Interim Report

1 October 2016 to 31 March 2017

Bank of Valletta

BOV
Bank of Valletta

Chairman's Message

27 April 2017

Dear Shareholder

Bank of Valletta plc – Interim Results

I am pleased to forward you the Bank of Valletta's interim report for the six-month financial period 1 October 2016 to 31 March 2017. The condensed financial statements are set out on pages 2 to 11, followed by a financial commentary on the performance of the BOV Group during this period.

You will note that the Board of Directors has declared a gross interim dividend of €0.045 per share. This dividend will be paid on 26 May 2017 to those shareholders on the Bank's Register of Members as at the close of business on 11 May 2017.

Yours sincerely

Taddeo Scerri
Chairman

27 ta' April 2017

Għażiż Azzjonist/a

Bank of Valletta plc – Riżultat Interim

Bi pjaċir qiegħed nibgħatlek ir-rapport interim tal-Bank of Valletta għall-perjodu finanzjarju mill-1 ta' Ottubru 2016 sal-31 ta' Marzu 2017. Ir-rendikont finanzjarju fil-qosor jinstab fuq paġna 2 sa' 11, segwit minn kummentarju finanzjarju fuq l-andament tal-Grupp BOV matul dan il-perjodu.

Kif tista' tinnota, il-Bord tad-Diretturi ddikjara interim dividend gross ta' €0.045 għal kull sehem. Dan id-dividend ser jitħallas fis-26 ta' Mejju 2017 lil dawk l-azzjonisti fuq ir-Reġistru tal-Ishma tal-Bank wara li tkun għalqet is-sessjoni tan-negozju tal-ishma tal-11 ta' Mejju 2017.

Dejjem tiegħek

Taddeo Scerri
Chairman

Statements of Profit or Loss

for the six months ended 31 March 2017

	The Group		The Bank	
	Mar-17	Mar-16	Mar-17	Mar-16
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with				
Central Bank of Malta and treasury bills	79,003	79,170	79,003	79,170
- on debt and other fixed income instruments	25,482	28,085	25,482	28,085
Interest expense	(31,773)	(32,377)	(31,773)	(32,377)
Net interest income	72,712	74,878	72,712	74,878
Fee and commission income	38,595	36,409	34,216	32,444
Fee and commission expense	(4,793)	(4,470)	(4,793)	(4,470)
Net fee and commission income	33,802	31,939	29,423	27,974
Dividend income	499	294	9,316	6,425
Trading profits	13,518	16,652	13,492	16,649
Net gain on investment securities and hedging instruments	2,682	10,717	2,682	10,717
Operating income	123,213	134,480	127,625	136,643
Employee compensation and benefits	(32,618)	(31,467)	(31,389)	(30,435)
General administrative expenses	(26,686)	(22,896)	(26,020)	(22,473)
Amortisation of intangible assets	(1,583)	(1,541)	(1,583)	(1,541)
Depreciation	(2,515)	(2,540)	(2,483)	(2,504)
Net Impairment losses	5,344	(8,092)	5,344	(8,097)
Operating profit	**65,155**	**67,944**	**71,494**	**71,593**
Share of results of equity-accounted investees, net of tax	8,875	539	-	-
Profit before tax	**74,030**	**68,483**	**71,494**	**71,593**
Income tax expense	(23,377)	(23,648)	(23,567)	(24,063)
Profit for the period	**50,653**	**44,835**	**47,927**	**47,530**
Attributable to:				
Equity holders of the Bank	50,653	44,557	47,927	47,530
Non-controlling interest	-	278	-	-
	50,653	**44,835**	**47,927**	**47,530**
Earnings per share	12c1	10c6	11c4	11c3

