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

BOV/321

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 5.16.4 and 5.16.20:

Quote

During a meeting held on the 26 October 2017, the Board of Directors of Bank of Valletta p.l.c. approved the attached Group and Bank condensed Interim Financial Statements for the twelve-month financial period 1 October 2016 to 30 September 2017. 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'.*

The Interim Financial Statements for the period ended 30 September 2017 are available for viewing and downloading on the Bank's website under the Investor Relations section (https://www.bov.com/documents/bov-2nd-interim-results-2017).

Unquote

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

27 October 2017

INTERIM REPORT

30 September 2017

Statements of profit or loss

for the twelve months from 1 October 2016 to 30 September 2017

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
	€000	**€000**	**€000**	**€000**
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	159,100	160,339	159,100	160,339
- on debt and other fixed income instruments	49,396	54,063	49,396	54,063
Interest expense	(61,553)	(65,573)	(61,553)	(65,573)
Net interest income	146,943	148,829	146,943	148,829
Fee and commission income	78,584	75,021	69,590	66,840
Fee and commission expense	(9,734)	(8,936)	(9,734)	(8,936)
Net fee and commission income	68,850	66,085	59,856	57,904
Dividend income	1,840	1,901	13,289	9,635
Trading profits	17,307	24,724	17,350	24,724
Net gain on investment securities and hedging instruments	6,948	9,046	6,948	9,046
Gain on Visa transaction	-	27,511	-	27,511
Operating income	**241,888**	**278,096**	**244,386**	**277,649**
Employee compensation and benefits	(63,108)	(64,168)	(60,637)	(62,036)
General administrative expenses	(47,567)	(40,103)	(46,215)	(39,085)
Amortisation of intangible assets	(3,825)	(3,539)	(3,825)	(3,539)
Depreciation	(5,465)	(4,968)	(5,402)	(4,899)
Net impairment reversal/(losses)	7,513	(23,142)	7,513	(23,147)
Operating profit	**129,436**	**142,176**	**135,820**	**144,943**
Share of results of equity-accounted investees, net of tax	14,486	3,730	-	-
Profit before tax	**143,922**	**145,906**	**135,820**	**144,943**
Income tax expense	(45,999)	(50,708)	(45,824)	(50,760)
Profit for the year	**97,923**	**95,198**	**89,996**	**94,183**
Attributable to:				
Equity holders of the Bank	97,923	94,742	89,996	94,183
Non-controlling interest	-	456	-	-
	97,923	95,198	89,996	94,183
Earnings per share	23c3	22c6	21c4	22c4

Statements of profit or loss and other comprehensive income
for the twelve months from 1 October 2016 to 30 September 2017

	The Group		The Bank	
	2017 €000	2016 €000	2017 €000	2016 €000
Profit for the year	97,923	95,198	89,996	94,183
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	796	33,777	796	33,777
deferred tax thereon	(279)	(11,822)	(279)	(11,822)
- change in fair value transferred to profit or loss	(7,443)	(34,876)	(7,443)	(34,876)
deferred tax thereon	2,605	12,206	2,605	12,206
Items that will not be reclassified to profit or loss:				
Property revaluation	-	960	-	960
deferred tax thereon and effect of changes in property tax rates	-	44	-	44
Remeasurement of actuarial losses on defined benefit plans	220	(1,448)	220	(1,448)
deferred tax thereon	(77)	508	(77)	508
Other comprehensive income for the period, net of tax	(4,178)	(651)	(4,178)	(651)
Total comprehensive income	93,745	94,547	85,818	93,532
Attributable to:				
Equity holders of the Bank	93,745	94,091		
Non-controlling interest	-	456		
	93,745	94,547		

Statements of profit or loss
for the six months from 1 April to 30 September 2017

