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

BOV/365

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

During a meeting held on 31 July 2019, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank condensed Interim Financial Statements for the six-month financial period commencing 1 January 2019 to 30 June 2019. These financial statements have been reviewed by KPMG Malta in accordance with ISRE 2410 *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'*. Profit before tax for the six months amounts to €54.3 million (June 2018: €13.5 million post litigation provision of €75 million).

The Board of Directors, taking cognizance of supervisory guidance, has resolved not to declare an interim dividend, while the recommendation for a final cash dividend will be revisited at the end of the financial year in line with developments in the second half of the year.

The Interim Financial Statements and the financial commentary for the period ended 30 June 2019, are available for view and download on the Bank's website under the Investor Relations section - https://www.bov.com/documents/interim-results-2019

Unquote

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

31 July 2019

INTERIM REPORT

JUNE 2019

Bank of Valletta p.l.c.

Statements of profit or loss for the six months ended 30 June 2019

	The Group		The Bank	
	Jun-19	Jun-18	Jun-19	Jun-18
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	84,642	81,102	84,642	81,102
- on debt and other fixed income instruments	20,169	26,600	20,169	26,600
Interest expense	(27,223)	(28,734)	(27,223)	(28,734)
Net interest income	77,588	78,968	77,588	78,968
Fee and commission income	42,256	45,539	37,932	41,105
Fee and commission expense	(5,743)	(5,164)	(5,743)	(5,164)
Net fee and commission income	36,513	40,375	32,189	35,941
Dividend income	377	758	25,698	10,457
Trading profits	12,858	7,544	12,857	7,535
Net gain on investment securities and hedging instruments	143	290	143	290
Operating income	127,479	127,935	148,475	133,191
Employee compensation and benefits	(35,550)	(32,693)	(34,254)	(31,384)
General administrative expenses	(39,768)	(26,289)	(39,128)	(25,539)
Amortisation of intangible assets	(2,650)	(2,138)	(2,650)	(2,138)
Depreciation	(3,517)	(2,816)	(3,487)	(2,785)
Net impairment (charge)/reversal	(936)	20,155	(936)	20,155
Operating profit before litigation provision	45,058	84,154	68,020	91,500
Litigation provision	-	(75,000)	-	(75,000)
Operating profit	**45,058**	**9,154**	**68,020**	**16,500**
Share of results of equity-accounted investees, net of tax	9,244	4,308	-	-
Profit before tax	**54,302**	**13,462**	**68,020**	**16,500**
Income tax expense	(16,148)	(813)	(17,874)	(521)
Profit for the period	**38,154**	**12,649**	**50,146**	**15,979**
Earnings per share	06c5	02c2	08c6	02c7

Statements of profit or loss and other comprehensive income for the six months ended 30 June 2019

	The Group		The Bank	
	Jun-19	Jun-18	Jun-19	Jun-18
	€000	€000	€000	€000
Profit for the period	38,154	12,649	50,146	15,979
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Debt investments at FVOCI				
- change in fair value	2,212	(1,266)	2,212	(1,266)
tax thereon	(774)	443	(774)	443
	1,438	(823)	1,438	(823)
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	1,574	(3,893)	1,574	(3,893)
tax thereon	(551)	1,363	(551)	1,363
	1,023	(2,530)	1,023	(2,530)
Remeasurement of actuarial losses on defined benefit plans	(111)	150	(111)	150
tax thereon	39	(53)	39	(53)
	(72)	97	(72)	97
Other comprehensive income for the period, net of tax	2,389	(3,256)	2,389	(3,256)
Total comprehensive income for the period	**40,543**	**9,393**	**52,535**	**12,723**

Bank of Valletta p.l.c.

