BOV

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BOV/290

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 the 29 April 2016, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank Interim Unaudited Financial Statements for the six months ended 31 March 2016. 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'.*

An interim dividend of €0.0391 gross per share (€0.0254 net of tax) has been declared by the Board of Directors in respect of the six months ended 31 March 2016. This will be paid on the 27 May 2016 to those Members appearing on the Bank's Register of Members (as maintained at the Central Securities Depository at the Malta Stock Exchange) as at the close of business on Thursday, 12 May 2016[1].

The Interim Unaudited Financial Statements for the period ended 31 March 2016 are available for viewing and downloading on the Bank's website "www.bov.com".

Unquote

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

29 April 2016

[1] Pursuant to the Malta Stock Exchange Bye-Laws, the Bank's Register of Members as at close of business on Thursday, 12 May 2016 will include trades undertaken up to and including Tuesday, 10 May 2016.

Statements of profit or loss for the six months ended 31 March 2016

	The Group		The Bank	
	Mar-16	Mar-15	Mar-16	Mar-15
	€000	€000	€000	€000
Interest and similar income:				
- on loans and advances, balances with Central Bank of Malta and treasury bills	77,198	77,818	77,198	77,818
- on debt and other fixed income instruments	28,085	29,504	28,085	29,504
Interest expense	(30,405)	(36,245)	(30,405)	(36,245)
Net interest income	74,878	71,077	74,878	71,077
Fee and commission income	36,409	32,165	32,444	28,270
Fee and commission expense	(4,470)	(4,002)	(4,470)	(4,002)
Net fee and commission income	31,939	28,163	27,974	24,268
Dividend income	294	821	6,425	7,765
Trading profits	16,652	19,895	16,649	19,886
Net gain/(loss) on investment securities and hedging instruments	10,717	(445)	10,717	(445)
Operating income	134,480	119,511	136,643	122,551
Employee compensation and benefits	(31,467)	(29,067)	(30,435)	(28,246)
General administrative expenses	(22,896)	(21,863)	(22,473)	(21,270)
Amortisation of intangible assets	(1,541)	(1,166)	(1,541)	(1,166)
Depreciation	(2,540)	(2,539)	(2,504)	(2,496)
Net impairment losses	(8,092)	(13,915)	(8,097)	(13,915)
Operating profit	**67,944**	**50,961**	**71,593**	**55,458**
Share of results of equity-accounted investees, net of tax	539	7,818	-	-
Profit before tax	**68,483**	**58,779**	**71,593**	**55,458**
Income tax expense	(23,648)	(18,340)	(24,063)	(19,085)
Profit for the period	**44,835**	**40,439**	**47,530**	**36,373**
Attributable to:				
Equity holders of the Bank	44,557	40,163	47,530	36,373
Non-controlling interest	278	276	-	-
	44,835	**40,439**	**47,530**	**36,373**
Earnings per share	11c4	10c3	12c2	9c3

Statements of profit or loss and other comprehensive income for the six months ended 31 March 2016

	The Group		The Bank	
	Mar-16 €000	Mar-15 €000	Mar-16 €000	Mar-15 €000
Profit for the period	44,835	40,439	47,530	36,373
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	27,259	10,643	27,259	10,643
deferred tax thereon	(9,541)	(3,725)	(9,541)	(3,725)
- change in fair value transferred to profit or loss	(8,790)	(211)	(8,790)	(211)
deferred tax thereon	3,077	74	3,077	74
Items that will not be reclassified to profit or loss:				
Remeasurement of actuarial losses on defined benefit plans	(399)	(820)	(399)	(820)
deferred tax thereon	140	287	140	287
Other comprehensive income for the period, net of tax	11,746	6,248	11,746	6,248
Total comprehensive income for the period	56,581	46,687	59,276	42,621
Total comprehensive income attributable to:				
Equity holders of the Bank	56,303	46,411		
Non-controlling interest	278	276		
	56,581	**46,687**		