Statements of Profit or Loss and Other Comprehensive Income

for the six months ended 31 March 2017

BOV Bank of Valletta

	The Group		The Bank	
	Mar-17	Mar-16	Mar-17	Mar-16
	€000	€000	€000	€000
Profit for the period	50,653	44,835	47,927	47,530
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments:				
- change in fair value	(1,022)	27,259	(1,022)	27,259
deferred tax thereon	358	(9,541)	358	(9,541)
- change in fair value transferred to profit or loss	(7,443)	(8,790)	(7,443)	(8,790)
deferred tax thereon	2,605	3,077	2,605	3,077
Items that will not be reclassified to profit or loss:				
Remeasurement of actuarial losses on defined benefit plans	232	(399)	232	(399)
deferred tax thereon	(81)	140	(81)	140
Other comprehensive income for the period, net of tax	(5,351)	11,746	(5,351)	11,746
Total comprehensive income for the period	**45,302**	**56,581**	**42,576**	**59,276**
Total comprehensive income attributable to:				
Equity holders of the Bank	45,302	56,303		
Non-controlling interest	-	278		
	45,302	**56,581**		

Statements of Financial Position

as at 31 March 2017

	The Group		The Bank	
	Mar-17	Sep-16	Mar-17	Sep-16
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	188,462	171,050	188,462	171,050
Financial assets at fair value through profit or loss	360,618	392,430	359,479	391,292
Investments	3,767,010	3,736,272	3,767,010	3,736,272
Loans and advances to banks	2,551,102	2,098,439	2,551,102	2,098,439
Loans and advances to customers at amortised cost	4,103,682	4,001,656	4,103,682	4,001,656
Investments in equity-accounted investees	100,143	97,041	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	21,756	13,272	21,756	13,272
Property and equipment	91,043	89,574	90,887	89,452
Current tax	12,260	16,061	11,945	15,091
Deferred tax	59,030	67,188	59,030	67,188
Assets held for realisation	13,188	11,973	13,188	11,973
Other assets	6,509	4,818	6,509	4,809
Prepayments and accrued income	31,007	23,077	29,897	22,697
Total Assets	**11,305,810**	**10,722,851**	**11,262,047**	**10,682,291**
LIABILITIES				
Financial liabilities at fair value through profit or loss	16,442	20,327	16,442	20,327
Amounts owed to banks	329,998	250,155	329,998	250,155
Amounts owed to customers	9,667,825	9,181,047	9,670,627	9,184,470
Debt securities in issue	95,400	95,400	95,400	95,400
Deferred tax	4,318	4,318	4,318	4,318
Other liabilities	179,541	173,988	179,360	173,803
Accruals and deferred income	13,590	16,215	13,317	15,802
Derivatives designated for hedge accounting	14,240	20,649	14,240	20,649
Subordinated liabilities	231,591	231,591	231,591	231,591
Total Liabilities	10,552,945	9,993,690	10,555,293	9,996,515
EQUITY				
Called up share capital	420,000	390,000	420,000	390,000
Share premium account	988	988	988	988
Revaluation reserves	29,830	35,332	29,718	35,220
Retained earnings	302,047	302,841	256,048	259,568
Total Equity	752,865	729,161	706,754	685,776
Total Liabilities and Equity	**11,305,810**	**10,722,851**	**11,262,047**	**10,682,291**
MEMORANDUM ITEMS				
Contingent liabilities	**243,002**	**225,407**	**243,002**	**225,407**
Commitments	**1,586,531**	**1,590,156**	**1,586,531**	**1,590,156**

These financial statements were approved by the Board of Directors on 27 April 2017.

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 €4.778 million.

