Bank of Valletta
Office of the Company Secretary
House of the Four Winds,
Triq l-Imtiehen, Il-Belt Valletta VLT 1350 - Malta
T: (356) 2131 2020 F: (356) 2275 3711
E: customercare@bov.com bov.com

BOV/383

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, 18 March 2020, approved the audited financial statements for Financial Year ended 31 December 2019. The Board resolved that these audited financial statements be submitted for the approval of the shareholders at the forthcoming Annual General Meeting (AGM).

In the light of the current COVID-19 scenario and the uncertainty that this has brought about, and the restrictions on public events and gatherings, the bank has decided not to hold the AGM on the 15 May 2020 and to postpone holding the AGM to a future date, within regulatory requirements. The bank shall continue to monitor the situation and announce the date for the AGM through a company announcement.

A preliminary statement of annual results is being attached herewith in terms of the Listing Rules and can also be viewed on the Bank's web portal https://www.bov.com/news/bov-financial-results-fy2019

The Board of Directors further resolved to recommend for the approval of the Annual General Meeting the payment of a final gross dividend of €0.026 per share making for a final net dividend of €0.017 per share which, if approved by the Annual General Meeting, would make for a total gross dividend for the year of €15,384,615.

The final dividend is subject to regulatory approval and the approval of shareholders at the AGM.

The bank will also be announcing together with the date of the rescheduled AGM, (a) the cut-off date for shareholders to be entitled to attend and vote at the AGM; (b) the date when the dividend will be paid; and (c) cut-off date for shareholders who shall be entitled to receive the dividend.

Unquote

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

18 March 2020

PRELIMINARY STATEMENT

OF ANNUAL RESULTS

31 December 2019

Statements of profit or loss

for the year ended 31 December 2019

Basis of preparation:

These figures have been extracted from the Bank of Valletta Group's audited financial statements for the period ended 31 December 2019, as approved by the Directors on 18 March 2020, and are being published in terms of MFSA Listing Rule 5.54.

	The Group		The Bank	
	2019	**2018**	**2019**	**2018**
	€000	**€000**	**€000**	**€000**
Interest and similar income				
- on loans and advances	169,825	165,177	169,825	165,177
- on debt and other fixed income instruments	37,138	48,719	37,138	48,719
Interest expense	(54,113)	(57,350)	(54,113)	(57,350)
Net interest income	152,850	156,546	152,850	156,546
Fee and commission income	86,410	92,368	77,403	83,346
Fee and commission expense	(12,582)	(11,231)	(12,582)	(11,231)
Net fee and commission income	73,828	81,137	64,821	72,115
Dividend income	757	1,075	30,078	12,828
Trading profits	22,241	18,019	22,243	18,007
Net gain on investment securities and hedging instruments	88	989	88	989
Operating income	**249,764**	**257,766**	**270,080**	**260,485**
Employee compensation and benefits	(71,240)	(65,696)	(68,593)	(63,043)
General administrative expenses	(78,306)	(54,596)	(76,842)	(53,093)
Amortisation of intangible assets	(6,317)	(4,607)	(6,317)	(4,607)
Depreciation of property and equipment	(7,155)	(5,699)	(7,096)	(5,636)
Net impairment reversal	11,562	10,816	11,562	10,816
Operating profit before litigation provision	**98,308**	**137,984**	**122,794**	**144,922**
Litigation provision	(25,000)	(75,000)	(25,000)	(75,000)
Operating profit	73,308	62,984	97,794	69,922
Share of results of equity-accounted investees, net of tax	15,897	8,214	-	-
Profit before tax	**89,205**	**71,198**	**97,794**	**69,922**
Income tax expense	(25,713)	(19,788)	(26,569)	(19,357)
Profit for the year	**63,492**	**51,410**	**71,225**	**50,565**
Earnings per share	10.9c	8.8c	12.2c	8.7c

