



Bank of Valletta

Office of the Company Secretary

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BOV/343

COMPANY ANNOUNCEMENT

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

Quote

During a meeting held on 31 July 2018, 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 2018 to 30 June 2018. 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 litigation provision amounts to €88.5 million (June 2017: €67.8 million). Profit for the six months, after charging a litigation provision of €75 million, amounts to €13.5 million.

The Board of Directors, having taken note of extensive discussions with regulators, resolved not to declare an interim dividend. Moreover, the Board does not intend to recommend a final cash dividend for Financial Year 2018.

The Interim Financial Statements and the financial commentary for the period ended 30 June 2018, are available for viewing and downloading on the Bank's website under the Investor Relations section - <https://www.bov.com/documents/interim-results-2018>

Unquote

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

31 July 2018



INTERIM REPORT

JUNE 2018

Statements of profit or loss for the six months ended 30 June 2018

	The Group		The Bank	
	Jun-18 €000	Jun-17 €000	Jun-18 €000	Jun-17 €000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	81,102	78,684	81,102	78,684
- on debt and other fixed income instruments	26,600	24,797	26,600	24,797
Interest expense	(28,734)	(30,549)	(28,734)	(30,549)
Net interest income	78,968	72,932	78,968	72,932
Fee and commission income	45,539	38,187	41,105	33,601
Fee and commission expense	(5,164)	(4,766)	(5,164)	(4,765)
Net fee and commission income	40,375	33,421	35,941	28,836
Dividend income	758	1,081	10,457	10,992
Trading profits	7,544	7,206	7,535	7,282
Net gain on investment securities and hedging instruments	290	871	290	871
Operating income	127,935	115,511	133,191	120,913
Employee compensation and benefits	(32,693)	(31,154)	(31,384)	(29,901)
General administrative expenses	(26,289)	(26,695)	(25,539)	(25,968)
Amortisation of intangible assets	(2,138)	(1,858)	(2,138)	(1,706)
Depreciation	(2,816)	(2,758)	(2,785)	(2,876)
Net impairment reversals	20,155	5,924	20,155	5,924
Operating profit before litigation provision	84,154	58,970	91,500	66,386
Litigation provision	(75,000)	-	(75,000)	-
Operating profit	9,154	58,970	16,500	66,386
Share of results of equity-accounted investees, net of tax	4,308	8,875	-	-
Profit before tax	13,462	67,845	16,500	66,386
Income tax expense	(813)	(21,084)	(521)	(21,269)
Profit for the period	12,649	46,761	15,979	45,117
Earnings per share	02c4	10c7	03c0	10c3

Statements of profit or loss and other comprehensive income for the six months ended 30 June 2018

	The Group		The Bank	
	Jun-18 €000	Jun-17 €000	Jun-18 €000	Jun-17 €000
Profit for the period	12,649	46,761	15,979	45,117
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	-	(237)	-	(237)
tax thereon	-	83	-	83
- change in fair value transferred to profit or loss	-	(2,986)	-	(2,986)
tax thereon	-	1,045	-	1,045
	-	(2,095)	-	(2,095)
Debt investments at FVOCI				
- change in fair value	(1,266)	-	(1,266)	-
tax thereon	443	-	443	-
	(823)	-	(823)	-
Items that will not be reclassified to profit or loss:				
Equity investments at FVOCI				
- change in fair value	(3,893)	-	(3,893)	-
tax thereon	1,363	-	1,363	-
	(2,530)	-	(2,530)	-
Remeasurement of actuarial losses on defined benefit plans	150	267	150	267
tax thereon	(53)	(94)	(53)	(94)
	97	173	97	173
Other comprehensive income for the period, net of tax	(3,256)	(1,922)	(3,256)	(1,922)
Total comprehensive income for the period	9,393	44,839	12,723	43,195