Statements of Changes in Equity

for the six months ended 31 March 2017

BOV
Bank of Valletta

	Attributable to Equity holders of the Bank						
	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000	Non-Controlling Interest €000	Total Equity €000
The Group							
At 1 October 2015	**360,000**	**988**	**35,217**	**272,713**	**668,918**	**1,271**	**670,189**
Profit for the period	-	-	-	44,557	**44,557**	278	**44,835**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	17,718	-	**17,718**	-	**17,718**
- change in fair value transferred to profit or loss, net of tax	-	-	(5,713)	-	**(5,713)**	-	**(5,713)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(259)	**(259)**	-	**(259)**
Release of surplus on sale of property, net of tax	-	-	(174)	174	**-**	-	**-**
Total other comprehensive income	-	-	11,831	(85)	**11,746**	-	**11,746**
Total comprehensive income for the period	-	-	11,831	44,472	**56,303**	278	**56,581**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	-	-	**-**
Dividends to equity holders	-	-	-	(19,890)	**(19,890)**	(773)	**(20,663)**
	30,000	-	-	(49,890)	**(19,890)**	(773)	**(20,663)**
At 31 March 2016	**390,000**	**988**	**47,048**	**267,295**	**705,331**	**776**	**706,107**
At 1 October 2016	**390,000**	**988**	**35,332**	**302,841**	**729,161**	**-**	**729,161**
Profit for the period	-	-	-	50,653	**50,653**	-	**50,653**
Other comprehensive income							
Available-for-sale investments:							
- change in fair value, net of tax	-	-	(664)	-	**(664)**	-	**(664)**
- change in fair value transferred to profit or loss, net of tax	-	-	(4,838)	-	**(4,838)**	-	**(4,838)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	151	**151**	-	**151**
Total other comprehensive income	-	-	(5,502)	151	**(5,351)**	-	**(5,351)**
Total comprehensive income for the period	-	-	(5,502)	50,804	**45,302**	-	**45,302**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends to equity holders	-	-	-	(21,598)	**(21,598)**	-	**(21,598)**
	30,000	-	-	(51,598)	**(21,598)**	-	**(21,598)**
At 31 March 2017	**420,000**	**988**	**29,830**	**302,047**	**752,865**	**-**	**752,865**

Statements of Changes in Equity
for the six months ended 31 March 2017

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Bank					
At 1 October 2015	**360,000**	**988**	**35,105**	**225,953**	**622,046**
Profit for the period	-	-	-	47,530	**47,530**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	17,718	-	**17,718**
- change in fair value transferred to profit or loss, net of tax	-	-	(5,713)	-	**(5,713)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(259)	**(259)**
Release of surplus on sale of property, net of tax	-	-	(174)	174	**-**
Total other comprehensive income	-	-	11,831	(85)	**11,746**
Total comprehensive income for the period	-	-	11,831	47,445	**59,276**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(19,890)	**(19,890)**
	30,000	-	-	(49,890)	**(19,890)**
At 31 March 2016	**390,000**	**988**	**46,936**	**223,508**	**661,432**
At 1 October 2016	**390,000**	**988**	**35,220**	**259,568**	**685,776**
Profit for the period	-	-	-	47,927	**47,927**
Other comprehensive income					
Available-for-sale investments:					
- change in fair value, net of tax	-	-	(664)	-	**(664)**
- change in fair value transferred to profit or loss, net of tax	-	-	(4,838)	-	**(4,838)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	151	**151**
Total other comprehensive income	-	-	(5,502)	151	**(5,351)**
Total comprehensive income for the period	-	-	(5,502)	48,078	**42,576**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(21,598)	**(21,598)**
	30,000	-	-	(51,598)	**(21,598)**
At 31 March 2017	**420,000**	**988**	**29,718**	**256,048**	**706,754**