Statements of financial position as at 31 March 2016

	The Group		The Bank	
	Mar-16	Sep-15	Mar-16	Sep-15
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	210,316	126,652	210,316	126,652
Financial assets at fair value through profit or loss	412,776	417,522	411,096	415,558
Investments	3,644,742	3,376,305	3,644,742	3,376,305
Loans and advances to banks	1,928,384	1,656,346	1,928,384	1,656,346
Loans and advances to customers at amortised cost	3,982,468	4,001,839	3,982,468	4,001,839
Investments in equity-accounted investees	94,945	96,904	52,870	52,870
Investments in subsidiary companies	-	-	1,230	1,230
Intangible assets	13,017	12,722	13,017	12,722
Property and equipment	88,755	89,801	88,616	89,651
Current tax	-	965	-	-
Deferred tax asset	82,264	86,654	82,264	86,654
Assets held for realisation	12,835	11,601	12,835	11,601
Other assets	1,997	2,990	1,997	2,990
Prepayments and accrued income	23,702	21,661	23,329	22,094
Total Assets	**10,496,201**	**9,901,962**	**10,453,164**	**9,856,512**
LIABILITIES				
Financial liabilities at fair value through profit or loss	27,594	25,077	27,594	25,077
Amounts owed to banks	329,269	197,760	329,269	197,760
Amounts owed to customers	8,882,007	8,559,731	8,884,597	8,563,107
Debt securities in issue	95,400	95,400	95,400	95,400
Current tax	15,641	-	15,261	71
Deferred tax	4,363	4,382	4,363	4,382
Other liabilities	167,208	172,905	167,063	172,743
Accruals and deferred income	17,772	21,317	17,345	20,725
Derivatives designated for hedge accounting	19,249	35,201	19,249	35,201
Subordinated liabilities	231,591	120,000	231,591	120,000
Total Liabilities	9,790,094	9,231,773	9,791,732	9,234,466
EQUITY				
Called up share capital	390,000	360,000	390,000	360,000
Share premium account	988	988	988	988
Revaluation reserves	47,048	35,217	46,936	35,105
Retained earnings	267,295	272,713	223,508	225,953
Total Equity attributable to equity holders of the Bank	**705,331**	**668,918**	**661,432**	**622,046**
Non-controlling interest	776	1,271	-	-
Total Equity	706,107	670,189	661,432	622,046
Total Liabilities and Equity	**10,496,201**	**9,901,962**	**10,453,164**	**9,856,512**
MEMORANDUM ITEMS				
Contingent liabilities	**244,256**	**251,670**	**244,256**	**251,670**
Commitments	**1,653,858**	**1,612,122**	**1,653,858**	**1,612,122**

These financial statements were approved by the Board of Directors on 29 April 2016.

The revised 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, under the three year transitional rules, this reserve amounts to €5.359 million.

Statements of changes in equity for the six months ended 31 March 2016

	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 2014	**330,000**	**988**	**29,136**	**253,245**	**613,369**	**1,100**	**614,469**
Profit for the period	-	-	-	40,163	**40,163**	276	**40,439**
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	6,918	-	**6,918**	-	**6,918**
- change in fair value transferred to profit or loss, net of tax	-	-	(137)	-	**(137)**	-	**(137)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(533)	**(533)**	-	**(533)**
Total other comprehensive income	-	-	6,781	(533)	**6,248**	-	**6,248**
Total comprehensive income for the period	-	-	6,781	39,630	**46,411**	276	**46,687**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(19,841)	**(19,841)**	(395)	**(20,236)**
	30,000	-	-	(49,841)	**(19,841)**	(395)	**(20,236)**
At 31 March 2015	**360,000**	**988**	**35,917**	**243,034**	**639,939**	**981**	**640,920**
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**

Statements of changes in equity for the six months ended 31 March 2016

	Called up Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total Equity €000
The Bank					
At 1 October 2014	**330,000**	**988**	**29,024**	**213,513**	**573,525**
Profit for the period	-	-	-	36,373	**36,373**
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	6,918	-	**6,918**
- change in fair value transferred to profit or loss, net of tax	-	-	(137)	-	**(137)**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(533)	**(533)**
Total other comprehensive income	-	-	6,781	(533)	**6,248**
Total comprehensive income for the period	-	-	6,781	35,840	**42,621**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	-
Dividends to equity holders	-	-	-	(19,841)	**(19,841)**
	30,000	-	-	(49,841)	**(19,841)**
At 31 March 2015	**360,000**	**988**	**35,805**	**199,512**	**596,305**
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**