	The Group		The Bank	
	Jun-18	Dec-17	Jun-18	Dec-17
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	218,057	159,684	218,057	159,684
Financial assets at fair value through profit or loss	224,131	326,291	223,154	325,316
Investments	3,471,264	3,374,541	3,471,264	3,374,541
Loans and advances to banks	3,267,797	3,431,383	3,267,797	3,431,383
Loans and advances to customers at amortised cost	4,257,802	4,162,032	4,257,802	4,162,032
Investments in equity-accounted investees	104,605	109,461	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	38,481	28,453	38,481	28,453
Property and equipment	104,935	105,222	104,780	105,048
Current tax	158	12,034	839	9,379
Deferred tax	81,107	60,217	81,107	60,217
Assets held for realisation	5,199	5,972	5,199	5,972
Other assets	12,701	5,955	12,698	5,872
Prepayments and accrued income	37,555	39,385	36,358	40,317
Total Assets	11,823,792	11,820,630	11,776,636	11,767,314
LIABILITIES				
Financial liabilities at fair value through profit or loss	15,158	11,957	15,158	11,957
Amounts owed to banks	154,031	192,196	154,031	192,196
Amounts owed to customers	10,037,513	10,100,625	10,041,797	10,102,164
Debt securities in issue	95,400	95,400	95,400	95,400
Deferred tax	4,519	4,519	4,519	4,519
Other liabilities	240,276	195,751	240,012	195,428
Provisions	77,000	2,000	77,000	2,000
Accruals and deferred income	13,329	12,451	12,862	11,958
Derivatives designated for hedge accounting	9,380	12,053	9,380	12,053
Subordinated liabilities	231,591	231,591	231,591	231,591
Total Liabilities	10,878,197	10,858,543	10,881,750	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	39,414	33,194	39,302	33,082
Retained earnings	326,132	358,466	275,535	304,539
Total Equity	945,595	962,087	894,886	908,048
Total Liabilities and Equity	11,823,792	11,820,630	11,776,636	11,767,314
MEMORANDUM ITEMS				
Contingent liabilities	265,748	253,851	265,748	253,851
Commitments	1,731,924	1,858,191	1,731,924	1,858,191

Banking Rule 09 requires banks in Malta to hold additional reserves for general banking risks against non-performing loans. This reserve is required to be funded from planned dividend. As at the reporting date this reserve amounts to €5.722 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 31 July 2018 and signed on its behalf by:

Taddeo Scerri
Chairman

Mario Mallia
CEO & Executive Director

Statements of changes in equity for the six months ended 30 June 2018

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Group					
At 1 January 2017	390,000	988	32,693	305,059	728,740
Profit for the period	-	-	-	46,761	46,761
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	(154)	-	(154)
- change in fair value transferred to profit or loss, net of tax	-	-	(1,941)	-	(1,941)
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	173	173
Total other comprehensive income	-	-	(2,095)	173	(1,922)
Total comprehensive income for the period	-	-	(2,095)	46,934	44,839
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(12,285)	(12,285)
	30,000	-	-	(42,285)	(12,285)
At 30 June 2017	420,000	988	30,598	309,708	761,294
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)
Adjusted balance 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	-	-	(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

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Bank					
At 1 January 2017	390,000	988	32,580	260,943	684,510
Profit for the period	-	-	-	45,117	45,117
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	(154)	-	(154)
- change in fair value transferred to profit or loss, net of tax	-	-	(1,941)	-	(1,941)
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	173	173
Total other comprehensive income	-	-	(2,095)	173	(1,922)
Total comprehensive income for the period	-	-	(2,095)	45,290	43,195
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(12,285)	(12,285)
	30,000	-	-	(42,285)	(12,285)
At 30 June 2017	420,000	988	30,485	263,948	715,420
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)	-
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

