



## Bank of Valletta

Office of the Company Secretary

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BOV/332

### COMPANY ANNOUNCEMENT

The following is a Company Announcement issued by Bank of Valletta p.l.c. pursuant to the Malta Financial Services Authority Listing Rules 5.16 and 5.54:

#### Quote

The Board of Directors of Bank of Valletta p.l.c. (the Bank) has today, the 23 March 2018, approved the audited financial statements for the 15 month financial period from 1 October 2016 to 31 December 2017. 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, 10 May 2018. 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:

1. The payment of a final gross dividend of €0.08 per share making for a final net dividend of €0.052 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €0.116 per share (total net dividend per share €0.0754).
2. That shareholders be offered the right to elect to receive the dividend either in cash or by the issue of new shares ("Scrip Dividend Programme").

The price of the new shares to be issued under the Scrip Dividend Programme (the "Attribution Price") will be established and communicated on the 12 April 2018. The Attribution Price will be calculated using the average of the three trade weighted average prices based on trading effected on the 9, 10, and 11 April 2018, and a discount of 5% shall be applied to the said average of the three prices.

Shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange, as at the close of business on Tuesday, 10 April 2018\*, will receive notice of the Annual General Meeting together with the Financial Statements for the financial period ended 31 December 2017.

The final dividend, if approved at the Annual General Meeting, will be paid on the 18 May 2018 to the shareholders on the Bank's share register at the Central Securities Depository of the Malta Stock Exchange as at the close of business on Tuesday, 10 April 2018.

#### Unquote

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

23 March 2018

\* Tuesday, 10 April 2018 will include trades undertaken up to and including Friday, 6 April 2018



**PRELIMINARY STATEMENT  
OF ANNUAL RESULTS**

**31 December 2017**

**Statements of profit or loss**

for the fifteen months from 1 October 2016 to 31 December 2017

**Basis of preparation:**

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the period ended 31 December 2017, as approved by the Directors on 23 March 2018, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	198,997	160,339	198,997	160,339
- on debt and other fixed income instruments	60,197	54,063	60,197	54,063
Interest expense	(76,247)	(65,573)	(76,247)	(65,573)
<b>Net interest income</b>	<b>182,947</b>	<b>148,829</b>	<b>182,947</b>	<b>148,829</b>
Fee and commission income	98,787	75,021	87,587	66,840
Fee and commission expense	(12,498)	(8,936)	(12,498)	(8,936)
<b>Net fee and commission income</b>	<b>86,289</b>	<b>66,085</b>	<b>75,089</b>	<b>57,904</b>
Dividend income	1,925	1,901	17,682	9,635
Trading profits	22,290	24,724	22,338	24,724
Net gain on investment securities and hedging instruments	7,022	9,046	7,022	9,046
Gain on Visa transaction	-	27,511	-	27,511
<b>Operating income</b>	<b>300,473</b>	<b>278,096</b>	<b>305,078</b>	<b>277,649</b>
Employee compensation and benefits	(79,750)	(64,168)	(76,507)	(62,036)
General administrative expenses	(59,463)	(40,103)	(57,806)	(39,085)
Amortisation of intangible assets	(4,933)	(3,539)	(4,933)	(3,539)
Depreciation	(7,105)	(4,968)	(7,035)	(4,899)
Net impairment reversal/(losses)	6,227	(23,142)	6,227	(23,147)
<b>Operating profit</b>	<b>155,449</b>	<b>142,176</b>	<b>165,024</b>	<b>144,943</b>
Share of results of equity-accounted investees, net of tax	19,287	3,730	-	-
<b>Profit before tax</b>	<b>174,736</b>	<b>145,906</b>	<b>165,024</b>	<b>144,943</b>
Income tax expense	(55,238)	(50,708)	(56,180)	(50,760)
<b>Profit for the period</b>	<b>119,498</b>	<b>95,198</b>	<b>108,844</b>	<b>94,183</b>
Attributable to:				
Equity holders of the Bank	119,498	94,742	108,844	94,183
Non-controlling interest	-	456	-	-
	<b>119,498</b>	<b>95,198</b>	<b>108,844</b>	<b>94,183</b>
<b>Earnings per share</b>	<b>27c1</b>	<b>21c6</b>	<b>24c7</b>	<b>21c5</b>