Statements of cash flow for the six months ended 31 March 2016

	The Group		The Bank	
	Mar-16	Mar-15	Mar-16	Mar-15
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	130,167	132,771	127,005	127,313
Interest, commission and compensation payments	(37,108)	(29,044)	(36,943)	(29,037)
Payments to employees and suppliers	(54,363)	(50,930)	(52,908)	(49,516)
Operating profit before changes in operating assets and liabilities	38,696	52,797	37,154	48,760
Decrease/(increase) in operating assets:				
Loans and advances	33,275	(226,058)	33,270	(226,058)
Reserve deposit with Central Bank of Malta	(4,829)	(9,066)	(4,829)	(9,066)
Fair value through profit or loss financial assets	14,054	44,615	14,054	44,615
Fair value through profit or loss equity instruments	(131)	(980)	(415)	(3,310)
Treasury bills with original maturity of more than 3 months	(15,010)	(6,501)	(15,010)	(6,501)
Other assets	(241)	2,878	(241)	2,878
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and customers	372,434	479,936	371,648	481,331
Other liabilities	(26,024)	8,792	(26,007)	8,710
Net cash from operating activities before tax	412,224	346,413	409,624	341,359
Tax paid	(8,977)	(18,079)	(10,808)	(18,024)
Net cash from operating activities	403,247	328,334	398,816	323,335
Cash flows from investing activities				
Dividends received	2,794	3,161	6,425	7,765
Interest received from held-to-maturity debt and other fixed income instruments	24,431	24,134	24,431	24,134
Purchase of equity investments	3,043	-	3,043	-
Purchase of debt instruments	(794,903)	(727,821)	(794,903)	(727,821)
Proceeds from sale or maturity of debt instruments	531,849	347,744	531,849	347,744
Purchase of property and equipment and intangible assets	(3,571)	(3,472)	(3,544)	(3,472)
Proceeds from disposal of property and equipment	538	-	538	-
Net cash used in investing activities	(235,819)	(356,254)	(232,161)	(351,650)
Cash flows from financing activities				
Proceeds from issue of subordinated liabilities	111,591	-	111,591	-
Dividends paid to Bank's equity holders	(19,890)	(19,841)	(19,890)	(19,841)
Dividends paid to non-controlling interest	(773)	(395)	-	-
Net cash from/(used in) financing activities	90,928	(20,236)	91,701	(19,841)
Net change in cash and cash equivalents	**258,356**	**(48,156)**	**258,356**	**(48,156)**
Effect of exchange rate changes on cash and cash equivalents	5,081	-	5,081	-
Net change in cash and cash equivalents after effect of exchange rate changes	253,275	(48,156)	253,275	(48,156)
Net change in cash and cash equivalents	258,356	(48,156)	258,356	(48,156)
Cash and cash equivalents at 1 October	1,309,347	1,012,503	1,309,347	1,012,503
Cash and cash equivalents at 31 March	**1,567,703**	**964,347**	**1,567,703**	**964,347**

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 2016, 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

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 2016 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 2015 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 2016, and have been reviewed in terms of ISRE 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. The half-yearly 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 2015.

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 2015 to 31 March 2016 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 2015.

4. Segment information

	Credit, deposit-taking and other retail		Financial markets, investments and non-retail		Total Reportable Segments	
	Mar-16 €000	Mar-15 €000	Mar-16 €000	Mar-15 €000	Mar-16 €000	Mar-15 €000
The Group						
Operating income for the six months	96,247	88,854	38,233	30,657	134,480	119,511
Profit before tax for the six months	32,711	23,043	35,772	35,736	68,483	58,779
	Mar-16 €000	**Sep-15 €000**	**Mar-16 €000**	**Sep-15 €000**	**Mar-16 €000**	**Sep-15 €000**
Total Assets	4,188,291	4,152,536	6,210,809	5,648,030	10,399,100	9,800,566
Total Liabilities	8,899,779	8,581,049	703,103	474,402	9,602,882	9,055,451

5. Fair value measurement

5.1 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 (ie. as prices) or indirectly (ie. derived from prices).

Level 3 in the fair value hierarchy represents unobservable inputs.