	The Group		The Bank	
	Jun-18 €000	Jun-17 €000	Jun-18 €000	Jun-17 €000
Cash flows from operating activities				
Interest and commission receipts	139,584	119,007	137,271	113,130
Interest, commission and compensation payments	(32,295)	(37,522)	(32,269)	(36,996)
Payments to employees and suppliers	(58,982)	(54,363)	(56,923)	(52,908)
Operating profit before changes in operating assets and liabilities	48,307	27,122	48,079	23,226
(Increase)/decrease in operating assets:				
Loans and advances	(74,747)	(56,708)	(74,747)	(56,708)
Reserve deposit with Central Bank of Malta	1,301	(9,781)	1,301	(9,781)
Fair value through profit or loss financial assets	7,948	20,445	7,948	20,445
Fair value through profit or loss equity instruments	2,562	10,628	2,565	10,631
Treasury bills with original maturity of more than 3 months	(9,480)	(12,005)	(9,480)	(12,005)
Other assets	(5,973)	(1,760)	(6,053)	(1,759)
(Decrease)/Increase in operating liabilities:				
Amounts owed to banks and customers	(46,345)	455,000	(43,600)	455,195
Other liabilities	32,788	37,855	32,852	36,968
Net cash (used in)/from operating activities before tax	(43,639)	470,796	(41,135)	466,212
Tax paid	(7,607)	(14,199)	(10,124)	(12,667)
Net cash (used in)/from from operating activities	(51,246)	456,597	(51,259)	453,545
Cash flows from investing activities				
Dividends received	10,457	7,950	10,457	10,992
Interest received from hold to collect debt and other fixed income instruments	25,471	22,438	25,471	22,438
Proceeds from sale of equity instruments	-	4,350	-	4,350
Purchase of debt instruments	(477,071)	(530,584)	(477,071)	(530,584)
Proceeds from sale or maturity of debt instruments	452,332	412,505	452,332	412,505
Purchase of property and equipment and intangible assets	(14,691)	(18,657)	(14,678)	(18,647)
Net cash used in investing activities	(3,502)	(101,998)	(3,489)	(98,946)
Cash flows from financing activities				
Dividends paid to Bank's equity holders	(17,678)	(12,285)	(17,678)	(12,285)
Net cash used in financing activities	(17,678)	(12,285)	(17,678)	(12,285)
Net change in cash and cash equivalents	(72,426)	342,314	(72,426)	342,314
Effect of exchange rate changes on cash and cash equivalents	(2,074)	2,219	(2,074)	2,219
Net change in cash and cash equivalents after effect of exchange rate changes	(70,352)	340,095	(70,352)	340,095
Net change in cash and cash equivalents	(72,426)	342,314	(72,426)	342,314
Cash and cash equivalents at 1 January	3,278,607	2,728,372	3,278,607	2,728,372
Cash and cash equivalents at 30 June	3,206,181	3,070,686	3,206,181	3,070,686

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 2018 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 2018 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 period ended 31 December 2017 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'. The condensed Group financial statements have been extracted from Bank of Valletta's unaudited Group management accounts for the six months ended 30 June 2018, 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 consolidated financial statements should be read in conjunction with the Group's audited consolidated financial statements for the period ended 31 December 2017. Except for changes resulting from the adoption of IFRS 9, Financial Instruments (IFRS 9), 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 period ended 31 December 2017. These policies are described in Note 1 of the Group's audited consolidated financial statements for the year ended 31 December 2017. The adoption of IFRS 9 is discussed in note 2.1 to these condensed financial statements, while the adoption of IFRS 15 did not have a material impact on the Group.

During the previous financial period, the Group changed its accounting reference date from 30 September to 31 December. The financial statements for the fifteen month period to 31 December 2017 was the first one prepared under this new date. As required by IAS 34, Interim Financial Reporting, these interim financial statements include the comparative statements of financial position information of 31 December 2017, and the comparative statements of profit or loss and statements of comprehensive income information for the period from January to June 2017.

Related party transactions with other members of the BOV Group covering the period 1 January to 30 June 2018 have not materially affected the performance for the period under review.

2.1 IFRS 9, Financial Instruments

The Group adopted IFRS 9 on 1 January 2018, which is the date of initial application of the standard. IFRS 9 has resulted in changes in accounting policies related to the classification and measurement and impairment of financial assets. There are no significant changes in accounting policies for financial liabilities, derivative instruments and derecognition of financial assets and liabilities. The Group has taken advantage of the exemption in IFRS 9 allowing it not to restate comparative information for prior periods with respect to classification and measurement and impairment changes.

The Group made a full disclosure of the nature of the changes in accounting policies brought about by the adoption of IFRS 9 in Note 1.1.1 of its consolidated financial statements for the period ended 31 December 2017; the below is a summary of the changes brought about by this standard:

2.1.1 Classification and measurement of financial assets

Under IFRS 9, the Group classifies its financial assets in the following measurement categories:

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), are measured at amortised cost unless the Group designates the assets at FVTPL. This measurement category is applicable only to debt instruments.

Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets are measured at FVOCI, provided that the assets' cash flows represent SPPI, and the Group has not designated the instruments at FVTPL.

Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis and is irrevocable.

The impact on the Group of the adoption of IFRS 9 on the classification and measurement of financial assets is disclosed in Note 3.

2.1.2 Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This requires considerable judgement over how changes in economic factors affect ECLs, which are determined on a probability-weighted basis.

The new impairment model applies to financial assets that are debt instruments, financial guarantee contracts issued, and loan commitments issued, provided that the instruments are not measured by the Group at FVTPL. No impairment loss is recognised on equity investments.

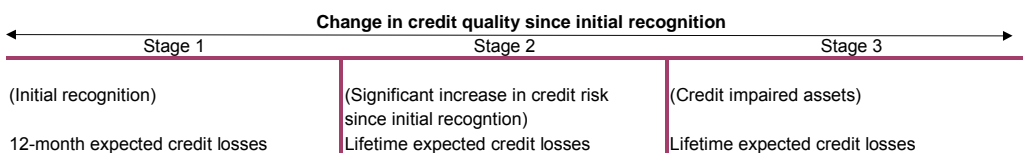
Under IFRS 9, the Group recognises a loss allowance at an amount equal to lifetime ECL, except in the following cases, where the amount recognised will be a 12-month ECL:

2.1.2 Impairment of financial assets (continued)

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgements in implementing the impairment model of IFRS 9.
- If the financial instrument is deemed to be credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 and 3 have their ECL measured based on expected losses on a lifetime bases.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):



The Group's key considerations in estimating ECLs, each of which were disclosed in full in Note 1.1.1 of the Group's consolidated financial statements for the period ended 31 December 2017, are summarised below:

SICR: The Group applies the low credit risk simplification for all investments which are of an investment grade; this comprises the vast majority of its treasury portfolio. For all other instruments within the scope of the impairment requirements of IFRS 9, the Group assesses whether the debt instruments have experienced a SICR since initial recognition by considering both qualitative and quantitative information.

Default: The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held), or when the borrower is past due by more than 90 days on any material credit obligation to the Group. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

Measuring ECL: The Group recognises a loss allowance which reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, time value of money, and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL is measured on either a 12-month or Lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECLs are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD).

Forward-looking information: The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The impact of these economic variables on the PD, EAD and LGD is determined by performing statistical regression analysis to understand the impact that changes in these variables would have had historically on default rates and on the components of LGD and EAD.

2.1.3 Classification and measurement of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the adoption of IFRS 9 did not have an impact on the Bank or the Group.

2.1.4 Hedge Accounting

As allowed by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

3. Impact of IFRS 9 adoption**3.1 Reconciliation of IAS 39 to IFRS 9**

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at the date of initial application, 1 January 2018, are compared as follows. The differences between IAS 39 and IFRS 9 consist of reclassifications and remeasurements.

- Reclassifications : These adjustments reflect the movement of balances between categories of financial assets with no impact to shareholders' equity. There is no change to the carrying value of financial instruments as a result of reclassifications.

- Remeasurements: These adjustments, which include changes to the measurement bases as well as expected credit losses, result in a change to the carrying value of the financial instrument, with a corresponding impact (net of tax) on shareholders' equity.

	IAS 39 Measurement category	IAS 39 Carrying amounts	Reclassification	Remeasurement	IFRS 9 Carrying amounts	IFRS 9 Measurement category
		€000	€000	€000	€000	
Financial assets						
Balances with Central Bank of Malta, treasury bills and cash	Amortised cost (Loans and receivables)	159,684	-	-	159,684	Amortised cost
Financial assets at fair value through profit or loss						
- Debt and other fixed income instruments	FVTPL (Designated)	111,417	(73,637)	-	37,780	FVTPL (Designated)
- Debt and other fixed income instruments			25,015	324	25,339	FVTPL (Mandatory)
- Equity and other non-fixed income instruments		64,811	(27,851)	-	36,960	FVTPL (Designated)
- Loans and advances to customers	FVTPL (Designated)	142,573	-	-	142,573	FVTPL (Mandatory)
- Derivative financial instruments	FVTPL (Mandatory)	7,490	-	-	7,490	FVTPL (Mandatory)
		326,291	(76,473)	324	250,142	
Investments						
- Debt and other fixed income instruments	FVOCI (Available-for-sale)	139,328	5,181	-	144,509	FVOCI
- Equity and other non-fixed income instruments	FVOCI (Available-for-sale)	5,298	27,851	-	33,149	FVOCI
- Debt and other fixed income instruments	Amortised cost (Held-to-maturity)	3,229,915	43,441	(6,242)	3,267,114	Amortised cost
		3,374,541	76,473	(6,242)	3,444,772	
Loans and advances to banks	Amortised cost (Loans and receivables)	3,431,383	-	(8)	3,431,375	Amortised cost
Loans and advances to customers at	Amortised cost (Loans and receivables)	4,162,032	-	(6,442)	4,155,590	Amortised cost
		11,453,931			11,441,563	