Statements of profit or loss and other comprehensive income

for the year ended 31 December 2019

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
Profit for the year	63,492	51,410	71,225	50,565
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Debt investments at FVOCI				
- change in fair value	2,867	(1,958)	2,867	(1,958)
tax thereon	(1,003)	685	(1,003)	685
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	4,711	(1,904)	4,711	(1,904)
tax thereon	(1,649)	666	(1,649)	666
Property revaluation	22	12,762	22	12,762
tax thereon	(2)	(1,276)	(2)	(1,276)
Remeasurement of actuarial losses on defined benefit plans	(409)	(3,777)	(409)	(3,777)
tax thereon	143	1,322	143	1,322
Other comprehensive income for the year, net of tax	4,680	6,520	4,680	6,520
Total comprehensive income	68,172	57,930	75,905	57,085

Statements of financial position

as at 31 December 2019

	The Group		The Bank	
	2019	2018	2019	2018
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	3,669,580	3,400,588	3,669,580	3,400,588
Financial assets at fair value through profit or loss	205,139	206,206	204,979	205,227
Investments	3,071,160	3,314,955	3,071,160	3,314,955
Loans and advances to banks	501,686	490,644	501,686	490,644
Loans and advances to customers at amortised cost	4,445,812	4,362,983	4,445,812	4,362,983
Investments in equity-accounted investees	101,479	108,510	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	60,463	42,043	60,463	42,043
Property and equipment	126,196	119,155	126,031	118,978
Current tax	15,185	7,606	14,678	7,086
Deferred tax	76,017	71,749	76,017	71,749
Assets held for realisation	10,123	4,335	10,123	4,335
Other assets	42,627	7,900	42,627	7,900
Prepayments	5,142	10,314	3,031	8,851
Total Assets	**12,330,609**	**12,146,988**	**12,285,287**	**12,094,439**
LIABILITIES				
Financial liabilities at fair value through profit or loss	10,907	8,812	10,907	8,812
Amounts owed to banks	66,047	146,021	66,047	146,021
Amounts owed to customers	10,629,719	10,414,908	10,632,260	10,417,999
Debt securities in issue	-	40,197	-	40,197
Deferred tax	5,736	5,743	5,736	5,743
Other liabilities	189,109	196,421	188,881	196,204
Provisions	118,109	95,767	118,109	95,767
Accruals and deferred income	484	539	-	-
Derivatives designated for hedge accounting	13,963	10,206	13,963	10,206
Subordinated liabilities	234,230	234,241	234,230	234,241
Total Liabilities	**11,268,304**	**11,152,855**	**11,270,133**	**11,155,190**
EQUITY				
Called up share capital	583,849	530,772	583,849	530,772
Share premium account	49,277	49,277	49,277	49,277
Revaluation reserves	54,898	50,034	54,786	49,922
Retained earnings	374,281	364,050	327,242	309,278
Total Equity	1,062,305	994,133	1,015,154	939,249
Total Liabilities and Equity	**12,330,609**	**12,146,988**	**12,285,287**	**12,094,439**
MEMORANDUM ITEMS				
Contingent liabilities	341,618	335,405	341,618	335,405
Commitments	1,828,756	1,881,392	1,828,756	1,881,392

Statements of changes in equity
for the year ended 31 December 2019

	Share Capital	Share Premium Account	Revaluation Reserves	Retained Earnings	Total
	€000	€000	€000	€000	€000
The Group					
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)**
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 income	-	-	7,267	(747)	**6,520**
Total comprehensive 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 1 January 2019	**530,772**	**49,277**	**50,034**	**364,050**	**994,133**
Profit for the year	-	-	-	63,492	**63,492**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,864	-	**1,864**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	3,062	-	**3,062**
Property revaluation, net of tax	-	-	20	-	**20**
Release of surplus on sale of property, net of tax	-	-	(82)	82	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(266)	**(266)**
Total other comprehensive income	-	-	4,864	(184)	**4,680**
Total comprehensive income for the year	-	-	4,864	63,308	**68,172**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	**-**
	53,077	-	-	(53,077)	**-**
At 31 December 2019	**583,849**	**49,277**	**54,898**	**374,281**	**1,062,305**