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
	€000	**€000**	**€000**	**€000**
Interest and similar income				
- on loans and advances, balances with Central Bank of Malta and treasury bills	80,097	81,169	80,097	81,169
- on debt and other fixed income instruments	23,914	25,978	23,914	25,978
Interest expense	(29,780)	(33,196)	(29,780)	(33,196)
Net interest income	74,231	73,951	74,231	73,951
Fee and commission income	39,989	38,612	35,374	34,396
Fee and commission expense	(4,941)	(4,466)	(4,941)	(4,466)
Net fee and commission income	35,048	34,146	30,433	29,930
Dividend income	1,341	1,607	3,973	3,210
Trading profits	3,789	8,072	3,858	8,075
Net gain on investment securities and hedging instruments	4,266	(1,671)	4,266	(1,671)
Gain on Visa transaction	-	27,511	-	27,511
Operating income	**118,675**	**143,616**	**116,761**	**141,006**
Employee compensation and benefits	(30,490)	(32,701)	(29,248)	(31,601)
General administrative expenses	(20,881)	(17,207)	(20,195)	(16,612)
Amortisation of intangible assets	(2,242)	(1,998)	(2,242)	(1,998)
Depreciation	(2,950)	(2,428)	(2,919)	(2,395)
Net impairment reversal/(losses)	2,169	(15,050)	2,169	(15,050)
Operating profit	**64,281**	**74,232**	**64,326**	**73,350**
Share of results of equity-accounted investees, net of tax	5,611	3,191	-	-
Profit before tax	**69,892**	**77,423**	**64,326**	**73,350**
Income tax expense	(22,622)	(27,060)	(22,257)	(26,697)
Profit for the year	**47,270**	**50,363**	**42,069**	**46,653**
Attributable to:				
Equity holders of the Bank	47,270	50,185	42,069	46,653
Non-controlling interest	-	178	-	-
	47,270	50,363	42,069	46,653
Earnings per share	11c3	11c9	10c0	11c1

Statements of profit or loss and other comprehensive income
for the six months from 1 April to 30 September 2017

	The Group		The Bank	
	2017	**2016**	**2017**	**2016**
	€000	**€000**	**€000**	**€000**
Profit for the year	47,270	50,363	42,069	46,653
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Available-for-sale investments				
- change in fair value	1,818	6,518	1,818	6,518
deferred tax thereon	(637)	(2,281)	(637)	(2,281)
- change in fair value transferred to profit or loss	-	(26,086)	-	(26,086)
deferred tax thereon	-	9,129	-	9,129
Items that will not be reclassified to profit or loss:				
Property revaluation	-	960	-	960
deferred tax thereon and effect of changes in property tax rates	-	44	-	44
Remeasurement of actuarial losses on defined benefit plans	(12)	(1,049)	(12)	(1,049)
deferred tax thereon	4	368	4	368
Other comprehensive income for the period, net of tax	1,173	(12,397)	1,173	(12,397)
Total comprehensive income	48,443	37,966	43,242	34,256
Attributable to:				
Equity holders of the Bank	48,443	37,788		
Non-controlling interest	-	178		
	48,443	37,966		