There were no changes to the classification and measurement of financial liabilities. The application of IFRS 9 resulted in the reclassifications set out in the table above, which are explained below:

a) Before the adoption of IFRS 9, certain investment securities were voluntarily designated as at FVTPL. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified and measured at amortised cost under IFRS 9 as their cash flows represent SPPI.

b) Certain investment securities were voluntarily designated as at FVTPL prior to the adoption of IFRS 9. The Group Central Treasury actively manages the return on the portfolio. The Group's return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These assets' cash flows represent SPPI, and they are classified and measured at FVOCI under IFRS 9.

c) Certain investment securities which, prior to the adoption of IFRS 9, were classified as held-to-maturity fail to meet the SPPI criteria in IFRS 9. On adoption of IFRS 9, these securities have accordingly been reclassified to financial assets measured at FVTPL.

d) Upon adoption of IFRS 9, the Group has elected to measure certain investments in equity instruments at FVOCI. Before the adoption of IFRS 9, these securities were generally classified and measured at FVTPL under IAS 39.

e) The Group has elected to measure certain investments in equity instruments as at FVTPL under IFRS 9; these instruments had been measured at FVOCI under IAS 39.

f) The majority of the Group's instruments which were previously classified as available-for-sale are now classified as measured at FVOCI with no changes to their measurement basis.

g) The majority of the Group's instruments which were previously classified as held-to-maturity are now classified as measured at amortised cost with no changes to their measurement basis.

3. Impact of IFRS 9 adoption**3.1 Reconciliation of IAS 39 to IFRS 9 (continued)**

Investments as shown in the Statement of Financial Position comprise of the following:

	Jun-18 €000	Dec-17 €000
Debt and other fixed income instruments:		
- Held-to-maturity	-	3,229,915
- Available-for-sale	-	139,328
- Amortised Cost	3,299,948	-
- Fair value through other comprehensive income	141,881	-
Equity and other non-fixed income instruments:		
- Available-for-sale	-	5,298
- Fair Value through Other Comprehensive Income	29,435	-
	<u>3,471,264</u>	<u>3,374,541</u>

3.2 Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the impairment allowance as at 31 December 2017 measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Impairment allowance under IAS 39	Reclassification	Remeasurement	Impairment allowance under IFRS 9
	€000	€000	€000	€000
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Loans and advances to banks	-	-	8	8
Loans and advances to customers	166,200	-	(16,579)	149,621
Total	<u>166,200</u>	<u>-</u>	<u>(16,571)</u>	<u>149,629</u>
Held-to-maturity (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Investment securities	-	-	1,050	1,050
Available-for-sale financial instruments (IAS 39) / Financial assets at FVOCI (IFRS 9)				
Investment securities	-	-	127	127
Loan commitments and financial guarantee contracts				
Loans and advances to customers (loan commitments)	-	-	23,016	23,016
	<u>166,200</u>	<u>-</u>	<u>7,622</u>	<u>173,822</u>

4. Segment information

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17	Jun-18	Jun-17
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
The Group										
Operating income for the six months	57,063	53,446	57,500	55,065	23,992	18,706	(10,620)	(11,706)	127,935	115,511
Profit before taxation for the six months	(16,016)	24,179	53,205	49,113	21,736	25,455	(45,463)	(30,902)	13,462	67,845

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17	Jun-18	Dec-17
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Total Assets	2,179,360	2,123,832	2,312,311	2,263,499	3,846,254	3,842,282	3,485,867	3,591,017	11,823,792	11,820,630
Total Liabilities	2,331,548	2,236,433	2,694,721	2,681,105	3,733,145	3,747,437	2,118,783	2,193,568	10,878,197	10,858,543

5. Intangible Assets

The increase in intangible assets is mainly attributable to the Bank's investment in a new Core Banking Platform.