Statements of Cash Flows

for the six months ended 31 March 2017

BOV
Bank of Valletta

	The Group		The Bank	
	Mar-17 €000	Mar-16 €000	Mar-17 €000	Mar-16 €000
Cash flows from operating activities				
Interest and commission receipts	118,727	132,139	115,052	128,977
Interest, commission and compensation payments	(36,001)	(39,080)	(35,861)	(38,915)
Payments to employees and suppliers	(59,304)	(54,363)	(57,409)	(52,908)
Operating profit before changes in operating assets and liabilities	23,422	38,696	21,782	37,154
Decrease/(increase) in operating assets:				
Loans and advances	28,821	33,275	28,821	33,270
Reserve deposit with Central Bank of Malta	(2,518)	(4,829)	(2,518)	(4,829)
Fair value through profit or loss financial assets	34,955	14,054	34,955	14,054
Fair value through profit or loss equity instruments	7,101	(131)	7,102	(415)
Treasury bills with original maturity of more than 3 months	(3,006)	(15,010)	(3,006)	(15,010)
Other assets	(2,906)	(241)	(2,915)	(241)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and customers	337,191	372,434	336,570	371,648
Other liabilities	(578)	(26,024)	(533)	(26,007)
Net cash from operating activities before tax	422,482	412,224	420,258	409,624
Tax paid	(8,537)	(8,977)	(9,383)	(10,808)
Net cash from operating activities	413,945	403,247	410,875	398,816
Cash flows from investing activities				
Dividends received	6,274	2,794	9,316	6,425
Interest received from held-to-maturity debt and other fixed income instruments	22,876	24,431	22,876	24,431
Proceeds from sale of equity instruments	4,350	3,043	4,350	3,043
Purchase of debt instruments	(495,487)	(794,903)	(495,487)	(794,903)
Proceeds from sale or maturity of debt instruments	500,313	531,849	500,313	531,849
Purchase of property and equipment and intangible assets	(14,013)	(3,571)	(13,985)	(3,544)
Proceeds from disposal of property and equipment	-	538	-	538
Net cash from/(used in) investing activities	24,313	(235,819)	27,383	(232,161)
Cash flows from financing activities				
Proceeds from issue of subordinated liabilities	-	111,591	-	111,591
Dividends paid to Bank's equity holders	(21,598)	(19,890)	(21,598)	(19,890)
Dividends paid to non-controlling interest	-	(773)	-	-
Net cash (used in)/from financing activities	(21,598)	90,928	(21,598)	91,701
Net change in cash and cash equivalents	416,660	258,356	416,660	258,356
Effect of exchange rate changes on cash and cash equivalents	954	5,081	954	5,081
Net change in cash and cash equivalents after effect of exchange rate changes	415,706	253,275	415,706	253,275
Net change in cash and cash equivalents	416,660	258,356	416,660	258,356
Cash and cash equivalents at 1 October	1,848,038	1,309,347	1,848,038	1,309,347
Cash and cash equivalents at 31 March	**2,264,698**	**1,567,703**	**2,264,698**	**1,567,703**

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 give a true and fair view of the financial position as at 31 March 2017, the financial performance and the cashflows for the six month period then ended, in accordance with International Financial Reporting Standards as adopted by the EU applicable to Interim Financial Reporting (IAS 34).

Mario Mallia
Chief Executive Officer

Notes to the Condensed Financial Statements

for the six months to 31 March 2017

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 31 March 2017 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 30 September 2016 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 31 March 2017, 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.

The accounting policies applied in these financial statements are the same as those applied in the preparation of the annual audited financial statements of the Group for the year ended 30 September 2016.

As required by IAS 34, Interim Financial Reporting, these interim financial statements include the comparative statements of financial position information of the previous financial year end and the comparative statements of profit or loss and statements of comprehensive income information for the comparable interim periods of the immediately preceding financial year.

Related party transactions with other members of the BOV Group covering the period 1 October 2016 to 31 March 2017 have not materially affected the performance for the period under review.

3. Use of judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 30 September 2016.

4. Segment Information

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Mar-17 €000	Mar-16 €000	Mar-17 €000	Mar-16 €000	Mar-17 €000	Mar-16 €000	Mar-17 €000	Mar-16 €000	Mar-17 €000	Mar-16 €000
The Group										
Operating income for the six months	53,944	50,041	55,586	54,481	27,440	37,908	(13,757)	(7,950)	123,213	134,480
Profit before taxation for the six months	23,000	21,784	50,493	37,207	34,236	36,679	(33,699)	(27,187)	74,030	68,483

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Mar-17 €000	Sep-16 €000	Mar-17 €000	Sep-16 €000	Mar-17 €000	Sep-16 €000	Mar-17 €000	Sep-16 €000	Mar-17 €000	Sep-16 €000
Total Assets	2,058,129	2,015,064	2,239,915	2,177,843	4,268,258	4,260,513	2,739,508	2,269,431	11,305,810	10,722,851
Total Liabilities	2,166,572	2,046,091	2,644,226	2,371,755	4,170,574	4,161,701	1,571,573	1,414,143	10,552,945	9,993,690