Statements of financial position
as at 30 September 2017

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
ASSETS				
Balances with Central Bank of Malta, treasury bills and cash	158,768	171,050	158,768	171,050
Financial assets at fair value through profit or loss	354,847	392,430	353,872	391,292
Investments	3,555,385	3,736,272	3,555,385	3,736,272
Loans and advances to banks	3,014,000	2,098,439	3,014,000	2,098,439
Loans and advances to customers at amortised cost	4,160,826	4,001,656	4,160,826	4,001,656
Investments in equity-accounted investees	104,660	97,041	52,870	52,870
Investments in subsidiary companies	-	-	6,230	6,230
Intangible assets	25,828	13,272	25,828	13,272
Property and equipment	93,404	89,574	93,266	89,452
Current tax	24,977	16,061	23,647	15,091
Deferred tax	59,038	67,188	59,038	67,188
Assets held for realisation	14,313	11,973	14,313	11,973
Other assets	7,471	4,818	7,471	4,809
Prepayments and accrued income	25,741	23,077	25,700	22,697
Total Assets	**11,599,258**	**10,722,851**	**11,551,214**	**10,682,291**
LIABILITIES				
Financial liabilities at fair value through profit or loss	13,938	20,327	13,938	20,327
Amounts owed to banks	173,664	250,155	173,664	250,155
Amounts owed to customers	10,081,849	9,184,517	10,085,910	9,187,940
Debt securities in issue	95,400	95,400	95,400	95,400
Deferred tax	4,318	4,318	4,318	4,318
Other liabilities	182,723	170,518	182,414	170,333
Accruals and deferred income	13,664	16,215	13,180	15,802
Derivatives designated for hedge accounting	13,088	20,649	13,088	20,649
Subordinated liabilities	231,591	231,591	231,591	231,591
Total Liabilities	**10,810,235**	**9,993,690**	**10,813,503**	**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	31,011	35,332	30,899	35,220
Retained earnings	337,024	302,841	285,824	259,568
Total Equity	**789,023**	**729,161**	**737,711**	**685,776**
Total Liabilities and Equity	**11,599,258**	**10,722,851**	**11,551,214**	**10,682,291**
MEMORANDUM ITEMS				
Contingent liabilities	246,756	225,407	246,756	225,407
Commitments	1,647,435	1,590,156	1,647,435	1,590,156

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 €4.8 million.

These condensed interim financial statements were approved by the Board of Directors and authorised for issue on 26 October 2017 and signed on its behalf by :

Taddeo Scerri
Chairman

Mario Mallia
CEO & Executive Director

Statements of changes in equity

for the twelve months from 1 October 2016 to 30 September 2017

	Attributable to Equity holders of the Bank						
	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 01 October 2015	**360,000**	**988**	**35,217**	**272,713**	**668,918**	**1,271**	**670,189**
Profit for the year	-	-	-	94,742	**94,742**	456	**95,198**
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	21,955	-	**21,955**	-	**21,955**
- change in fair value transferred to profit or loss, net of tax	-	-	(22,670)	-	**(22,670)**	-	**(22,670)**
Property revaluation, net of tax	-	-	1,004	-	**1,004**	-	**1,004**
Release of surplus on sale of property, net of tax	-	-	(174)	174	**-**	-	**-**
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(940)	**(940)**	-	**(940)**
Total other comprehensive income / (loss)	-	-	115	(766)	**(651)**	-	**(651)**
Total comprehensive income for the year	-	-	115	93,976	**94,091**	456	**94,547**
Transactions with owners, recorded directly in equity:							
Acquisition of non-controlling interest	-	-	-	(4,046)	**(4,046)**	(954)	**(5,000)**
Bonus issue	30,000	-	-	(30,000)	-	-	-
Dividends to equity holders	-	-	-	(29,802)	**(29,802)**	(773)	**(30,575)**
	30,000	-	-	(63,848)	**(33,848)**	(1,727)	**(35,575)**
At 30 September 2016	**390,000**	**988**	**35,332**	**302,841**	**729,161**	-	**729,161**
Profit for the year	-	-	-	97,923	**97,923**	-	**97,923**
Other comprehensive income							
Available-for-sale investments							
- change in fair value, net of tax	-	-	517	-	**517**	-	**517**
- 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	-	-	-	143	**143**	-	**143**
Total other comprehensive income / (loss)	-	-	(4,321)	143	**(4,178)**	-	**(4,178)**
Total comprehensive income for the year	-	-	(4,321)	98,066	**93,745**	-	**93,745**
Transactions with owners, recorded directly in equity:							
Bonus issue	30,000	-	-	(30,000)	**-**	-	**-**
Dividends to equity holders	-	-	-	(33,883)	**(33,883)**	-	**(33,883)**
	30,000	-	-	(63,883)	**(33,883)**	-	**(33,883)**
At 30 September 2017	**420,000**	**988**	**31,011**	**337,024**	**789,023**	-	**789,023**