6. 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 contingents in relation to such matters involves critical accounting estimates and judgments 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. The significant developments in the principal legal cases that have been disclosed in note 33 of the 2017 Financial Statements of the Bank are set out below.

In respect of Deiulemar Trust, in March 2018 the Tribunal of Torre Annunziata upheld an application for a Precautionary Warrant of Seizure ("sequestro conservativo") against the Bank. On its own initiative, the Bank subsequently placed €363 million by way of securities in custody with an Italian bank. In addition, the Bank's appeal against the precautionary warrant of seizure (referred to in note 33 as aforesaid) was not upheld by the Tribunal of Torre Annunziata on 19 July 2018. Whilst external legal counsel continue to advise the Bank that there are strong legal defences on the merits of this case, in light of recent negative court decisions, a provision has been recognised based on the legal advice received. In the meantime, in the case of La Valette Multi Manager Property Fund (LVMPF), since the date of approval of the Bank's 2017 Financial Statements, the time allowed to lodge further complaints with the Office of the Arbitrator for Financial Services expired on 18 April 2018 and a provision has been recognised in this respect to reflect the legal obligation. On Falcon Funds SICAV, the case remains under continuous review.

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. In this respect, as at 30 June 2018, provisions of €75 million have been recognised.

As additional information will become available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Where an individual provision is material, the fact that a provision has been made would be stated and quantified, except to the extent that it would be seriously prejudicial if such disclosure is provided. Any provisions recognised do not constitute any admission of wrongdoing or legal liability.

7. Fair value measurement

7.1 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.

7.2 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 2018				
Assets				
Treasury Bills	-	74,036	-	74,036
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	37,061	17,959	-	55,020
- equity and other non-fixed income instruments	13,318	11,942	9,993	35,253
- loans and advances	-	127,316	-	127,316
- derivative financial instruments	-	6,543	-	6,543
Investments				
Debt and other fixed income instruments				
- FVOCI	70,076	71,808	-	141,884
Equity and other non-fixed income instruments				
- FVOCI	20,712	8,723	-	29,435
Property at revaluation	-	-	86,933	86,933
	141,167	318,327	96,926	556,420

Liabilities

Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	15,158	-	15,158
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	9,380	-	9,380
	-	24,538	-	24,538

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
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At 31 December 2017

Assets

Treasury Bills	-	4,503	-	4,503
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	99,015	12,402	-	111,417
- equity and other non-fixed income instruments	36,501	23,193	5,117	64,811
- loans and advances	-	142,573	-	142,573
- derivative financial instruments	-	7,490	-	7,490
Investments				
Debt and other fixed income instruments				
- Available-for-sale	66,079	73,249	-	139,328
Equity and other non-fixed income instruments				
- Available-for-sale	-	-	5,298	5,298
Property at revaluation	-	-	86,042	86,042
	201,595	263,410	96,457	561,462

Liabilities

Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	11,957	-	11,957
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	12,053	-	12,053
	-	24,010	-	24,010

7. Fair value measurement (continued)

7.3 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			Total €000	Carrying Amount €000
	Level 1 €000	Level 2 €000	Level 3 €000		
At 30 June 2018					
Financial assets at Amortised cost	2,781,531	552,796	-	3,334,327	3,299,948
Financial liabilities					
Debt securities in issue	96,000	-	-	96,000	95,400
Subordinated liabilities	234,594	-	-	234,594	231,591
	330,594	-	-	330,594	326,991
At 31 December 2017					
Financial assets Held-to-maturity	2,643,695	625,651	-	3,269,346	3,229,915
Financial liabilities					
Debt securities in issue	97,454	-	-	97,454	95,400
Subordinated liabilities	235,328	-	-	235,328	231,591
	332,782	-	-	332,782	326,991