5. Intangible Assets

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

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

At 31 March 2017	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Total €000**
Assets				
Treasury Bills	-	49,044	-	49,044
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	125,904	22,966	-	148,870
- equity and other non-fixed income instruments	44,401	23,838	5,634	73,873
- loans and advances	-	130,939	-	130,939
- derivative financial instruments	-	6,936	-	6,936
Investments				
Debt and other fixed income instruments				
- available-for-sale	67,170	84,356	-	151,526
Equity and other non-fixed income instruments				
- available-for-sale	-	-	4,420	4,420
Property at revaluation	-	-	76,097	76,097
	237,475	**318,079**	**86,151**	**641,705**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	16,442	-	16,442
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	14,240	-	14,240
	-	**30,682**	**-**	**30,682**

At 30 September 2016	**Level 1 €000**	**Level 2 €000**	**Level 3 €000**	**Total €000**
Assets				
Treasury Bills	-	39,017	-	39,017
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	173,065	12,950	-	186,015
- equity and other non-fixed income instruments	50,294	23,762	5,678	79,734
- loans and advances	-	121,316	-	121,316
- derivative financial instruments	-	5,365	-	5,365
Investments				
Debt and other fixed income instruments				
- available-for-sale	179,461	92,782	-	272,243
Equity and other non-fixed income instruments				
- available-for-sale	-	-	3,583	3,583
Property at revaluation	-	-	75,582	75,582
	402,820	**295,192**	**84,843**	**782,855**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	20,327	-	20,327
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	20,649	-	20,649
	-	**40,976**	**-**	**40,976**

6. Fair value measurement *(continued)*

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

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

	Fair Value measurement				Carrying Amount
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000	€000
At 31 March 2017					
Financial assets					
Held-to-maturity investments	2,959,232	694,768	-	3,654,000	3,611,064
Financial liabilities					
Debt securities in issue	99,493	-	-	99,493	95,400
Subordinated liabilities	233,191	-	-	233,191	231,591
	332,684	-	-	332,684	326,991

	Fair Value measurement				Carrying Amount
	Level 1 €000	Level 2 €000	Level 3 €000	Total €000	€000
At 30 September 2016					
Financial assets					
Held-to-maturity investments	2,857,554	653,881	-	3,511,435	3,460,446
Financial liabilities					
Debt securities in issue	99,000	-	-	99,000	95,400
Subordinated liabilities	235,500	-	-	235,500	231,591
	334,500	-	-	334,500	326,991

6.4 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		Available-for-sales investments		
	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
2017	€000	€000	€000	€000	€000
Opening balance 1 October 2016	-	5,678	-	3,583	9,261
Net change in fair value	-	(5)	-	837	832
Purchases	-	123	-	-	123
Sales	-	(162)	-	-	(162)
Closing balance 31 March 2017	-	5,634	-	4,420	10,054

	Fair value through profit or loss		Available-for-sales investments		
	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
2016	€000	€000	€000	€000	€000
Opening balance 1 October 2015	-	5,319	-	-	5,319
Net change in fair value	-	(105)	-	24,227	24,122
Purchases	-	1,550	-	-	1,550
Transfers	-	(1,005)	-	-	(1,005)
Sales	-	(75)	-	-	(75)
Consideration	-	-	-	-	-
Closing balance 31 March 2016	-	5,684	-	24,227	29,911

6. Fair value measurement (continued)

During the six months under review €9.5 million financial assets at fair value through profit or loss were transferred from Level 1 to Level 2 (March 2016: €45.6 million) and no change in financial assets in Level 3 and Level 2 (March 2016: €1.1 million). The transfer from Level 1 to Level 2 was due to securities which did not have a quoted price on active markets as at the period. During the same period no change in levels was made in financial assets classified as available-for-sale.

The unrealised gains/losses on financial assets at fair value through profit or loss as of 31 March 2017 and 30 September 2016 were immaterial.