**Statements of profit or loss and other comprehensive income**

for the fifteen months from 1 October 2016 to 31 December 2017

	The Group		The Bank	
	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000
<b>Profit for the period</b>	119,498	95,198	108,844	94,183
<b>Other comprehensive income</b>				
<b>Items that may be reclassified subsequently to profit or loss:</b>				
Available-for-sale investments				
- change in fair value	1,379	33,777	1,379	33,777
deferred tax thereon	(483)	(11,822)	(483)	(11,822)
- change in fair value transferred to profit or loss	(7,443)	(34,876)	(7,443)	(34,876)
deferred tax thereon	2,605	12,206	2,605	12,206
<b>Items that will not be reclassified to profit or loss:</b>				
Property revaluation	2,005	960	2,005	960
deferred tax thereon and effect of changes in property tax rates	(201)	44	(201)	44
Remeasurement of actuarial losses on defined benefit plans	15	(1,448)	15	(1,448)
deferred tax thereon	(5)	508	(5)	508
<b>Other comprehensive income for the period, net of tax</b>	(2,128)	(651)	(2,128)	(651)
<b>Total comprehensive income</b>	117,370	94,547	106,716	93,532
Attributable to:				
Equity holders of the Bank	117,370	94,091	106,716	93,532
Non-controlling interest	-	456	-	-
	117,370	94,547	106,716	93,532

**Statements of financial position**

as at 31 December 2017

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
<b>ASSETS</b>				
Balances with Central Bank of Malta,				
treasury bills and cash	159,684	171,050	159,684	171,050
Financial assets at fair value through profit or loss	326,291	392,430	325,316	391,292
Investments	3,374,541	3,736,272	3,374,541	3,736,272
Loans and advances to banks	3,431,383	2,098,439	3,431,383	2,098,439
Loans and advances to customers at amortised cost	4,162,032	4,001,656	4,162,032	4,001,656
Investments in equity-accounted investees	109,461	97,041	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	28,453	13,272	28,453	13,272
Property and equipment	105,222	89,574	105,048	89,452
Current tax	12,034	16,061	9,379	15,091
Deferred tax	60,217	67,188	60,217	67,188
Assets held for realisation	5,972	11,973	5,972	11,973
Other assets	5,955	4,818	5,872	4,809
Prepayments and accrued income	39,385	23,077	40,317	22,697
<b>Total Assets</b>	<b>11,820,630</b>	<b>10,722,851</b>	<b>11,767,314</b>	<b>10,682,291</b>
<b>LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	11,957	20,327	11,957	20,327
Amounts owed to banks	192,196	250,155	192,196	250,155
Amounts owed to customers	10,100,625	9,184,517	10,102,164	9,187,940
Debt securities in issue	95,400	95,400	95,400	95,400
Deferred tax	4,519	4,318	4,519	4,318
Other liabilities	197,751	170,518	197,428	170,333
Accruals and deferred income	12,451	16,215	11,958	15,802
Derivatives designated for hedge accounting	12,053	20,649	12,053	20,649
Subordinated liabilities	231,591	231,591	231,591	231,591
<b>Total Liabilities</b>	<b>10,858,543</b>	<b>9,993,690</b>	<b>10,859,266</b>	<b>9,996,515</b>
<b>EQUITY</b>				
Called up share capital	525,000	390,000	525,000	390,000
Share premium account	45,427	988	45,427	988
Revaluation reserves	33,194	35,332	33,082	35,220
Retained earnings	358,466	302,841	304,539	259,568
<b>Total Equity</b>	<b>962,087</b>	<b>729,161</b>	<b>908,048</b>	<b>685,776</b>
<b>Total Liabilities and Equity</b>	<b>11,820,630</b>	<b>10,722,851</b>	<b>11,767,314</b>	<b>10,682,291</b>
<b>MEMORANDUM ITEMS</b>				
Contingent liabilities	253,851	225,407	253,851	225,407
Commitments	1,858,191	1,590,156	1,858,191	1,590,156