7.4 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	Fair value through profit or loss		FVOCI investments		Total €000
	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	
2018					
Opening balance 1 January 2018	-	10,415	-	-	10,415
Net change in fair value	-	1,083	-	-	1,083
Sales	-	(1,504)	-	-	(1,504)
Closing balance 30 June 2018	-	9,993	-	-	9,993
2017					
	Fair value through profit or loss		Available-for-sale investments		Total €000
	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	Debt and other fixed income instruments €000	Equity and other non-fixed income instruments €000	
Opening balance 1 October 2016	-	5,678	-	3,583	9,261
Net change in fair value	-	(7)	-	1,715	1,708
Purchases	-	3,088	-	-	3,088
Sales	-	(3,642)	-	-	(3,642)
Closing balance 31 December 2017	-	5,117	-	5,298	10,415

During the six months under review no change in levels was made in financial assets at fair value through profit or loss (December 2017: €0.8 million) and no change in financial assets in Level 3 and Level 2. The transfer from Level 1 to Level 2 during the period ended December 2017 was due to securities which did not have a quoted price on active markets as at the period. During the six months to June 2018, no change in levels was made in financial assets classified as FVOCI.

The unrealised gains/losses on financial assets at fair value through profit or loss as of 30 June 2018 and 31 December 2017 were immaterial.

7. Fair value measurement (continued)

Financial instruments at fair value through profit or loss and financial assets which are 'held to collect and sell' are carried at their fair value:

(i) Investments – Debt and other fixed income instruments - Held-to-Collect

This category of assets is carried at amortised cost. Their fair value is disclosed separately in the respective note to the financial statements.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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 2017.

8. Accounting Standards not yet adopted**IFRS 16 Leases**

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows. Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

This new standard substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. Additionally, this standard requires (i) lessees to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee, and (ii) lessors to disclose enhanced information about lessor's risk exposure, particularly to residual value risk.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The Group is in the initial stages of implementation and is currently assessing the impact on its consolidated and separate financial statements resulting from the application of this standard.

9. Earnings per share

The earnings per share was calculated on profit attributable to shareholders of the Group €12,649,000 (2017: €46,761,000) and the Bank €15,979,000 (2017: €45,117,000) divided by 526,371,264 weighted average number of shares for the period as at 30 June 2018 (2017: 438,805,970). The calculation of earnings per share was impacted by the increase in the number of ordinary shares outstanding as a result of the scrip dividend (on 18 May 2017) which was applied prospectively.

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 2018, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the six month 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 2018 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 2018

Overview

Bank of Valletta Group is declaring a profit before tax of €13.5 million for the six months which ended on 30 June 2018. This represents an annualised return on equity of 2.8%. The Group registered a pre-tax profit of €67.8 million for the corresponding period last year. The decrease in profit is wholly attributable to a litigation loss provision of €75 million that the Group is setting aside in the current financial reporting period. Annualised return on equity before the litigation provision stands at 18.7%, compared to 18.4% for June 2017.

The Board of Directors, having taken note of extensive discussions with regulators, resolved not to declare an interim dividend. Moreover, the Board does not intend to recommend a final cash dividend for Financial Year 2018.

Operating profit, stated before deducting this litigation provision, amounts to €84.2 million, an improvement of almost 43% over the corresponding operating profit last year.

The half-yearly results can be summarised as follows:

	Jun-18 €million	Jun-17 €million	Change € million	Change %
Interest Margin	79.0	72.9	6.0	8%
Commission	40.4	33.4	7.0	21%
Dividend Income	0.8	1.1	(0.3)	-30%
Exchange	7.6	9.2	(1.6)	-18%
Costs	(63.9)	(62.5)	(1.5)	2%
Core Profit pre Impairment	63.8	54.2	9.6	18%
Impairment	20.2	5.9	14.2	240%
Core Profit	83.9	60.1	23.8	40%
Share of Profits from associates	4.3	8.9	(4.6)	-51%
FV movements	0.2	(1.1)	1.4	-120%
Profit before litigation provision	88.5	67.8	20.6	30%
Litigation Provision	(75.0)	-	(75.0)	
Profit before tax	13.5	67.8	(54.4)	-80%

Litigation provision

The litigation provision consists of a prudential provision against potential losses arising 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 continuous review to thus 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, including the one forming part of the present 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 provision of €75 million is being made in the context of changing circumstances affecting the three cases, and following extensive discussion with supervisory authorities. The most material of the cases is that concerning the bankruptcy of the Deiulemar Group, where the Bank is being sued for the amount of €363 million in Torre Annunziata, Italy. This lawsuit concerns Trusts which were onboarded by the Bank in 2009. The only assets settled in Trust with the Bank were shares in the ultimate holding company of the Deiulemar Group having a nominal value of €6,000. The group went bankrupt in 2012, and the lawsuit was filed against the Bank as Trustee in 2014 by the Curators of the bankruptcy of the Deiulemar Group.