Financial instruments at fair value through profit or loss and financial assets which are held for investment purposes as available-for-sale are carried at their fair value:

(i) Investments - Debt and other fixed income instruments - held to maturity
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 30 September 2016.

7. Accounting Standards not yet adopted

IFRS 9 *Financial Instruments*, has been endorsed by the EU on 22 November 2016. The adoption of IFRS 9 may have a material impact on the Bank's financial statements. Implementation of this new standard is currently underway and the financial impact is to be determined and disclosed within the financial report ending 2017.

IFRS 15 *Revenue from Contracts with Customers*, has been endorsed by the EU on 22 September 2016 and estimates of impact are currently being conducted.

Independent Auditor's Report

for the six months to 31 March 2017

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') set out on pages 2 to 11 which comprise the condensed statements of financial position as at 31 March 2017, and the related condensed statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flow 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 six month period ended 31 March 2017 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
Portico Building
Marina Street
Pieta` PTA 9044
Malta

27 April 2017

Interim statement of profit

The Bank of Valletta Group has announced a profit before tax of €74.0 million for the six months ended on 31 March 2017, an increase of 8% over the €68.5 million reported for the same period last year. This represents a return on equity (ROE) before tax of 20% p.a., which is equivalent to the ROE for March 2016. Earnings per share amount to 12.1 cents (March 2016: 10.6 cents).

The Board of Directors has declared a gross interim dividend of 4.5 cents per share, an increase of 24% over the 3.63 cents declared last year, as adjusted for the bonus share issue made in January 2017.

Performance

The six months under review were marked by the sustained strong performance of the Maltese economy, which offered good opportunities for growth in investment services and wealth management; but also by a persisting low level of benchmark interest rates, which continued to exert stress on the European banking industry.

The main aim of Euro area monetary policy continued to be to encourage banks to lend, and so European Central Bank (ECB) policy rates remained negative, in a bid to discourage the hoarding of liquidity. This policy stance kept the Bank's interest margins under pressure. Additional pressure arose from the Bank's strong liquidity buffers, which include significant balances held with the ECB, and which continued to increase during the period under review.

Interest margin amounted to €72.7 million, a decrease of 3% over March 2016. This was attributable to average rates of interest receivable falling to a greater extent than rates payable, as a result of asset repricing and competitive pressures.

The decline in margin income was, however, mostly offset by an increase in net fee income, which rose by 6% to reach €33.8 million. The Bank has embarked on a strategy to supplement its core margin income with non-interest revenue streams, and the interim results show that the strategy is starting to bear fruit. Strong performances were recorded on fund management, fund services, stockbroking and bancassurance.

Total operating income, comprising interest margin and non-interest income, amounted to €123.2 million, compared to €134.5 million for March 2016. This decrease is wholly attributable to lower price gains on investment and trading securities.

Total overheads amounted to €63.4 million, as against €58.4 million last year, an increase of €5 million. Most of this increase arose on HR costs (which rose by €1.2 million), occupancy costs and IT. The increase in HR costs is attributable to additional recruitment of personnel in IT-related and anti-financial crime roles, and to regular salary increases agreed upon in the Collective Agreement signed in December 2015.

The Group has recorded a net reversal of impairment losses amounting to €5.3 million (March 2016: net charge of €8.1 million). This reversal is due to the settlement of a number of non-performing loans during the period under review, which has also led to a decrease in the Group's non-performing exposures, and thus to an improvement in the credit quality of the loan book.

Financial position

The Group's financial position as at end March 2017 is a fair reflection of current local conditions, where buoyant economic activity and high investor and consumer confidence are resulting in high levels of liquidity in the economy. In turn, this is reflected in high levels of deposits with the banking sector. During the period under review, customer deposits rose by €487 million to reach €9.7 billion, accounting for 86% of the Group's balance sheet.

Concurrently, Group net lending rose by €102 million, split equally between business and personal loans, and stand at €4.1 billion. The excess of new deposits over new lending was deployed into liquid and investment assets. Group liquid and investment assets now stand at €6.9 billion, or 61% of the balance sheet.