Statements of changes in equity

for the twelve months from 1 October 2016 to 30 September 2017 (continued)

	Share Capital €000	Share Premium Account €000	Revaluation Reserves €000	Retained Earnings €000	Total €000
The Bank					
At 01 October 2015	**360,000**	**988**	**35,105**	**225,953**	**622,046**
Profit for the year	-	-	-	94,183	**94,183**
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	21,955	-	**21,955**
- change in fair value transferred to profit or loss, net of tax	-	-	(22,670)	-	**(22,670)**
Property revaluation, net of tax	-	-	1,004	-	**1,004**
Release of surplus on sale of property, net of tax	-	-	(174)	174	-
Remeasurement of actuarial losses on defined benefit plans, net of tax	-	-	-	(940)	**(940)**
Total other comprehensive income / (loss)	-	-	115	(766)	**(651)**
Total comprehensive income for the year	**-**	**-**	**115**	**93,417**	**93,532**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(29,802)	**(29,802)**
	30,000	-	-	(59,802)	**(29,802)**
At 30 September 2016	**390,000**	**988**	**35,220**	**259,568**	**685,776**
Profit for the year	-	-	-	89,996	**89,996**
Other comprehensive income					
Available-for-sale investments					
- change in fair value, net of tax	-	-	517	-	**517**
- 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	-	-	-	143	**143**
Total other comprehensive income / (loss)	-	-	(4,321)	143	**(4,178)**
Total comprehensive income for the year	**-**	**-**	**(4,321)**	**90,139**	**85,818**
Transactions with owners, recorded directly in equity:					
Bonus issue	30,000	-	-	(30,000)	**-**
Dividends to equity holders	-	-	-	(33,883)	**(33,883)**
	30,000	**-**	**-**	(63,883)	**(33,883)**
At 30 September 2017	**420,000**	**988**	**30,899**	**285,824**	**737,711**

Statements of cash flows
for the twelve months from 1 October 2016 to 30 September 2017

	The Group		The Bank	
	2017	2016	2017	2016
	€000	€000	€000	€000
Cash flows from operating activities				
Interest and commission receipts	253,462	237,321	244,514	229,154
Interest, commission and compensation payments	(70,851)	(77,205)	(70,922)	(77,026)
Payments to employees and suppliers	(113,614)	(103,563)	(110,131)	(99,601)
Operating profit before changes in operating assets and liabilities	68,997	56,553	63,461	52,527
(Increase)/decrease in operating assets:				
Loans and advances	(12,889)	(53,038)	(12,889)	(53,038)
Reserve deposit with Central Bank of Malta	(10,739)	(8,643)	(10,739)	(8,643)
Fair value through profit or loss financial assets	49,519	97,902	49,519	97,902
Fair value through profit or loss equity instruments	14,929	1,303	14,765	477
Treasury bills with original maturity of more than 3 months	(14,011)	-	(14,011)	-
Other assets	(4,993)	(311)	(5,002)	(302)
Increase/(decrease) in operating liabilities:				
Amounts owed to banks and to customers	781,831	752,337	782,469	752,384
Other liabilities	2,343	(33,187)	2,243	(33,120)
Net cash from operating activities before tax	874,987	812,916	869,816	808,187
Tax paid	(44,514)	(44,862)	(43,981)	(44,955)
Net cash from operating activities	830,473	768,054	825,835	763,232
Cash flows from investing activities				
Dividends received	8,709	5,628	13,289	9,636
Interest received from held-to-maturity debt and other fixed income instruments	58,219	59,783	58,219	59,783
Acquisition of non-controlling interest	-	(5,000)	-	(5,000)
Purchase of debt instruments	(797,260)	(1,257,546)	(797,260)	(1,257,546)
Proceeds from sale or maturity of debt instruments	895,663	869,184	895,663	869,184
Proceeds from sale of equity instruments	4,350	3,043	4,350	3,043
Proceeds from VISA transaction	-	22,042	-	22,042
Purchase of property and equipment and intangible assets	(25,655)	(8,111)	(25,597)	(8,070)
Proceeds from disposal of property and equipment	-	598	-	598
Net cash from/(used in) investing activities	144,026	(310,379)	148,664	(306,330)
Cash flows from financing activities				
Proceeds from issue of subordinated bonds	-	111,591	-	111,591
Dividends paid to Bank's equity holders	(33,883)	(29,802)	(33,883)	(29,802)
Dividends paid to non-controlling interests	-	(773)	-	-
Net cash (used in)/from financing activities	(33,883)	81,016	(33,883)	81,789
Net change in cash and cash equivalents	940,616	538,691	940,616	538,691
Effect of exchange rate changes on cash and cash equivalents	(164)	-	(164)	-
Net change in cash and cash equivalents after effect of exchange rate changes	940,780	538,691	940,780	538,691
Net change in cash and cash equivalents	940,616	538,691	940,616	538,691
Cash and cash equivalents at 1 October	1,848,038	1,309,347	1,848,038	1,309,347
Cash and cash equivalents at 30 September	**2,788,654**	**1,848,038**	**2,788,654**	**1,848,038**