The legal advice furnished to the Board remains unchanged, namely that the Bank has strong legal defences on the merits of the case. Nevertheless, changing circumstances around the case have led the Board to revisit its previous stance, and it has now resolved to recognise a provision to reflect a higher probability of an eventual outflow of funds in connection with the case. The amount provided represents the best estimate of potential losses in the current situation, and may be re-assessed should further developments so require.

The main developments that have led the Board to re-evaluate its position were the issue of a sequestro conservativo for €363 million against the Bank in March 2018, and the Appellate Court's decision to decline the Bank's appeal against the sequestro on 19 July 2018. These events have significantly influenced the Board's stance in respect of this case. The Board has also considered other developments which continued to shore up its view that an accounting provision in this case is now appropriate.

The Bank has, on its own initiative, placed assets under custody with an independent reputable Italian bank, consisting of sovereign bonds with a value of just over €363 million, to make good for the sequestro. This measure did not in any way impact the Bank's operations, in view of its situation of high liquidity, and will remain in place until and depending on the eventual resolution of the case.

The Bank will keep all litigation cases under continuous review, and will keep the supervisory authorities and the market informed of any material developments.

Operating profit

The Group recorded an improvement in all its revenue streams. Interest margin rose by 8% to €79 million, supported by a contraction in customer deposits – which eased pressure on margins resulting from high levels of liquidity – and by a healthy growth in lending. The loan book grew by 2.3% per annum to reach €4.52 billion. While most of the growth was recorded in home loans, both personal finance and business lending also demonstrated good growth. The performance of interest margin was, however, impacted by the continuing low interest rate environment and competitive environment, which kept average marginal rates under pressure.

Commission income grew by 21% to reach €40 million, the main drivers here being fees on credit card issuing and acquiring, fees related to the provision of credit, and investment services. These results reflect the Bank's efforts to diversify its revenue sources by supplementing core margin with fee-related income. Income from foreign exchange transactions is lower than the comparative period in line with expectations as the Group continues with the derisking of its business model.

Expenses, amounting to €64 million, are up by 2%. The higher costs are mostly attributable to HR and IT related expenses as the Group continued with its investment in both human resource and technology. During the period under review, key control functions continued to be strengthened to enable the Group to meet the more onerous regulatory demands. Concurrently, the implementation of the multi-year Core Banking Transformation project progressed in a satisfactory manner.

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 Bank's strategic decision to adopt a more proactive stance when dealing with legacy non performing exposures is yielding satisfactory results and an impairment reversal of €20 million is recognised during the period under review.

Financial position

Lending to customers remains the largest asset on the Group's balance sheet, representing 36% of total assets. The Group remains highly liquid, with cash and short term funds amounting to €3.5 billion. The prudent investment strategy in financial instruments has been retained. The majority of treasury assets are carried at amortised cost reflecting the Banks's primary business model of 'hold to collect'.

The management of customers' deposits was another key focus, deemed necessary during a period of prolonged low interest rates and limited investment opportunities. Customer deposits, which stood at €10 billion at end June 2018, are marginally below the December 2017 figure. Retail customer deposits continued to grow, while international corporate deposits decreased in line with the derisking exercise currently underway.

Equity stands at €946 million, down by 1.7% when compared to December 2017. Capital ratios remain satisfactory, with a total CAR of 19.8% and a CET 1 ratio of 16.8%, compared to the December ratios of 19.4% and 16.1% respectively.

Looking ahead

The strategy of the BOV Board remains the long term feasibility and financial stability of the Bank. A key issue in this context is the ongoing strengthening of the Bank's capital position. In the coming months the business restructuring programme with the aim of lowering the institutional risk profile will continue. Concurrently the Board will focus on strengthening the robustness of customer onboarding and transaction monitoring by upgrading its technological framework. The Bank will also strengthen the compliance and anti-financial structure as well as enhancing governance.

BOV remains committed in its role to support 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 2018