Total assets stand at €11.3 billion, an increase of €583 million over September 2016, while equity amounts to €753 million, an increase of €24 million. Group Core Equity Tier 1 ratio is 13.1%, up from 12.8% in September 2016.

Strategic initiatives

The Group has embarked on an intense "Change the Bank" programme, comprising among others:

1. A comprehensive review of the business model, comprising the de-risking of sectors with an unfavourable risk-return profile, and diversification into alternative high-potential sectors.

2. The Core Banking Transformation Programme, whereby the Bank will be replacing its core IT system and related business processes. The Programme signifies the Bank's determination to modify its business processes around the functionality offered by the new system, thereby maximising benefits from this investment.

3. The development of state-of-the-art digital channels, accompanied by initiatives to migrate customers from physical to electronic channels.

4. The reconfiguration and rationalisation of the branch network.

5. The review of the Governance framework of the Bank, including changes to the Memorandum and Articles of the Bank, with the aim of enhancing Board effectiveness and continuity.

6. The strengthening of Anti-Money Laundering and Countering Financing of Terrorism defences, including the setting up of a new Anti-Financial Crime department.

7. The development of a robust Risk Appetite Framework and complementary Risk Register, which will include a comprehensive inventory of risks faced by the Group in its day-to-day operations.

8. The development of a holistic HR strategy comprising the rationalisation and assessment of work roles, and an exercise to determine the optimum resourcing levels at all branches and departments.

9. Significant investment in continuing professional development, training and ethics, including the opening of a new Training Centre.

10. The adoption of IFRS 9, a new financial reporting standard that will significantly change the way in which banks calculate their impairment losses, and which is expected to have a material negative impact on Group reserves upon adoption.

This is a three-year programme that will strengthen the Group's fundamentals, and ensure a robust business model that will ensure the feasibility and profitability of BOV into the 2020s and beyond. Its ultimate objective is the sustainability and stability of the Group in the long term. The programme will be implemented in a challenging financial and regulatory environment, marked by increasingly onerous prudential requirements and spiralling compliance costs. At the same time, the Group must continue to meet shareholders' legitimate expectations of a fair return on their investment. It is therefore critical for BOV to not simply de-risk its business model, but to make up for income lost through de-risking by exploring and securing new and diversified sources of revenue.

Strengthening the Bank's Capital

BOV is Malta's largest bank, and is considered, in terms of banking regulation, as an "other systemically important institution" ("O-SII") as compared to a global systemically important institution ("G-SII"). An O-SII is an institution which would have a significant impact on local financial stability, and is required to have a higher loss absorbency capacity than other less significant firms. This necessitates the holding of higher capital buffers, and indeed, banks like BOV are required to hold an O-SII capital buffer, in addition to the other normal buffers, by supervisory authorities. Such capital buffers are of great significance, since failure to attain them could impact a bank's ability to take on new investments, to sanction new credit facilities and even to distribute dividends to its shareholders.

The Group is today adequately capitalised, and is able to distribute dividends to its shareholders. Up to today, BOV has relied exclusively on the ploughback of profits to increase its capital. In view, however, of increasingly onerous supervisory capital requirements, as well as of the planned significant investment in the core IT system and other important initiatives, the Group is anticipating a situation when the retention of profit will not suffice, and must be supplemented by fresh issues of capital. BOV is therefore planning to strengthen its capital by issuing €150 million in new share capital over an approximate one year period.

The Group looks forward to a successful equity issue, which will provide the basis for its future growth. The Board of Directors and the Management Board commit themselves to sustaining profitability while protecting asset quality within the parameters of the Board's risk appetite, so that shareholders can continue to enjoy a fair return on equity and a satisfactory level of dividends over the coming years.

By Order of the Board
27 April 2017

All shareholders on the Bank's Register of Members at the Central Securities Depository of the Malta Stock Exchange as at close of business on 11 May 2017 (including trades undertaken and up to 9 May 2017) will be paid the interim dividend on 26 May 2017.