Statements of financial position as at 30 June 2019

	The Group		The Bank	
	Jun-19	Dec-18	Jun-19	Dec-18
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	3,636,338	3,400,588	3,636,338	3,400,588
Financial assets at fair value through profit or loss	213,223	206,206	213,064	205,227
Investments	3,258,286	3,314,955	3,258,286	3,314,955
Loans and advances to banks	393,969	490,644	393,969	490,644
Loans and advances to customers at amortised cost	4,489,128	4,362,983	4,489,128	4,362,983
Investments in equity-accounted investees	98,826	108,510	52,870	52,870
Investments in subsidiary companies	-	-	6,240	6,230
Intangible assets	49,970	42,043	49,970	42,043
Property and equipment	128,298	119,155	128,118	118,978
Current tax	-	7,606	-	7,086
Deferred tax	71,130	71,769	71,130	71,769
Assets held for realisation	3,989	4,335	3,989	4,335
Other assets	10,384	7,880	10,378	7,880
Prepayments and accrued income	5,499	10,314	4,157	8,851
Total Assets	**12,359,040**	**12,146,988**	**12,317,637**	**12,094,439**
LIABILITIES				
Financial liabilities at fair value through profit or loss	11,482	8,812	11,482	8,812
Amounts owed to banks	82,128	146,021	82,128	146,021
Amounts owed to customers	10,638,200	10,414,908	10,640,878	10,417,999
Debt securities in issue	-	40,197	-	40,197
Current tax	1,139	-	598	-
Deferred tax	5,734	5,743	5,734	5,743
Other liabilities	241,742	196,421	241,483	196,204
Provisions	95,721	95,767	95,721	95,767
Accruals and deferred income	389	539	-	-
Derivatives designated for hedge accounting	13,709	10,206	13,709	10,206
Subordinated liabilities	234,120	234,241	234,120	234,241
Total Liabilities	11,324,364	11,152,855	11,325,853	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	52,413	50,034	52,301	49,922
Retained earnings	349,137	364,050	306,357	309,278
Total Equity	1,034,676	994,133	991,784	939,249
Total Liabilities and Equity	**12,359,040**	**12,146,988**	**12,317,637**	**12,094,439**
MEMORANDUM ITEMS				
Contingent liabilities	**343,948**	**335,405**	**343,948**	**335,405**
Commitments	**1,892,090**	**1,881,392**	**1,892,090**	**1,881,392**

Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. The appropriation to the "Reserve for General Banking Risks" shall be effected from the profits for the year. As at the reporting date this reserve amounts to €5.391 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 31 July 2019 and signed on its behalf by:

Taddeo Scerri

Mario Mallia

Statements of changes in equity for the six months ended 30 June 2019

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €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	(17,780)	**(8,207)**
At 1 January 2018	**525,000**	**45,427**	**42,767**	**340,686**	**953,880**
Profit for the period	-	-	-	12,649	**12,649**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(823)	-	**(823)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(2,530)	-	**(2,530)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	97	**97**
Total other comprehensive income	-	-	(3,353)	97	**(3,256)**
Total comprehensive income for the period	-	-	(3,353)	12,746	**9,393**
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 30 June 2018	**530,772**	**49,277**	**39,414**	**326,132**	**945,595**
At 1 January 2019	**530,772**	**49,277**	**50,034**	**364,050**	**994,133**
Profit for the period	-	-	-	38,154	**38,154**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,438	-	**1,438**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	1,023	-	**1,023**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(72)	**(72)**
Release of surplus on sale of property, net of tax	-	-	(82)	82	-
Total other comprehensive income	-	-	2,379	10	**2,389**
Total comprehensive income for the period	-	-	**2,379**	**38,164**	**40,543**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	-
At 30 June 2019	**583,849**	**49,277**	**52,413**	**349,137**	**1,034,676**

Statements of changes in equity for the six months ended 30 June 2019

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €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	(17,780)	**(8,207)**
Adjusted balance at 1 January 2018	**525,000**	**45,427**	**42,655**	**286,759**	**899,841**
Profit for the period	-	-	-	15,979	**15,979**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	(823)	-	**(823)**
Equity investments at FVOCI					
- change in fair value, net of tax	-	-	(2,530)	-	**(2,530)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	97	**97**
Total other comprehensive income	-	-	(3,353)	97	**(3,256)**
Total comprehensive income for the period	-	-	(3,353)	16,076	**12,723**
Transactions with owners, recorded directly in equity:					
Scrip Dividend	5,772	3,850	-	(9,622)	-
Bonus issue					
Dividends to equity holders	-	-	-	(17,678)	**(17,678)**
	5,772	3,850	-	(27,300)	**(17,678)**
At 30 June 2018	**530,772**	**49,277**	**39,302**	**275,535**	**894,886**
At 1 January 2019	**530,772**	**49,277**	**49,922**	**309,278**	**939,249**
Profit for the period	-	-	-	50,146	**50,146**
Other comprehensive income					
Debt investments at FVOCI					
- change in fair value, net of tax	-	-	1,438	-	**1,438**
Equity investments at FVOCI					
- change in fair value net of tax	-	-	1,023	-	**1,023**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(72)	**(72)**
Release of surplus on sale of property, net of tax	-	-	(82)	82	**-**
Total other comprehensive income	-	-	2,379	10	**2,389**
Total comprehensive income for the period	-	-	**2,379**	**50,156**	**52,535**
Transactions with owners, recorded directly in equity:					
Bonus issue	53,077	-	-	(53,077)	-
At 30 June 2019	**583,849**	**49,277**	**52,301**	**306,357**	**991,784**