**Statements of changes in equity**

for the fifteen months from 1 October 2016 to 31 December 2017

	Attributable to Equity holders of the Bank						Total Equity €000
	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000	Non- Controlling Interest €000	
	<b>The Group</b>						
<b>At 1 October 2015</b>	<b>360,000</b>	<b>988</b>	<b>35,217</b>	<b>272,713</b>	<b>668,918</b>	<b>1,271</b>	<b>670,189</b>
Profit for the year	-	-	-	94,742	94,742	456	95,198
<b>Other comprehensive income</b>							
Available-for-sale investments							
- change in fair value, net of tax	-	-	21,955	-	21,955	-	21,955
- change in fair value transferred to profit or loss, net of tax	-	-	(22,670)	-	(22,670)	-	(22,670)
Property revaluation, net of tax	-	-	1,004	-	1,004	-	1,004
Release of surplus on sale of property, net of tax	-	-	(174)	174	-	-	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(940)	(940)	-	(940)
<b>Total other comprehensive income/(loss)</b>	-	-	115	(766)	(651)	-	(651)
<b>Total comprehensive income for the year</b>	-	-	115	93,976	94,091	456	94,547
<b>Transactions with owners, recorded directly in equity:</b>							
Acquisition of non-controlling interest	-	-	-	(4,046)	(4,046)	(954)	(5,000)
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(29,802)	(29,802)	(773)	(30,575)
	30,000	-	-	(63,848)	(33,848)	(1,727)	(35,575)
<b>At 30 September 2016</b>	<b>390,000</b>	<b>988</b>	<b>35,332</b>	<b>302,841</b>	<b>729,161</b>	-	<b>729,161</b>
Profit for the period	-	-	-	119,498	119,498	-	119,498
<b>Other comprehensive income</b>							
Available-for-sale investments							
- change in fair value, net of tax	-	-	896	-	896	-	896
- change in fair value transferred to profit or loss, net of tax	-	-	(4,838)	-	(4,838)	-	(4,838)
Property revaluation, net of tax	-	-	1,804	-	1,804	-	1,804
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	10	10	-	10
<b>Total other comprehensive (loss)/income</b>	-	-	(2,138)	10	(2,128)	-	(2,128)
<b>Total comprehensive (loss)/income for the period</b>	-	-	(2,138)	119,508	117,370	-	117,370
<b>Transactions with owners, recorded directly in equity:</b>							
Rights issue	105,000	44,439	-	-	149,439	-	149,439
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(33,883)	(33,883)	-	(33,883)
	135,000	44,439	-	(63,883)	115,556	-	115,556
<b>At 31 December 2017</b>	<b>525,000</b>	<b>45,427</b>	<b>33,194</b>	<b>358,466</b>	<b>962,087</b>	-	<b>962,087</b>

**Statements of changes in equity**

for the fifteen months from 1 October 2016 to 31 December 2017 (continued)

	Share Capital	Share Premium Account	Revaluation Reserves	Retained Earnings	Total
	€000	€000	€000	€000	€000
<b>The Bank</b>					
<b>At 1 October 2015</b>	<b>360,000</b>	<b>988</b>	<b>35,105</b>	<b>225,953</b>	<b>622,046</b>
Profit for the year	-	-	-	94,183	94,183
<b>Other comprehensive income</b>					
Available-for-sale investments					
- change in fair value, net of tax	-	-	21,955	-	21,955
- change in fair value transferred to profit or loss, net of tax	-	-	(22,670)	-	(22,670)
Property revaluation, net of tax	-	-	1,004	-	1,004
Release of surplus on sale of property, net of tax	-	-	(174)	174	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(940)	(940)
<b>Total other comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>115</b>	<b>(766)</b>	<b>(651)</b>
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>115</b>	<b>93,417</b>	<b>93,532</b>
<b>Transactions with owners, recorded directly in equity:</b>					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(29,802)	(29,802)
	30,000	-	-	(59,802)	(29,802)
<b>At 30 September 2016</b>	<b>390,000</b>	<b>988</b>	<b>35,220</b>	<b>259,568</b>	<b>685,776</b>
Profit for the period	-	-	-	108,844	108,844
<b>Other comprehensive income</b>					
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
Release of surplus on sale of property, net of tax	-	-	-	-	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	10	10
<b>Total other comprehensive (loss)/income</b>	<b>-</b>	<b>-</b>	<b>(2,138)</b>	<b>10</b>	<b>(2,128)</b>
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>(2,138)</b>	<b>108,854</b>	<b>106,716</b>
<b>Transactions with owners, recorded directly in equity:</b>					
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
<b>At 31 December 2017</b>	<b>525,000</b>	<b>45,427</b>	<b>33,082</b>	<b>304,539</b>	<b>908,048</b>

