made in the context of changing circumstances affecting the three significant cases, and following extensive discussion with supervisory authorities. The Bank keeps all litigation cases under continuous review, and will keep the supervisory authorities and the market informed of any material developments.

Review of Operating Performance

Bank of Valletta Group reported operating profit before litigation provision of €146.2 million. Key performance indicators were satisfactory with a pre-tax Return on Equity, adjusted for the litigation provision of 14.9% and a Cost/Income ratio of 49.1%. (FY 2017: 16.5% and 47.3% respectively). The results reflect the performance of the local economy, both GDP growth and employment levels were the highest among the EU28, the continuing high levels of liquidity, compounded by the low to negative interest rate environment, as well as programmes undertaken by the Bank to strengthen internal resources and implement de-risking initiatives.

The Group's strategy to drive growth in selected business lines and focus on alternative income streams alleviated pressures on operating income. Investment in both IT and HR, the two primary resources, continued leading to a higher cost base. The proactive stance towards legacy non performing exposures coupled with a cautious view towards provisioning were retained during the year. Share of profits from the insurance business of €8.2 million compared to the €19.3 million reported for the period ended December 2017. The higher revenue last year is attributed to the fact that the share of profits from equity accounted investees for the 15 month period to December 2017 represented the consolidation of an 18 month period as the financial year end of the Group is now coterminous with that of its associates.

Net interest margin of €156.5 million was, on average, 7% higher. While the persisting low interest rates impacted all segments of the balance sheet resulting in narrower effective interest rates, this was offset by the higher volumes which led to increased interest revenue, especially on the loan book. An optimisation exercise on the treasury book which started during the year is giving positive results. The cost of funding, mostly coming from customer deposits, was, on average, below the comparative period as customers retained their preference for short term low yield products. Interest paid on other financial liabilities was also, on average, below that of the previous period due to the lower cost on hedging instruments and the €55.4 million debt securities which matured and were repaid in August 2018.

Net commissions grew at an annualised growth of 17.5% to reach €81.1 million while trading income and dividends show an annualised decrease of 12%. Good performance was recorded in the card business and credit related commissions while in other areas, such as investments and income on exchange earnings. Lower income, as expected, was reported as a result of the Group's strategy to de-risk its business model. Commission income also reflects the introduction of new fees aimed to recover cost related to liquidity and services impacting cost of capital, together with one-off gains such as those from disposal of immovable property.

Operating expenses of €130.6 million were, on average, 8% higher than the previous period. During the period under review the Bank continued with the multi-year Core Banking Transformation (CBT) programme and also implemented a

number of new systems and upgrades which impacted IT related costs. The Group continued with its investment in human resources, primarily in areas relating to AML and other control functions. Additional professional services were engaged during the year, mostly related to the de-risking programme currently underway.

On 1 January 2018, the Bank adopted IFRS 9 and moved from the incurred loss model of the previous accounting standard to a forward looking expected loss model. The impact of the change in allowances arising from the first time adoption of the new standard is recorded as an adjustment to opening reserves. The period under review reports a reversal of impairment allowances of €10.8 million. This results from the strategic drive by the Bank in adopting a more proactive approach towards debt recovery and the proactive management of non-performing loans, particularly legacy exposures. Exercises to write-off long outstanding debt continued to be carried out and the prudent view towards the valuation of collateral held was retained.

Review of Financial Position

Total assets at the end of the reporting period stood at €12.1 billion (December 2017: €11.8 billion). Customer deposits at 31 December 2018, representing 86% of total assets, stand at €10.4 billion, an increase of €314 million over December 2017. Tighter onboarding procedures were applied, in line with the lower risk business model. A decrease in deposits held by international corporates was recorded, in line with the Group's de-risking initiatives. This was more than offset by growth in deposits from the retail segment, primarily in short term products.

The Bank remains highly liquid. Cash and short term funds at December 2018 amounted to €3.9 billion, compared to €3.6 billion as at December 2017. The majority of financial instruments are carried at amortised cost which reflects the Bank's primary business model of 'hold to collect'.

Gross loans and advances to customers, at €4.6 billion, were €134 million higher than December 2017. Demand for credit arose from both the personal and the corporate sectors with satisfactory growth being recorded in both areas. The write off exercises continued during the period under review whereby long outstanding exposures, which were mostly provided for, were written off.

Equity attributable to the shareholders of the Bank amounted to €994 million as at 31 December 2018 (December 2017: €962 million). The Group's CET 1 ratio stood at 18.3% at the reporting date, up from 16.1% as at 31 December 2017.

Looking ahead

While the results for FY 2018 are considered to be satisfactory, the coming years are expected to remain challenging on a number of fronts. These range from the lower risk business model being implemented, high liquidity levels and persistently low interest rates, new regulations, the changing demographics of the local economy, stricter onboarding procedures and enhanced awareness for AML/CFT obligations as well as implementation of additional and enhanced IT security measures following the cyber attack which occurred post reporting date.

The conservation and the generation of capital remain high on the Bank's agenda. In the coming months the Bank intends to raise new capital from institutional investors, which investment will be eligible as additional Tier1 for regulatory purposes including prudential provisions under the new NPL regulations as well as new debt to meet regulatory requirements emanating from MREL. The Bank's strategy is to continue building reserves through profit retention and will determine future dividend payout ratio with reference to the CET 1 ratio.

By Order of the Board

15 March 2019

Notice is hereby given that Tuesday, 9 April 2019 is the "record date" for the purposes of Article 2.1 of the Bank's Articles of Association.

All shareholders appearing on the Bank's Register of Members as at the close of business on Tuesday, 9 April 2019 will receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Thursday 9 May 2019.

All shareholders on the Bank's share register as at close of business on Tuesday 11 June 2019, will be allotted a bonus share of one (1) share for every ten (10) shares held, as approved at the Annual General Meeting.

Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Tuesday 9 April 2019 will include trades undertaken up to and including Friday 5 April 2019 while the Register of Members as at close of business on Tuesday 11 June 2019 will include trades undertaken up to and including Thursday 6 June 2019.