Bank of Valletta p.l.c.

Statements of cash flow for the six months ended 30 June 2019

	The Group		The Bank	
	Jun-19 €000	Jun-18 €000	Jun-19 €000	Jun-18 €000
Cash flows from operating activities				
Interest and commission receipts	148,880	139,584	144,434	137,271
Interest, commission and compensation payments	(29,774)	(32,295)	(29,624)	(32,269)
Payments to employees and suppliers	(77,171)	(58,982)	(75,235)	(56,923)
Operating profit before changes in operating assets and liabilities	41,935	48,307	39,575	48,079
(Increase)/decrease in operating assets:				
Loans and advances	(142,575)	(74,747)	(142,575)	(74,747)
Reserve deposit with Central Bank of Malta	(2,147)	1,301	(2,147)	1,301
Fair value through profit or loss financial assets	7,520	7,948	7,520	7,948
Fair value through profit or loss equity instruments	911	2,562	91	2,565
Treasury bills with original maturity of more than 3 months	6,173	(9,480)	6,173	(9,480)
Other assets	(2,158)	(5,973)	(2,152)	(6,053)
Increase/(Decrease) in operating liabilities:				
Amounts owed to banks and customers	237,468	(46,345)	237,055	(43,600)
Other liabilities	37,907	32,788	38,369	32,852
Net cash from/(used in) operating activities before tax	185,034	(43,639)	181,909	(41,135)
Tax paid	(8,680)	(7,607)	(11,473)	(10,124)
Net cash from/(used in) operating activities	176,354	(51,246)	170,436	(51,259)
Cash flows from investing activities				
Dividends received	19,806	10,457	25,698	10,457
and other fixed income instruments	19,317	25,471	19,317	25,471
Investment in subsidiaries	-	-	(10)	-
Purchase of debt instruments	(309,513)	(477,071)	(309,513)	(477,071)
Proceeds from sale or maturity of debt instruments	351,022	452,332	351,022	452,332
Purchase of property and equipment and intangible assets	(13,036)	(14,691)	(12,999)	(14,678)
Proceeds from disposal of property and equipment	330	-	330	-
Net cash from/(used in) investing activities	67,926	(3,502)	73,845	(3,489)
Cash flows from financing activities				
Net outflow on Long Term Borrowings	(40,318)	-	(40,318)	-
Reduction in Lease Liability	(516)	-	(516)	-
Dividends paid to equity holders	-	(17,678)	-	(17,678)
Net cash used in financing activities	(40,834)	(17,678)	(40,834)	(17,678)
Net change in cash and cash equivalents	**203,446**	**(72,426)**	**203,447**	**(72,426)**
Effect of exchange rate changes on cash and cash equivalents	1,371	(2,074)	1,371	(2,074)
Net change in cash and cash equivalents after effect of exchange rate changes	202,075	(70,352)	202,076	(70,352)
Net change in cash and cash equivalents	203,446	(72,426)	203,447	(72,426)
Cash and cash equivalents at 1 January	3,626,859	3,278,607	3,626,859	3,278,607
Cash and cash equivalents at 30 June	**3,830,305**	**3,206,181**	**3,830,306**	**3,206,181**

STATEMENT PURSUANT TO THE LISTING RULES ISSUED BY THE LISTING AUTHORITY

I confirm that to the best of my knowledge the condensed interim financial statements as at 30 June 2019 have been prepared, in all material respect, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).

Mario Mallia
CEO & Executive Director

1. Reporting entity

Bank of Valletta p.l.c ('the Bank') is a credit institution incorporated and domiciled in Malta with its registered address at 58, Zachary Street, Valletta. The condensed interim financial statements of the Bank as at and for the six months ended 30 June 2019 include the Bank, subsidiaries and equity-accounted investees (together referred to as the 'the Group').