5. Fair value measurement *(continued)*

5.2 Bases of valuing assets and liabilities measured at fair value

The Group

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 31 March 2016				
Assets				
Treasury Bills	-	79,047	-	79,047
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	153,204	58,349	-	211,553
- equity and other non-fixed income instruments	64,874	13,034	5,684	83,592
- loans and advances	-	102,687	-	102,687
- derivative financial instruments	-	14,944	-	14,944
Investments				
Debt and other fixed income instruments				
- available-for-sale	157,173	90,347	-	247,520
Equity and other non-fixed income instruments				
- available-for-sale	-	-	24,227	24,227
Property at revaluation	-	-	74,337	74,337
	375,251	**358,408**	**104,248**	**837,907**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	27,594	-	27,594
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	19,249	-	19,249
	-	**46,843**	**-**	**46,843**

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 September 2015				
Assets				
Treasury Bills	-	6,002	-	6,002
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	265,139	10,796	-	275,935
- equity and other non-fixed income instruments	59,941	11,950	5,319	77,210
- loans and advances	-	49,221	-	49,221
- derivative financial instruments	-	15,156	-	15,156
Investments				
Debt and other fixed income instruments				
- available-for-sale	168,575	88,878	-	257,453
Equity and other non-fixed income instruments				
- available-for-sale	-	1,044	-	1,044
Property at revaluation	-	-	74,797	74,797
	493,655	**183,047**	**80,116**	**756,818**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	25,077	-	25,077
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	35,201	-	35,201
	-	**60,278**	**-**	**60,278**

5. Fair value measurement *(continued)*

5.3 Bases of valuing assets and liabilities not measured at fair value *(continued)*

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

	Fair value measurement				Carrying
	Level 1	**Level 2**	**Level 3**	**Total**	**Amount**
	€000	**€000**	**€000**	**€000**	**€000**
At 31 March 2016					
Financial assets					
Held-to-maturity investments	2,734,996	683,329	-	3,418,325	3,372,995
Financial liabilities					
Debt securities in issue	99,497	-	-	99,497	95,400
Subordinated liabilities	237,413	-	-	237,413	231,591
	336,910	-	-	336,910	326,991

	Fair value measurement				Carrying
	Level 1	**Level 2**	**Level 3**	**Total**	**Amount**
	€000	**€000**	**€000**	**€000**	**€000**
At 30 September 2015					
Financial assets					
Held-to-maturity investments	2,491,217	678,312	-	3,169,529	3,117,808
Financial liabilities					
Debt securities in issue	100,964	-	-	100,964	95,400
Subordinated liabilities	128,700	-	-	128,700	120,000
	229,664	-	-	229,664	215,400

5.4 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-sale 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)
Closing balance 31 March 2016	-	5,684	-	24,227	29,911

	Fair value through profit or loss		Available-for-sale 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
2015	**€000**	**€000**	**€000**	**€000**	**€000**
Opening balance 1 October 2014	-	6,204	-	-	6,204
Net change in fair value	-	1,101	-	-	1,101
Closing balance 31 March 2015	-	7,305	-	-	7,305

5. Fair value measurement *(continued)*

During the six months under review €45.6 million financial assets at fair value through profit or loss were transferred from Level 1 to Level 2 (March 2015: no change) and €1.1 million transferred from Level 3 to Level 2 (March 2015: no change). The transfer from Level 1 to Level 2 was due to securities which did not have a quoted prices on active markets as at the period end and the securities transferred from Level 3 to Level 2 were those which had observable inputs as at the same date. 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 2016 and 30 September 2015 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. Available-for-sale equity and non-fixed income instruments include the Group's equity interest in Visa Europe, which has been valued by reference to consideration that will be receivable upon completion of the announced sale of Visa Europe to Visa Inc. Fair value was determined as 100% of the cash consideration and 50% of the estimated value of the share consideration and classified as Level 3. The terms of the announced sale is still subject to certain amendments and regulatory approval.

Net change in fair value on available-for-sale investments refer to the unrealised gains on the Bank's equity interest in Visa Europe.

(i) Investments - Debt and other fixed income instruments - held to maturity
This category of asset 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 re-priced 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 2015.