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 30 September 2017, and of the financial performance and the cashflows for the periods presented in these condensed interim financial statements, 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 twelve months ended 30 September 2017 include the Bank, subsidiaries and equity-accounted investees (together referred to as the 'the Group').

The consolidated interim 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 interim financial statements have been extracted from Bank of Valletta's unaudited interim management accounts for the twelve months ended 30 September 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 condensed interim 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 condensed 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 cumulative and current 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 30 September 2017 have not materially affected the performance for the period under review.

3. Use of judgements and estimates

In preparing these condensed 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	
	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
The Group										
Operating income from Oct 16 to Sep 17	109,954	102,629	110,460	110,831	48,635	86,467	(27,161)	(21,831)	241,888	278,096
Profit before taxation from Oct 16 to Sep 17	52,217	58,096	97,418	56,760	58,683	86,631	(64,396)	(55,581)	143,922	145,906

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
The Group										
Operating income from Apr 17 to Sep 17	56,010	52,588	54,874	56,350	21,195	48,559	(13,404)	(13,881)	118,675	143,616
Profit before taxation from Apr 17 to Sep 17	29,217	36,312	46,925	19,553	24,447	49,952	(30,697)	(28,394)	69,892	77,423

	Personal Banking & Wealth Management		Corporate Banking		Proprietary Investments		Liquidity Management		Total Reportable Segments	
	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16	Sep-17	Sep-16
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Total Assets	2,098,215	2,015,064	2,279,001	2,177,843	4,049,309	4,260,513	3,172,733	2,269,431	11,599,258	10,722,851
Total Liabilities	2,214,416	2,046,091	2,677,799	2,371,755	3,924,549	4,161,701	1,993,471	1,414,143	10,810,235	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

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 September 2017				
Assets				
Treasury Bills	-	14,011	-	14,011
Financial assets at fair value through profit or loss				
- debt and other fixed income instruments	112,675	17,841	-	130,516
- equity and other non-fixed income instruments	37,036	22,130	6,099	65,265
- loans and advances	-	152,303	-	152,303
- derivative financial instruments	-	6,763	-	6,763
Investments				
Debt and other fixed income instruments				
- available-for-sale	66,469	75,261		141,729
Equity and other non-fixed income instruments				
- available-for-sale	-	-	4,909	4,909
Property at revaluation	-	-	76,755	76,755
	216,180	**288,309**	**87,763**	**592,251**
Liabilities				
Financial liabilities at fair value through profit or loss				
- derivative financial instruments	-	13,938	-	13,938
Financial liabilities designated for hedge accounting				
- derivative financial instruments	-	13,088	-	13,088
	-	**27,026**	**-**	**27,026**