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 are available upon request from the Bank's registered office and are available for viewing on its website at www.bov.com.

2. Basis of preparation

The published figures have been prepared in accordance with IAS 34 *Interim Financial Reporting*, as adopted by the EU. The condensed interim financial statements have been extracted from Bank of Valletta's unaudited management accounts for the six months ended 30 June 2019, and have been reviewed in terms of ISRE 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The interim results are being published in terms of Chapter 5 of the Listing Rules of the Malta Financial Services Authority.

These condensed interim financial statements should be read in conjunction with the Group's audited consolidated financial statements for the year ended 31 December 2018. Except for changes resulting from the adoption of IFRS 16 *Leases* ("IFRS 16"), the significant accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31 December 2018. These policies are described in Note 1 of the Group's audited consolidated financial statements for the year ended 31 December 2018. The adoption of IFRS 16 is discussed in note 2.1 to these condensed interim financial statements.

As required by IAS 34 *Interim Financial Reporting*, these condensed financial statements include the comparative statements of financial position information as of 31 December 2018, and the comparative statements of profit or loss, statements of profit or loss and other comprehensive income, statments of changes in equity and statements of cash flows information for the period ended 30 June 2018.

Related party transactions with other members of the BOV Group covering the period 1 January to 30 June 2019 have not materially affected the performance for the period under review except for dividends from subsidiaries and associates which were recognised in the Bank's profit.

2.1. IFRS 16 Leases

The Group has adopted IFRS 16 with effect from 1 January 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make future lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the accounting requirements under IAS 17 *Leases* – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Leases in which the Group is a lessee

The Group's lease arrangements comprise long-term leasehold properties, other immovable property leaseholds, equipment leases and property space for ATMs which were classified as operating leases under IAS 17. Under IFRS 16, the Group has recognised new assets (right-of-use assets) and liabilities (lease liabilities) for all its lease arrangements which were previously classified as operating leases under IAS 17, with the exceptions of some arrangements of low value items or short-term arrangements of one year or less. The Group has applied IFRS 16 on its mandatory adoption date of 1 January 2019 using a modified retrospective approach with no restatement of comparative information. Under this approach, the lease liability is measured at the present value of the remaining lease payments as at 1 January 2019. Refer to point (ii) and (iii) below for details on impact on transition.

Up until 31 December 2018, the Group recognised an *operating* lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. The nature of expenses related to these leases has changed with effect from 1 January 2019 because IFRS 16 replaced the operating lease expense with an amortisation charge for right-of-use assets and interest expense on lease liabilities.

In the Group's statement of cash flows, rental payments had been included as operating cash flows under IAS 17 up until 31 December 2018. Under IFRS 16, these payments are now split between interest payments and reductions in the lease liability. Whilst the interest payments will continue to be presented under operating cash flows in accordance with the Group's existing policy for interest payments, the portion of the payments relating to reduction in the lease liability will be presented under financing cash flows under IFRS 16.

The Group presents right-of-use assets in 'Property and equipment'. The carrying amount of right-of-use assets are set out below.

	Land and buildings €000	**Other €000**	**Total €000**
Balance at 30 June 2019	6,991	1,084	8,075

The Group presents lease liabilities in 'Other liabilities' in the statement of financial position.

i. Significant accounting policies

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liablity and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impact the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

ii. Impact on transition

On transition to IFRS 16, the Group recognised additional right-of-use assets and additional lease liabilities with no impact on retained earnings. The impact on transition is summarised below.

	Land and buildings	Other	Total
	€000	€000	€000
Balance at 1 January 2019:			
Right-of-use assets presented in property and equipment	7,419	1,184	8,603
Lease liabilities	7,419	1,184	8,603

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 2.44%.

iii. Impacts for the period

As at 30 June 2019, the Group's right-of-use assets amounted to €8,074,957 and lease liabilities amounted to €8,002,798.

Also in relation to those leases under IFRS 16, the group has recognised depreciation and interest costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised €604,141 (2017: Nil) in depreciation charges and €94,774 (2017: Nil) interest costs from these leases.