Statements of changes in equity
for the year ended 31 December 2019

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
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)**
At 1 January 2018	**525,000**	**45,427**	**42,655**	**286,760**	**899,842**
Profit for the year	-	-	-	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 income	-	-	7,267	(747)	**6,520**
Total comprehensive 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 1 January 2019	**530,772**	**49,277**	**49,922**	**309,278**	**939,249**
Profit for the year	-	-	-	71,225	**71,225**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,864	-	**1,864**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	3,062	-	**3,062**
Property revaluation, net of tax	-	-	20	-	**20**
Release of surplus on sale of property, net of tax	-	-	(82)	82	**-**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(266)	**(266)**
Total other comprehensive income	-	-	4,864	(184)	**4,680**
Total comprehensive income for the year	**-**	**-**	4,864	71,041	**75,905**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	**-**
	53,077	-	-	(53,077)	-
At 31 December 2019	**583,849**	**49,277**	**54,786**	**327,242**	**1,015,154**

Statements of cash flows

for the year ended 31 December 2019

	The Group 2019	The Group 2018	The Bank 2019	The Bank 2018
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	274,907	280,296	265,902	271,267
Interest, commission and compensation payments	(56,017)	(54,040)	(55,962)	(54,086)
Payments to employees and suppliers	(139,946)	(125,250)	(135,187)	(118,700)
Operating profit before changes in operating assets and liabilities	78,944	101,006	74,753	98,481
(Increase)/decrease in operating assets:				
Loans and advances	(68,083)	(157,854)	(68,083)	(157,854)
Reserve deposit with Central Bank of Malta	(1,521)	(749)	(1,521)	(749)
Fair value through profit or loss financial assets	8,528	26,063	8,528	26,063
Fair value through profit or loss equity instruments	755	11,671	(64)	11,675
Treasury bills with original maturity of more than 3 months	(23,855)	(7,662)	(23,855)	(7,662)
Other assets	(30,433)	(288)	(30,433)	(372)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	185,260	301,801	184,710	303,353
Other liabilities	(19,958)	(1,331)	(18,879)	(1,677)
Net cash from operating activities before tax	129,637	272,657	125,156	271,258
Tax paid	(39,480)	(20,881)	(40,938)	(21,602)
Net cash from operating activities	90,157	251,776	84,218	249,656
Cash flows from investing activities				
Dividends received	24,186	10,774	30,078	12,828
Interest received from amortised and other fixed income instruments	50,840	54,953	50,840	54,953
Purchase of debt instruments	(569,278)	(892,021)	(569,278)	(892,021)
Proceeds from sale or maturity of debt instruments	832,503	1,021,261	832,503	1,021,261
Proceeds from sale of equity instruments	-	12,296	-	12,296
Purchase of property and equipment and intangible assets	(34,996)	(26,295)	(34,949)	(26,229)
Proceeds from disposal of property and equipment	330	2,000	330	2,000
Net cash from investing activities	303,585	182,968	309,524	185,088
Cash flows from financing activities				
Interest paid on debt securities and subordinated liabilities	(10,050)	(13,414)	(10,050)	(13,414)
Repayment of debt securities	(40,208)	(55,400)	(40,208)	(55,400)
Payment of lease liabilities	(1,475)	-	(1,475)	-
Dividends paid to equity holders	-	(17,678)	-	(17,678)
Net cash used in financing activities	(51,733)	(86,492)	(51,733)	(86,492)
Net change in cash and cash equivalents	342,009	348,252	342,009	348,252
Effect of exchange rate changes on cash and cash equivalents	2,011	1,252	2,011	1,252
Net change in cash and cash equivalents after effect of exchange rate changes	339,998	347,000	339,998	347,000
Net change in cash and cash equivalents	342,009	348,252	342,009	348,252
Cash and cash equivalents at 1 January	3,626,859	3,278,607	3,626,859	3,278,607
Cash and cash equivalents at 31 December	**3,968,868**	**3,626,859**	**3,968,868**	**3,626,859**