Independent Auditor's Report for the six months to 31 March 2016

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') set out on pages 1 to 10 which comprise the condensed statements of financial position as at 31 March 2016, 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 2016 are not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU.

Noel Mizzi (Partner) for and on behalf of
KPMG
Registered Auditors
Portico Building
Marina Street
Pieta` PTA 9044
Malta

29 April 2016

Financial performance October 2015 – March 2016

Bank of Valletta Group reports a profit before tax of €68.5 million for the first half of financial year 2016. This compares with a profit of €58.8 million for the corresponding period last year. Pre-tax return on average equity is of 19.9% p.a. (March 2015: 18.7%), while pre-tax return on average assets amounts to 1.3% p.a. (March 2015: 1.4%).

The Group generated operating income of €134.5 million, up by 12.5% over the €119.5 million registered for the corresponding period last year. Operating costs amounted to €58.4 million, up from €54.6 million in 2015, a growth of 7%. The cost-to-income ratio is of 43.3%, compared to 42.9% last year.

Income comprises a net interest margin of €74.9 million (2015: €71.1 million) and other non-interest income of €59.6 million (2015: €48.4 million). The growth in interest margin is wholly attributable to higher asset volumes. Lower yields on loans and investments were offset by lower funding costs, as margin income remained under pressure in a context of high liquidity and negative benchmark interest rates.

Growth in non-interest income was driven by investment services, including stockbroking, bancassurance and wealth management services, as well as increased volume in credit card transactions. Net gains on investments of €10.7 million constitute fair value gains on investment securities which had been recognised in reserves, and have been accounted for through the Statement of Profit and Loss upon realisation.

Growth in costs is mainly attributable to higher HR costs following the signing of the Collective Agreement in December 2015. Net impairment allowances, at €8.1 million, are lower by 41.8% compared to the corresponding period last year, due mainly to a more positive view being taken of certain economic sectors, which led to a lower charge for impairment.

Share of profit from associates at €0.5 million is €7.3 million below the amount recognised last year. This is mainly due to the lower value of in force business which was negatively impacted by continuing falling interest rates.

Financial position March 2016

Total Group assets have exceeded the €10 billion mark and stand at €10.5 billion, up by 6.0% over September 2015. Total equity amounts to €706.1 million, an increase of 5.4% over the same date.

Growth in assets was primarily fuelled by customer deposits, which increased by €322.3 million, or 3.8%, over September 2015, and now amount to €8.9 billion, representing almost 85% of the Group Balance Sheet. Most of the growth was recorded in demand and call deposits. Concurrently, net loans and advances, including those carried at fair value, increased by €34.1 million (1.7%), with gross new lending of over €300 million being partially offset by repayments. During the current half-year, the Group continued to support the local SME sector through the launch of BOV JAIME (Joint Assistance Initiative for Maltese Enterprises) Financing Package, a new financing tool arising out of the agreement that was signed between the European Investment Fund (EIF) and Bank of Valletta. Initial take-up of the package has been encouraging. Demand for home loans remained buoyant with the majority of requests coming from first time buyers.

Capital management

The active management of capital is one of BOV's top strategic priorities. Capital is required for two purposes: firstly to increase the Bank's capacity to absorb any unexpected losses that may occur in the course of business; and secondly as a foundation for the Bank to inject credit into the economy. All banking assets, including loans and investments, must be supported by capital in accordance with their risk weighting, and therefore, the higher the level of capital, the higher the lending and investment capacity of the Bank.

The widespread bailout of banks by governments, in the wake of the financial crisis of 2008, led to the enactment of the Bank Recovery and Resolution Directive (BRRD) in 2015. The BRRD sets out the rules for the resolution of banks in all EU Member States, and empowers authorities to implement plans to resolve failed banks in a way that preserves their most critical functions and avoids taxpayers having to bail them out.

Under the BRRD, which was embedded into Maltese law in September 2015, it is no longer possible for banks experiencing difficulties to be bailed out by governments, at the expense of the taxpayer. Banks are now required to build up their own loss-absorbing capacity, in the form of higher levels of regulatory capital, in replacement of sovereign support, which is no longer an available option. This is known as the "bail in" (as opposed to the "bail out") model.