3. Segment information

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-19 €000	Jun-18 €000	Jun-19 €000	Jun-18 €000	Jun-19 €000	Jun-18 €000	Jun-19 €000	Jun-18 €000	Jun-19 €000	Jun-18 €000
The Group										
Operating income for the six months	57,497	57,063	57,657	57,500	21,071	23,992	(8,746)	(10,620)	127,479	127,935
Profit before taxation for the six months	18,635	(48,998)	40,700	67,176	27,793	26,462	(32,826)	(31,178)	54,302	13,462

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-19	Dec-18	Jun-19	Dec-18	Jun-19	Dec-18	Jun-19	Dec-18	Jun-19	Dec-18
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Total Assets	2,321,679	2,251,668	2,388,275	2,325,771	3,611,444	3,678,318	4,037,642	3,891,231	12,359,040	12,146,988
Total Liabilities	2,533,727	2,453,189	2,808,094	2,726,077	3,507,646	3,561,412	2,474,897	2,412,177	11,324,364	11,152,855

4. Provisions and Contingent Liabilities

Bank of Valletta is party to legal proceedings arising out of its normal business operations. Matters arising from a set of similar circumstances can give rise to either a provision or a contingent liability, depending on the relevant facts and circumstances. The recognition of provisions and disclosure of contingent liabilities in relation to such matters involves critical accounting estimates and judgements and is determined in accordance with the relevant accounting policies. At each reporting date, the status of each significant loss contingency is reviewed to assess the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, a liability for the estimated loss is provided for. There have been no significant developments in the principal legal cases that have been disclosed in note 33 of the 2018 Financial Statements of the Bank.

Due to the uncertainties inherent in such matters, provisions on the above principal cases are based on the best information available at the reporting date. On the basis that no significant developments happened on the prinicpal legal cases, the provision of €75 million recorded as at 31 December 2018 was retained as at 30 June 2019.

5. Debt securities and Subordinated Liabilities

The €40.2 million 4.25% debt securities and the €50.1 million 5.35% subordinated bonds matured on 17 May 2019 and 15 June 2019 respectively. The recent issue for the 3.75% €50 million subordinated bond, maturing on 15 June 2031 was a success and closed earlier due to oversubscription. This issue is part of the capital plan focusing on strenghtening Tier 2 capital and MREL requirements.

6. Fair value measurement

6.1 Fair value hierarchy

Level 1 in the fair value hierarchy represents quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 in the fair value hierarchy represents inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 in the fair value hierarchy represents unobservable inputs.

6.2 Bases of valuing assets and liabilities measured at fair value

The Group

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 June 2019				
Assets				
Treasury Bills	-	70,008	-	70,008
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	34,567	-	-	34,567
- equity and other non-fixed income instruments	4,506	11,605	14,104	30,215
- loans and advances	-	147,158	-	147,158
- derivative financial instruments	-	1,283	-	1,283
Investments				
Debt and other fixed income instruments				
- FVOCI	70,417	77,780	-	148,197
Equity and other non-fixed income instruments				
- FVOCI	11,932	8,720	-	20,652
Property at revaluation	-	-	101,046	101,046
	121,422	**316,554**	**115,150**	**553,126**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	11,482	-	11,482
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	13,709	-	13,709
	-	**25,191**	**-**	**25,191**

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 December 2018				
Assets				
Treasury Bills	-	86,231	-	86,231
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	35,264	4,369	-	39,633
- equity and other non-fixed income instruments	5,056	12,042	9,974	27,072
- loans and advances	-	135,110	-	135,110
- derivative financial instruments	-	4,391	-	4,391
Investments				
Debt and other fixed income instruments				
- FVOCI	70,003	72,904	-	142,907
Equity and other non-fixed income instruments				
- FVOCI	9,982	9,147	-	19,129
Property at revaluation	-	-	99,594	99,594
	120,305	**324,194**	**109,568**	**554,067**
Liabilities				
Financial liabilities at fair value through profit or loss	-	8,812	-	8,812
Financial liabilities designated for hedge accounting	-	10,206	-	10,206
	-	**19,018**	**-**	**19,018**

6. Fair value measurement *(continued)*

6.3 Bases of valuing assets and liabilities not measured at fair value

The following table provide an analysis of financial instruments that are not measured at fair value subsequent to initial recognition:

	Fair value measurement				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	€000	€000	€000	€000	€000
At 30 June 2019					
Investments					
at Amortised cost	2,574,755	583,566	-	3,158,321	3,089,437
Financial liabilities					
Debt securities in issue	-	-	-	-	-
Subordinated liabilities	231,407	-	-	231,407	234,120
	231,407	-	-	231,407	234,120

	Fair value measurement				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	€000	€000	€000	€000	€000
At 31 December 2018					
Investments					
at Amortised cost	2,660,111	516,377	-	3,176,488	3,152,919
Financial liabilities					
Debt securities in issue	40,200	-	-	40,200	40,197
Subordinated liabilities	232,131	-	-	232,131	234,241
	272,331	-	-	272,331	274,438

The following are all other financial intruments that are not measured at fair value subsequent to initial recognition and that are not included in the table above:

(i) Loans and advances to customers
Loans and advances to customers are the largest financial asset held by the Group, and are reported net of allowances to reflect the estimated recoverable amounts. The carrying amount of loans and advances to customers is a reasonable approximation of fair value because these are repriced to take into account changes in both benchmark rate and credit spreads. Their fair value measurement is a level 2 input.

(ii) Loans and advances to banks and balances with Central Bank
The majority of these assets reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iii) Other financial assets
The fair value of other financial assets is not deemed to differ materially from their carrying amount at the respective reporting dates.

(iv) Amounts owed to banks and customers
These liabilities are carried at amortised cost. The majority of these liabilities reprice or mature in less than 1 year. Hence their fair value is not deemed to differ materially from their carrying amount at the respective reporting dates. Their fair value measurement is a level 2 input.

(v) Other financial liabilities
The fair value of other financial liabilities is not deemed to differ materially from their carrying amount at the respective reporting dates.

The valuation techniques utilised in preparing these condensed interim financial statements were consistent with those applied in the preparation of financial statements for the year ended 31 December 2018.

6. Fair value measurement (continued)

6.4 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances of the Group's financial assets measured at fair value with a Level 3 input.

	Fair value through profit or loss		Fair value through other comprehensive income		
	Debt and other fixed income instruments	Equity and other non-fixed income instruments	Debt and other fixed income instruments	Equity and other non-fixed income instruments	Total
2019	**€000**	**€000**	**€000**	**€000**	**€000**
Opening balance 1 January 2019	-	9,974	-	-	9,974
Net change in fair value	-	4,220	-	-	4,220
Purchases	-	36	-	-	36
Sales	-	(127)	-	-	(127)
Closing balance 30 June 2019	-	14,103	-	-	14,103

	Fair value through profit or loss		Fair value through other comprehensive income		
	Debt and other fixed income instruments	Equity and other non-fixed income instruments	Debt and other fixed income instruments	Equity and other non-fixed income instruments	Total
2018	**€000**	**€000**	**€000**	**€000**	**€000**
Opening balance 1 January 2018	-	5,117	-	5,298	10,415
Net change in fair value	-	1,191	-	-	1,191
Purchases	-	-	-	-	-
Transfers	-	5,695	-	(5,298)	397
Sales	-	(2,029)	-	-	(2,029)
Closing balance 31 December 2018	-	9,974	-	-	9,974

During the six months under review no change in levels was made in financial assets at fair value through profit or loss (December 2018: Level 2 to Level 3 €0.4 million) and financial assets classified as FVOCI (December 2018: Nil). The transfer from Level 2 to Level 3 during the period ended December 2018 was due to equities being in liquidation.

The unrealised gains/losses on financial assets at fair value through profit or loss with a Level 3 input for the six month period ended 30 June 2019 amounted to €4.22 million (June 2018: €1.08 million).

7. Investments in subsidiary companies

The Bank has set up a technology company, which is still in start up phase. The eventual operations of the company are subject to the satisfactory outcome of a risk assessment, which is in progress, and to supervisory approval.

8. Earnings per share

The earnings per share was calculated on profit attributable to shareholders of the Group €38,154,000 (2018: €12,649,000) and the Bank €50,146,000 (2018: €15,979,000) divided by 583,849,270 shares outstanding as at 30 June 2019. The calculation of earnings per share was impacted by the bonus share issue of 53,077,206 shares on 11 June 2019 which was applied retrospectively.

9. Effective Tax Rate

The effective tax rate for the period ended 30 June 2018 was mainly impacted by the adoption of IFRS 9 *Financial Instruments* due to changes in classification and measurement of financial instrumemts.