Highlights

- Reported Profit before tax of €89.2 million compared to €71.2 million for the period ending December 2018
- A Return on Equity, post tax, of 6.2%, compared to 5.3% for 2018
- Profit adjusted for litigation provision and additional transformation costs stands at €138.1m, 6% lower on the €146.2m last year
- Profit attributable to shareholders of €63.5 million resulting in an earnings per share of 10.9 cents compared to 8.8 cents last year
- Strong capital base with shareholders' equity of €1.1 billion, an increase of 6.9% and Common equity tier 1 ('CET1') ratio of 19.5%, up from 18.3% at December 2018
- A final gross dividend of €0.026 per share (€0.017 net per share) is being recommended
- Profit before tax for the year was impacted by an increase of €25 million in the litigation provision
- During the year the Bank expensed €23.9 million directly relating to the Bank's transformation programme
- Cost/income ratio of 61.4%, or 52.4% when the additional costs are excluded, up from 49.1% last year
- Gross advances to customers of €4.7 billion, 1.9% higher than December 2018
- Customer deposits of €10.6 billion, up by 2.1% when compared to December 2018
- Strong liquidity position with advances to deposits ratio of 44.2%

Review of performance

Bank of Valletta Group reported a pre-tax profit of €89.2 million (FY:2018: €71.2 million). Profit attributable to shareholders is €63.5 million.

Pre-tax profit for the year excluding the increased litigation provision and additional transformation costs amounts to €138.1 million. This adjusted profit translates to a pre-tax ROE of 13.4% (FY 2018: 14.9%, stated before the litigation provision). This reflects strong performance in a year characterized by various challenges. The results reflect the healthy performance of the local economy which had a positive impact on demand for credit. Liquidity levels, which are subject to negative interest, continued to increase.

During 2019 the Bank embarked on a fully fledged transformation programme in order to build a stronger and more effective governance, risk and control framework and implement more robust anti-money laundering, ('AML') measures. This key programme is necessary to meet both current and future challenges. As expected, such measures impacted commission income especially around foreign payment commissions.

Following the cyber attack experienced in February 2019, immediate steps were implemented to strengthen and enhance the Bank's IT security infrastructure. Quick actions taken at the time also ensured strong recovery of most funds misappropriated. During the year 2019 implementation of the multi-year core banking transformation programme continued in a very satisfactory manner and the Bank successfully went live with its new system on 1st January 2020.

Growth in mortgages drove up core operating income but net interest margin, the main revenue source, was down overall as the return on the Bank's treasury investment book reduced due to the higher yielding assets maturing. Also increased levels of liquidity resulted in higher negative interest being recorded. The cost of long term borrowing was also lower than the comparative period following the issue of new debt at a lower coupon than those which matured during the year.

The drop of 9% in net commission income was in line with expectations. The reduction in commissions is attributable to derisking measures implemented during the year which reduced the volume of fees earned on various products. The application of new regulations related to investment products resulted in lower income from this area of the business. Moreover, FY 2018 included one off gains which were not repeated this year. Trading and exchange earnings remained at last year's levels. Foreign exchange trading from international clients declined as derisking measures were rolled out. This was offset by growth in foreign exchange transactions from local business. Market movement, particularly as regards equities, were favourable and fair value gains of €5 million and €4.7 million were recognized in the P&L and Reserves respectively.

Both the life and the non-life business, the insurance interests of the Group, reported improved performance, which included gains attributed to positive market movements. The share of profit from associates amounts to €15.9 million, a significant improvement over last year.

Operating expenses for the year amount to €139.1 million, an increase of 6.5% as higher costs were recorded in both IT and HR as the Group continued investing in these primary resources. Investments in new systems, including those related to IT security resulted in a higher IT expenditure. Further investment in people, particularly in control functions, resulted in higher employee costs. Intensive training across the organisation was also carried out in preparation for the go live with the new system. Increases in other admin costs relate mostly to derisking activities while the growth in deposits resulted in higher regulatory costs. Cost income ratio stood at 61.4% or 52.4% when the additional costs are excluded (2018: 49.1%)

Further to operating expenditure, additional investment costs of €23.9 million relating to the Transformation Programme were also incurred during the year. Costs relating to this programme, which is expected to run over 2 years, cover various streams and initiatives aimed at lowering our risk profile, enhancing risk management and internal controls as well as establishing a solid overall governance framework. This ties with the overarching strategic objective of the Group to build a safer and stronger bank.