	Level 1 €000	Level 2 €000	Level 3 €000	Total €000
At 30 September 2016				
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	-	-	75,576	75,576
	402,820	**295,192**	**84,837**	**782,849**
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 table provides an analysis of financial instruments that are not measured at fair value subsequent to initial recognition:

	Fair value measurement				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	€000	€000	€000	€000	€000
At 30 September 2017					
Financial assets					
Held-to-maturity investments	2,774,739	672,915	-	3,447,654	3,408,746
Financial liabilities					
Debt securities in issue	97,115	-	-	97,115	95,400
Subordinated liabilities	231,160	-	-	231,160	231,591
	328,275	-	-	328,275	326,991

	Fair value measurement				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	€000	€000	€000	€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-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
2017	€000	€000	€000	€000	€000
Opening balance 1 October 2016	-	5,678	-	3,583	9,261
Net change in fair value	-	(5)	-	1,327	1,322
Purchases	-	588	-	-	588
Sales	-	(162)	-	-	(162)
Closing balance 30 September 2017	-	6,099	-	4,910	11,009

	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	-	(12)	-	-	(12)
Purchases	-	1,550	-	-	1,550
Transfers	-	(1,104)	-	-	(1,104)
Sales	-	(75)	-	-	(75)
Consideration	-	-	-	3,583	3,583
Closing balance 30 September 2016	-	5,678	-	3,583	9,261

6. Fair value measurement *(continued)*

During the period under review €5.6 million financial assets at fair value through profit or loss were transferred from Level 1 to Level 2 (2016: €14.1 million) and no change in financial assets in Level 3 (2016: no change) and Level 2 (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 30 September 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.

The Bank of Valletta Group ("BOV") is publishing its interim results for the twelve-month period which ended on 30 September 2017, and is reporting a pre-tax profit of €143.9 million for that period. This compares to a pre-tax profit of €145.9 million for the corresponding period last year, which ended on 30 September 2016. The latter result included a one-time windfall gain of €27.5 million, resulting in an adjusted comparable profit last year of €118.4 million.

Core profit (profit stated before fair value movements and the contribution of associated companies) amounts to €124.0 million, an increase of almost 23% over the €101.2 million registered for the corresponding period in 2016.

Pre-tax return on equity is 19.0% (2016 as adjusted: 16.9%), while return on assets stands at 1.3% (2016 as adjusted: 1.1%).

This is the second set of interim results which BOV is publishing this year. The first set of interim results were published in respect of the six months ended on 31 March 2017. The Group has changed its reporting date from 30 September to 31 December, and will report its next audited results as at 31 December 2017. The 31 December 2017 results will, exceptionally, cover a fifteen-month period, from 1 October 2016 to 31 December 2017.

Performance for the twelve months: October 2016 – September 2017

Group total income rose marginally over last year, to reach €256.4 million. Net interest margin, which yielded €147 million (2016: €149 million) accounted for 57% of this total income, compared to 59% last year. On the other hand, the growth in fee and commission income made up for the reduction in interest margin, as the Group availed itself of the opportunities offered by the strong growth momentum of the Maltese economy.

Interest margin remains the Group's main component of revenue, albeit it is coming under pressure due to the persistent, historically low interest rate scenario, as well as significant amounts of liquidity on the Group's financial position. During the period under review, deposits rose by €897 million, and have now exceeded €10 billion. Concurrently, the demand for loans, although showing a noticeable increase over recent years, fell far short of the growth in deposits. Lending increased by €190 million, with growth being registered in both business finance and personal finance sectors. The surplus of incoming deposits was channeled into short term funds, which, in the current environment, are yielding low-to-negative returns.