10. Reclassification of comparative amounts

During the current financial reporting period, balances with Central Bank of Malta of €3.2 billion have been reclassified from 'Loans and advances to banks' to 'Balances with Central bank of Malta, treasury bills and cash'. Prior year figures have been restated to conform with the presentation for the current period.

Independent Auditors' Report on review of condensed interim financial statements

To the Board of Directors of Bank of Valletta p.l.c.

Introduction

We have reviewed the accompanying condensed interim financial statements of Bank of Valletta p.l.c. ('the Bank') and of the Group of which the Bank is the parent ('the Condensed Interim Financial Statements') which comprise the condensed statements of financial position as at 30 June 2019, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flow for the period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of the Condensed Interim Financial Statements in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU. Our responsibility is to express a conclusion on these interim financial statements based on our review.

This report is made solely to the Board of Directors in accordance with the terms of our engagement and is released for publication in compliance with the requirements of Listing Rule 5.75.4 issued by the Listing Authority. Our review has been undertaken so that we might state to the Board of Directors those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors for our review work, for this report, or for the conclusions we have expressed.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Condensed Interim Financial Statements for the period ended 30 June 2019 are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

The Principal authorised to sign on behalf of KPMG on the review resulting in this independent auditors' report is Noel Mizzi.

KPMG
Registered Auditors

31 July 2019

Overview

Bank of Valletta Group is declaring a profit before tax of €54.3 million for the six months ended 30 June 2019, representing an annualised return on equity (pre-tax) of 10.7%. For the comparative period, the Group registered a pre-tax profit of €13.5 million which included a litigation loss provision of €75 million. The Board of Directors, following supervisory guidance, has resolved not to declare an interim dividend while the recommendation for a final cash dividend will be revisited at the end of the financial year in line with developments in the second half of the year.

Operating profit amounts to €45.1 million, compared to €84.2 million for corresponding period last year.

The half-yearly results are summarised in the following table.

	Jun-19 € million	**Jun-18 € million**	***Change € million***
Net interest income	77.6	79.0	*(1.4)*
Net commission and trading profits	49.9	48.9	*1.0*
Costs	(81.5)	(63.9)	*(17.6)*
Impairment (charge)/reversal	(0.9)	20.2	*(21.1)*
Operating profit	**45.1**	**84.2**	***(39.1)***
Share of profit from associates	9.2	4.3	*4.9*
Profit before provision	**54.3**	**88.5**	***(34.2)***
Litigation provision	-	(75.0)	*75.0*
Profit before tax	**54.3**	**13.5**	***40.8***

Operating profit

Operating profit of €45.1 million has been impacted by higher cost and an impairment charge compared to substantial reversals of impairment last year.

Net interest income at €77.6 million accounts for more than 60% of operating revenue and is marginally below last year. The persistently low to negative interest rate environment, coupled with a capital optimisation programme undertaken by the Bank in respect of its proprietary portfolio, and higher levels of liquidity, resulted in a decrease in interest earned on the treasury assets. While competitive forces in the lending space continue to put pressure on the credit margin, this was offset by the healthy increase in the loan book. Net advances at amortised cost are up by €126 million since December 2018 and stand at €4.5 billion at 30 June 2019. Demand for new loans was experienced in mortgages, business lending and personal finance. Interest expense is marginally below the comparative period, mostly due to lower cost of wholesale funding.

While customer deposits have increased by €223 million since the start of the current financial year, customer preferences remain predominantly for money at call.

Commission and trading profits amount to €49.9 million, compared to €48.9 million for the comparative period. This line item comprises:

- fees and commissions which are below the comparative period since a number of one-off gains recognised last year were not repeated;
- exchange earnings where the impact of the restructuring exercise was mitigated by volume growth in core business; and
- fair value gains on equity holdings.

During the six months under review the Bank has embarked on a holistic transformation programme, the aim of which is to lower the Bank's risk profile and thus ensure its long term sustainability, stability and profitability. This programme is being executed with the help of two global consultancy firms and is being overseen by a Transformation Committee comprising BOV Directors as well as local and international consultants.