The proactive stance adopted in debt management, especially the focus on non performing exposures, resulted in further recoveries being made in respect debt previously written off and for the year under review, a net impairment reversal of €11.6 million is being recorded compared to the net reversal of €10.8 million for 2018. The ratio of non-performing exposures to total lending improved from 5.3% last year to 4.6% at this reporting date.

Litigation provision

Following the favourable judgement delivered by the Court of Appeal in respect of La Vallette Multi Manager Property Fund in December 2019, the Bank remains involved in two material litigation cases, namely the Deiulemar Trust and the Falcon Funds Sicav. The €75 million litigation recognised last year has been re-evaluated and increased to €100 million at December 2019, a prudent approach which reflects the likely economic outflows in terms of IAS 37. Such provisions are made without prejudice, and do not, in any way, constitute any admission of fault or liability on the part of the Bank.

The increase in litigation and claims provision of €25 million is being made in the context of circumstances affecting the significant cases and following extensive Board discussions and interaction 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 financial position

Customer deposits stood at €10.6 billion at the reporting date and remain the main funding source. In line with stricter AML controls, tighter onboarding procedures were applied. A substantial decrease in deposits held by international clients was recorded as the bank continued with its derisking measures. Overall, customer deposits have increased €215 million with growth in local deposits, mostly retail local economic activity resulted in higher liquidity flowing into the banking sector.

Gross loans and advances to customers amount to €4.7 billion at the reporting date, up by €89 million. The strong demand for home loans was sustained throughout the period and demand for personal lending was also satisfactory. Despite the growth in the loan book, the advances to deposits ratio remains on the low side, at 44.2%.

The Bank remains highly liquid with cash and short term funds at December 2019 exceeding the €4 billion mark. The prudent risk appetite and limited investment opportunities led to a contraction of the bank's investment book. The majority of financial instruments are carried at amortised cost in line with the Bank's primary business model of 'hold to collect'.

The Group has strong capital ratios with Equity attributable to the shareholders of the Bank amounting to €1.1 billion as at 31 December 2019 (December 2018: €994 million). The Group's CET 1 ratio stood at 19.5% at the reporting date, up from 18.3% as at 31 December 2018.

Looking ahead

The events subsequent to the reporting date, notably COVID-19, will most likely have a substantial negative impact on both global and local economies. The Bank regularly performs stress tests, including assessment of economic downturn scenarios, as part of its capital planning process to build capital buffers. These existing buffers, supported by measures made available by regulatory authorities provide significant mitigation against the additional challenges posed by this unprecedented event. A pro-active response programme has been put in place to continually assess and respond effectively to this evolving situation, adjust operations to maintain business continuity and support the safety and health of both staff and customers. At publication date, the overall financial impact cannot be accurately estimated but an adverse influence on 2020 performance is expected. The directors do not consider that any adjustments are required to the financial information at this stage. BOV has already taken steps and will be working on a number of initiatives to continue to support its various stakeholders.

During the coming months the intensive programme aimed to transform BOV into a stronger and safer bank will continue. While the strengthening of capital, necessary for long term sustainability, remains the overarching objective, the Group's strategy also focuses on ways to grow the business, enhance customer experience, improve internal processes and manage costs.

By Order of the Board

18 March 2020

In view of the current COVID-19 scenario and in order for the bank to safeguard the health and safety of its shareholders, employees and other stakeholders the date of the Annual General Meeting, originally planned for 15 May 2020, is being postponed. A new date will be advised in due course, via a Company Announcement.
Notice is hereby given that the "record date" for the purposes of Article 2.1 of the Bank's Articles of Association is 30 days immediately preceding the date set for the Annual General Meeting.
All shareholders appearing on the Bank's Register of Members as at the close of business on record will:
i) receive notice of and be entitled to attend and vote at the Bank's Annual General Meeting;
ii) be paid following the Annual General Meeting, the final dividend as approved at the Annual General Meeting.