**Statements of cash flows**

for the fifteen months from 1 October 2016 to 31 December 2017

	The Group		The Bank	
	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000	2017 15 months to Dec 2017 €000	2016 12 months to Sep 2016 €000
<b>Cash flows from operating activities</b>				
Interest and commission receipts	301,893	237,321	290,744	229,154
Interest, commission and compensation payments	(91,668)	(77,205)	(91,748)	(77,026)
Payments to employees and suppliers	(137,262)	(103,563)	(133,675)	(99,601)
Operating profit before changes in operating assets and liabilities	72,963	56,553	65,321	52,527
(Increase)/decrease in operating assets:				
Loans and advances	16,706	(53,038)	16,706	(53,038)
Reserve deposit with Central Bank of Malta	(11,254)	(8,643)	(11,254)	(8,643)
Fair value through profit or loss financial assets	66,844	97,902	66,844	97,902
Fair value through profit or loss equity instruments	15,843	1,303	15,680	477
Treasury bills with original maturity of more than 3 months	(4,503)	-	(4,503)	-
Other assets	(2,638)	(311)	(2,564)	(302)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	872,724	752,337	870,840	752,384
Other liabilities	17,639	(33,187)	17,523	(33,120)
Net cash from operating activities before tax	1,044,324	812,916	1,034,593	808,187
Tax paid	(42,122)	(44,862)	(41,381)	(44,955)
Net cash from operating activities	1,002,202	768,054	993,212	763,232
<b>Cash flows from investing activities</b>				
Dividends received	8,794	5,628	17,682	9,636
Interest received from held-to-maturity debt and other fixed income instruments	74,725	59,783	74,725	59,783
Acquisition of non-controlling interest	-	(5,000)	-	(5,000)
Purchase of debt instruments	(897,650)	(1,257,546)	(897,650)	(1,257,546)
Proceeds from sale or maturity of debt instruments	1,155,933	869,184	1,155,933	869,184
Proceeds from sale of equity instruments	4,350	3,043	4,350	3,043
Proceeds from VISA transaction	-	22,042	-	22,042
Purchase of property and equipment and intangible assets	(33,341)	(8,111)	(33,239)	(8,070)
Proceeds from disposal of property and equipment	-	598	-	598
Net cash from/(used in) investing activities	312,811	(310,379)	321,801	(306,330)
<b>Cash flows from financing activities</b>				
Proceeds from rights issue	149,439	-	149,439	-
Proceeds from issue of subordinated bonds	-	111,591	-	111,591
Dividends paid to Bank's equity holders	(33,883)	(29,802)	(33,883)	(29,802)
Dividends paid to non-controlling interests	-	(773)	-	-
Net cash from financing activities	115,556	81,016	115,556	81,789
<b>Net change in cash and cash equivalents</b>	1,430,569	538,691	1,430,569	538,691
Effect of exchange rate changes on cash and cash equivalents	772	-	772	-
<b>Net change in cash and cash equivalents after effect of exchange rate changes</b>	1,429,797	538,691	1,429,797	538,691
<b>Net change in cash and cash equivalents</b>	1,430,569	538,691	1,430,569	538,691
Cash and cash equivalents at 1 October	1,848,038	1,309,347	1,848,038	1,309,347
<b>Cash and cash equivalents at 31 December</b>	<b>3,278,607</b>	<b>1,848,038</b>	<b>3,278,607</b>	<b>1,848,038</b>



## Review of Performance

Bank of Valletta Group reported a profit before tax of €174.7 million for the 15 month period ended on 31 December 2017, compared to €145.9 million for the 12 months to September 2016 (or €118.4 million when adjusted for the one off gain on the VISA transaction). Key performance indicators were satisfactory with a pre-tax Return on Equity of 16.5% and a Cost/Income ratio of 47.3%. (FY 2016, adjusted for one off gain on VISA: 16.9% and 44.3% respectively). These results were achieved during a period where the local economy continued to grow at a rate above the EU average which provided opportunities in both the corporate and the retail sectors. High levels of liquidity and the continuing low interest rate environment continued to be experienced during the period under review.