This combination of solid deposit inflow and a more subdued growth in credit has resulted in a historically low loans-to-deposits ratio of 43%.

The “low-for-long” interest rate environment is placing banking sector profitability under growing pressure across the globe, and there appears to be no short term relief from the situation. The International Monetary Fund (IMF) itself had commented, in an April 2017 study, that a continuation of the low rate environment seen since the global financial crisis a decade ago would pose a “significant challenge” to financial institutions, and force them to make fundamental changes to their business models.

BOV has anticipated the situation, and has taken up the challenge of reviewing its traditional business model, with the aim of diversifying its revenue sources and re-dimensioning certain business lines which carry a higher risk. This is a medium-to-long term strategy which is already being reflected in the Group’s results.

A greater focus on investment and payment services has resulted in fee and commission income of €69 million, an increase of €2.7 million over last year. High-performing business lines include wealth management, bancassurance and cards. There has been constant demand for investment products over recent months, and this is expected to be sustained, indeed to pick up momentum, as Malta’s pensions legislation develops, and changing demographics push retirement planning to the forefront of the national agenda. The Group will continue to focus on these and other sectors which show promise of high potential over the coming years.

The Group also benefited from a strong recovery of income from its associated companies in the life and non-life insurance businesses. Contribution from these holdings amounts to €14.5 million (2016: €3.7 million), and reflects a strong and sustained demand for both protection and investment products. The Group intends to strengthen synergies with associated companies, with the aim of offering an attractive and comprehensive suite of products to different customer segments over a range of distribution channels.

Another significant contributor to Group results was the reversal of impairment charges which had been set aside against non-performing loans over past years. These reversals, which resulted in a net credit to profit of €7.5 million (2016: charge of €23.1 million), arose from the recovery of a number of loans which had been carried as doubtful debts on the Group’s balance sheet for a long number of years. BOV is paying particular attention to managing its legacy non-performing loans portfolio, and has intensified its focus on remediation and recovery during the year – a strategy that has yielded immediate results, and which will continue to be pursued in future, as the Group gears up to adopt the new financial reporting standard IFRS 9 in January 2018.

Administrative expenses for the period reached €120 million, amounting to 6% over the corresponding period last year. The largest increases were recorded on regulatory and compliance costs, occupancy costs, process reengineering and IT maintenance. The cost-to-income ratio of 46.8% continues to compare well with European averages, but pressures on income and costs mean that both revenue growth and cost management remain high on BOV’s agenda.

BOV has been successful in strengthening its Common Equity Tier 1 (CET1) ratio, which stands at 14.1% as at 30 September 2017, up from 12.8% in September 2016. The CET1 ratio is a measure of resilience; indeed, it is the standard indicator of capital adequacy within the banking sector, and reflects the capacity of the Group's capital buffers to absorb potential losses. Increasing supervisory capital requirements and the Group's growth strategy for the future require a constant supply of capital in order to maintain a robust CET1 ratio, in line with BOV's role as a locally significant institution. While organic capital generation is and will remain the main source of CET1, BOV will also be supplementing its equity base by means of a €150 million rights issue later this year.

This is a capital boost that will form the basis for the execution of Group strategy over the coming years. It is a strategy which will focus on sustained capital growth, coupled with an equitable dividend distribution policy; on the continuing revision of the business model, with a view to diversifying income sources; on the Core Banking Transformation programme, which will change the BOV core IT system and its accompanying internal processes; and on a digitalisation programme by which BOV aims to become the most accessible bank, delivering a superior customer experience. The Group expects that its implementation of strategy will take place in the context of an economy that remains buoyant and in sustainable growth mode.

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 12 which comprise the condensed statements of financial position as at 30 September 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 twelve-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 twelve month period ended 30 September 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.

26 October 2017

KPMG
Registered Auditors
Portico Building
Marina Street
Pieta` PTA 9044
Malta