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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 2019[1]. 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 2019[2], 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 an including Friday 5 April 2019.

# PRELIMINARY STATEMENT

# OF ANNUAL RESULTS

## 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 €000** | **15 months to Dec 2017 €000** | **12 months to Dec 2018 €000** | **15 months to Dec 2017 €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** | **2017** | **2018** | **2017** |
| | **€000** | **€000** | **€000** | **€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 €000 | Share Premium Account €000 | Revaluation Reserves €000 | Retained Earnings €000 | Total €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 on boarding 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.