Like other banks, BOV is required to take the necessary steps to strengthen its regulatory capital. In view of its status as a "significant institution" within the Maltese economy, BOV is required to hold additional capital buffers, in excess of those required of banks not considered as "significant".

Bank regulatory capital is classified into two categories, namely Tier 1 and Tier 2 capital. Tier 1 capital is largely composed of shareholders' funds, comprising ordinary share capital plus reserves. This is considered as the highest quality capital possible, since it is able to absorb losses immediately in the normal course of business. Tier 2 capital is a lower-quality category, albeit it too has loss-absorbing capacity, since it is required to have "bail in" qualities.

Tier 1 capital and interim dividend

The most immediate and least costly way of raising Tier 1 capital is through the retention of profits. The level of retained earnings in turn depends on the dividend payout ratio. The higher the amount of dividend paid out, the lower the amount of earnings available for plough back into the business. It is the responsibility of the Board to balance the dividend expectations of shareholders with the need to recapitalise the Bank over the short to medium term. In determining dividend payout, the Board is guided by the banking supervisory authorities, which are primarily concerned with financial stability and the build-up of a strongly-capitalised banking sector.

A strongly capitalised Bank is also in the interest of the shareholders themselves. The enhanced capacity of well-capitalised banks to lend is, obviously, conducive to the future profitability of such banks. Shareholders benefit from increased potential for capital appreciation, as well as from the ensuing benefits to the economy of which they themselves form part.

The Bank's strategy for strengthening its Tier 1 capital is twofold: firstly by retaining more of its profits by tightening its dividend payout ratio. In this regard, the Board of Directors has approved a gross interim dividend of €0.0391 per share (2015: €0.036 as restated for bonus issue), which works out at €0.0254 per share net of tax (2015: €0.0234). This dividend represents a payout ratio of 22.1% of profit after tax, compared to a ratio of 22.6% in 2015.

Secondly, the Bank is considering issuing fresh Tier 1 capital over the coming years. This may take various forms including rights issues, scrip dividends, hybrid instruments, or a combination of all. Such issues would supplement the capital buffers built up through profit retention, which remains the Bank's preferred source of capital generation.

Tier 2 capital

The Bank is concurrently working on strengthening its Tier 2 capital, and has, over the past few months, made two offers of subordinated notes totalling €125 million, of which €112 million was taken up. The notes are classified as complex instruments, because of the embedded "bail in" element (subordination), and the take-up by the smaller retail investors was therefore limited.

De-risking of the business model

Another way of recapitalising the Bank is to reduce the risks inherent in the Bank's business, and, consequently, to reduce the amount of regulatory capital required to be held. Such a "de-risking" strategy entails the review of the Bank's business model.

The Bank is seeking to lower its risk profile by identifying non-core business lines where the level of inherent risk assumed is not justified by return, and considering their discontinuation. One such line is the provision of Trust services. Following an in-depth review carried out over the past year, the Bank has taken a strategic decision to wind down the Trusts business, while seeking to minimise inconvenience to customers who had availed themselves of this service. A number of possible options for winding down this business line are being evaluated, and further communications will be made to the market in this regard in due course.

Expected proceeds from sale of shares in Visa Europe

On 2 November 2015, Visa Europe and Visa Inc. announced their intention to create a single Visa entity. In this regard, the entire share capital of Visa Europe will be sold to Visa Inc. in the second half of 2016. As a Principal member and shareholder of Visa Europe, BOV will be eligible to receive a proportion of these proceeds of sale in the form of cash and Visa Inc. preferred stock. The terms of the announced sale is still subject to certain amendments and regulatory approval.

BOV’s share of the proceeds is expected to be material, and has been recognised as a financial asset, at its estimated fair value, with movement in fair value recognised in the statement of the other comprehensive income. On the completion of the transaction, the gain is transferred to comprehensive income and retained within reserves in order to strengthen the Bank’s Tier 1 capital.

Memorandum and Articles

The Bank is currently liaising with its legal consultants to amend the Memorandum and Articles (M&A) of the Bank. This revision of the Bank's M&A has been instigated by the supervisory authorities, and aims to bring the M&A more in line with regulatory requirements on corporate governance. The Bank will be seeking shareholders’ approval to the revised M&A during an EGM to be convened in due course.