Overall performance was impacted by both core and non-core items. The Group's strategy to focus on alternative revenue streams helped to alleviate the pressures on net interest income and lower exchange earnings. Continuing investment in both IT and HR, the two primary resources, led to a higher cost base while the cautious view towards provisioning was retained during the period under review. Gains attributed to external non-core factors, namely fair value gains and share of profits from the insurance business, amounted to €5.6 million and €19.3 million respectively. Due to the change in the reporting date, the share of profits from equity accounted investees represented the consolidation of an 18 month period as the financial year end of the Group is now coterminous with that of its associates. The core profit of €149.9 million was reported for the 15 month period to December 2017, compared to the €101.2 million for the 12 months to September 2016.

Net interest margin of €182.9 million was, on average, 2% below last year. The persisting low interest rates impacted all segments of the balance sheet. The changing mix of the loan book and competitive pressures pushed down the effective interest rate receivable on advances while the continuing preference for short term low yield deposit products resulted in a reduction in interest expense. The net interest margin on the Group's Treasury operations experienced narrowing margins, limited investment opportunities for maturing instruments and higher liquidity balances which attracted negative rates.

Net commissions of €86.3 million, or an annualised growth of 4% over the comparative period. Satisfactory growth was experienced in the card business and investment related products, including bancassurance. The Group's strategy to de-risk its business model resulted in lower income, on average, being earned on foreign exchange transactions.

Operating costs for the 15 month period of €151.3 million were, on average, 7% higher than last year. During the period under review the Bank signed the contract with Oracle, the supplier of its new core banking solution. As expected, this multi-year Core Banking Transformation (CBT) programme impacted the IT spend. The Group also continued with enhancing its investment in human resources, primarily in the control functions.

The strategic drive by the Bank in adopting a more proactive approach towards debt recovery and the management of non performing loans has resulted in a reversal of impairment allowances of €6.2 million. The prudent view towards the valuation of collateral held was retained and exercises to write off long outstanding debt continued.

### **Review of Financial Position**

Total assets at the end of the reporting period stood at €11.8 billion (September 2016: €10.7 billion). Equity attributable to the shareholders of the Bank, which also reflects the increase from the rights issue, amounted to €962 million as at 31 December 2017 (September 2016: €729 million). The Group's CET 1 ratio stood at 16.1% at the reporting date, up from 12.8% as at 30 September 2016.

Customer deposits at 31 December 2017 amounted to €10.1 billion, an increase of €916 million over September 2016. This growth occurred in demand deposits, mostly from the retail segment. Tighter onboarding procedures were applied in line with the lower risk business model. Incoming funds not applied to lending were invested into high quality short dated instruments and liquid assets. Cash and short term funds at December 2017 amounted to €3.6 billion, compared to €2.3 billion as at September 2016.

Gross loans and advances to customers, at €4.5 billion, were €162 million higher than September 2016. Demand for credit arose from both the personal and the business sectors. The write off exercises continued during the period under review whereby long outstanding exposures, which were mostly provided for, were written off.

## Dividend

The conservation and the generation of capital remain high on the Bank's agenda. Following the issue of subordinated debt last year, capital was further strengthened by the Rights Issue made during the period under review as part of the Bank's multi-year capital planning programme. The Bank's strategy is to continue building reserves through profit retention and determine the dividend payout ratio with reference to the CET 1 ratio.

Further to the gross interim dividend of €0.045 per share paid in May 2017, the Board of Directors will, at the forthcoming Annual General Meeting, be recommending a final gross dividend of €0.08 per share. Shareholders will be given the right to elect to receive the dividend either in cash or by the issue of new shares. The total dividend for the year represents a gross yield of 6.9% by reference to the closing share price of €1.80 per share at end December 2017 and a net dividend cover of 3 times.

## Looking Ahead

While the results for FY 2017 are considered to be satisfactory, the coming years are expected to remain challenging particularly in view of the 'low-for-long' interest rate situation and high liquidity levels as well as the changing demographics of the local economy and stricter on boarding procedures. The Group's strategic vision focuses on a low risk sustainable business model to ensure long term stability and viability while returning an equitable return to its investors. The strengthening of the capital base, which started in 2016 through the issuance of subordinated debt on the local market, and was followed with the successful rights issue during FY 2017 will continue in the coming years as the Bank seeks to continue to strengthen its capital buffers.

By Order of the Board

23 March 2018

Notice is hereby given that Tuesday, 10 April 2018 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 Tuesday, 10 April 2018 will:

- i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting scheduled for Thursday 10 May 2018, and
- ii) be paid, on Friday 18 May 2018, the final dividend 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 10 April 2018 will include trades undertaken up to and including Friday 6 April 2018.