Total costs for the six months to June 2019 amount to €81 million, an increase of 27% over the comparative period. HR spend and IT related expenses have also increased as the Group continued with its investment in both human resource and information technology. During the period under review, a new collective agreement was signed and control functions continued to be strengthened thereby enabling the Group to meet the increasingly onerous regulatory demands. Concurrently, the implementation of the multi-year Core Banking Transformation project is progressing in a satisfactory manner and steps were taken to further strengthen the Group's IT infrastructure in the wake of the cyber incident experienced in February.

The impairment charge for the period is just under €1 million and includes recoveries of €5.8 million when compared to a higher level of reversals booked to June 2018. The prudent stance towards impairment provisioning has been retained. The Bank's strategic decision to adopt a more proactive stance when dealing with legacy non performing exposures is yielding satisfactory results and will continue to be pursued.

The share of profit from associates are higher for the period under review. The latter reflects the Group's share of the higher return registered by the life insurance company.

Litigation provision

The litigation provision taken last year consisted of a prudential provision against potential losses arising out of ongoing litigation cases, made in terms of IAS 37. Among these outstanding cases, the Bank is currently involved in three material litigation cases, as disclosed in note 33 of the Annual Report for 2018. These cases are kept under the continuous review of the Board of Directors to assess the Bank's position from time to time in the light of developments as they occur. Should developments so warrant, the Board will take the necessary measures in accordance with the changed circumstances, including making appropriate provisions. 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.

All litigation cases are kept under continuous review and the latest assessment concluded that provisions held as at December 2018 were deemed adequate at the reporting date and thus no changes were necessary at this time. The Bank will keep the supervisory authorities and the market informed of any material developments.

Financial position

The Group remains highly liquid, with cash and short term funds exceeding the €4 billion mark. The prudent investment strategy in financial instruments was retained and the portfolio is being re-dimensioned in line with the capital optimisation plan aimed at replacing assets which consume a high level of capital. The majority of treasury assets are carried at amortised cost reflecting the Bank's primary business model of 'hold to collect'. Loans and advances have increased at an annualised growth rate of 6% with demand for new lending coming from all sectors.

Customer deposits stood at €10.6 billion at end June 2019. Retail customer deposits continued to grow, while international deposits, both corporate and personal, have decreased in line with the ongoing derisking exercise which commenced in the third quarter of 2018.

The €40.2 million 4.25% debt securities and the €50.1 million 5.35% subordinated bonds matured on 17 May 2019 and 15 June 2019 respectively. The recent issue for the 3.75% €50 million subordinated bond, which was part of the capital plan focusing on Tier 2 capital and MREL requirements, was a success. It was, in fact, closed earlier due to oversubscription. The capital plan also focuses on the strengthening of the Tier 1 capital. Besides plough back of profits, the Bank will be seeking to raise additional capital via a financial instrument which will be eligible as Additional Tier 1 later on this year. Equity at end June 2019 has exceeded the €1 billion mark, up by €40.5 million, an annualised increase of 8%. Capital ratios remain strong, with a total Capital Adequacy Ratio (CAR) of 22.7% and a CET 1 ratio of 19.1%, compared to the December 2018 ratios of 21.1% and 18.3% respectively.

Looking ahead

In the short term, BOV is strongly focusing on widening its pool of overseas correspondent banks, especially with respect to US Dollar clearing. The Bank is at an advanced stage of replacing its current USD correspondent, which will terminate its correspondent arrangement on 14 December 2019. The aim is to decrease the Bank's dependence on a single institution, by cultivating a network of correspondents which see value in establishing and maintaining a relationship with Malta's largest bank.

In its position as a systemically important bank, the overarching strategy of the BOV Group remains the long term financial stability of the Bank. The ongoing strengthening of the Bank's capital position remains a priority. BOV's transformation strategy is a disciplined, structured and proactive plan where the ultimate aim is to make the Bank the financial services provider of choice. This extensive transformation programme encompasses various facets ranging from the exit or the re-dimensioning of business lines where the risk-reward ratio is out of balance to the strengthening of the strategic planning, risk management, anti-financial crime and compliance frameworks. This is underpinned by the BOV Core Banking Transformation programme, which is at an advanced stage, and which will see the replacement of the Bank's legacy core IT systems with a state-of-the-art Oracle Flexcube platform.

BOV remains committed to its primary role in the local economy. Continued investment, both in human resources and technology, are the foundations upon which the Bank will in the coming years continue to pursue its strategic objectives.

By Order of the Board

31 July 2019